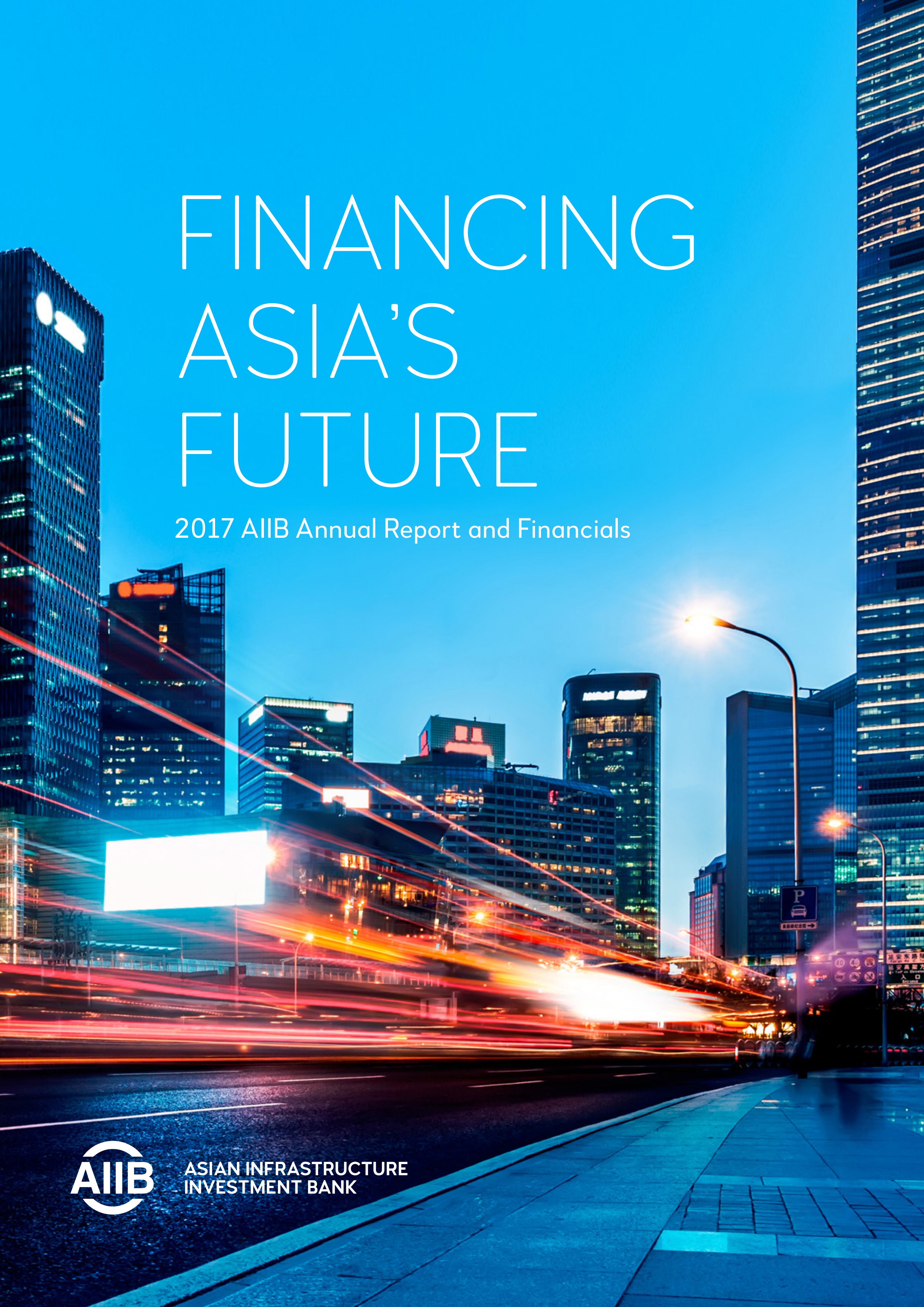
FINANCING ASIA'S FUTURE

2017 AIIB Annual Report and Financials



ASIAN INFRASTRUCTURE INVESTMENT BANK

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ABOUT US

We are an organization that aims to create a better tomorrow by helping clients finance sustainable infrastructure and other productive sectors in Asia and beyond.
We do this while being lean, clean and green—the core values that personify our organization.

CLICK ON IMAGE OR SCAN QR CODE TO WATCH VIDEO.

We are the Asian Infrastructure Investment Bank (AIIB), a multilateral development bank (MDB) that aims to improve social and economic outcomes in Asia and beyond. Headquartered in Beijing, we began operations in January 2016 and by Dec. 31, 2017 we grew to 84 approved members worldwide.[1]

We look at development through both a geographic and sectoral lens. Geographically, we are focusing on developing economies in Asia but will extend our investments beyond the region for opportunities that support connectivity, promote global public goods and are close to Asia. Sectorally, we invest in sustainable infrastructure such as power, water management, transport and cities to build the Asia of the future.

We collaborate with our members and partner with the private and public sectors. Our peer MDBs are part of a development family that cooperate with and complement each other because only through partnership can we meet Asia's infrastructure funding needs, estimated at USD1.7 trillion per year until 2030.[2]

Meeting those needs is important because infrastructure changes lives. Energy distribution systems can heat and illuminate homes. Efficient transport systems allow families to spend more time together. Modern sewerage and waste treatment prevent disease. Broadband supports economic diversification. Ports and roads give access to markets and farmers. Infrastructure helps improve people's lives today and the economic opportunities of future generations.

[1] "Approved members" are those whose applications for membership have been approved by AIIB's Board of Governors. Where relevant, this will be the definition in other mentions of the same term throughout this report. AIIB had a total of 86 approved members at the time of this report's publication. Some portions of this report refer to the end-2017 fiscal year total of 84 approved members. Updated AIIB member list and numbers can be viewed at https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html

[2] ADB. Feb. 28, 2017. Asia Infrastructure Needs Exceed $1.7 Trillion Per Year, Double Previous Estimates. ADB, Manila. https://www.adb.org/news/asia-infrastructure-needs-exceed-17-trillion-year-double-previous-estimates

These investments over time can help our members impact the lives of billions and build a better tomorrow. Like the way we are assisting the Government of Bangladesh in providing electricity to the home of Rekha Begum, a young girl in Narsingdi who used to study in the dark. Or by helping Beijing Gas Co. connect 91-year-old Wei Pu to the natural gas network, giving him a cleaner alternative to coal for cooking food and heating his home during winter. Or by helping the Government of the Philippines manage floods so that Gemma Dominguez and her family would be safe during typhoons.

As we finance such projects, we operate under the guidance of three core values: lean,clean and green. We learn from the experiences of the development community and the private sector. We constantly study best-in-class practices, management styles and decision-making to develop new techniques that—in a rapidly changing world—are geared toward addressing the needs of our borrowers and benefiting our members.

This is how we aspire to get things done, by staying true to our core values and with the help of our members, clients, partners and stakeholders. While we are a young organization, our early results show that we are very much on the right track. We achieve results through partnership. Through collaboration. Through cooperation. Our global community, together, will create tomorrow.

OUR PRESIDENT'S VISION

Development is a sacred mission.

The multilateral approach to development has explicitly demonstrated its efficacy. Financing infrastructure projects that provide goods and services to our members' citizens will pave the path for sustainable development throughout Asia. All of us working in this field are blessed to be able to contribute to this process. The Asian Infrastructure Investment Bank (AIIB) is proud to be recognized as a new member in the family of multilateral development banks (MDBs), working in close collaboration with our sister institutions.

I have been involved in the development of my own country through my engagement with the World Bank Group and the Asian Development Bank in different capacities. But prior to my career in public service, I threw in my lot with low-income people, living and working for a good 10 years in the 1960s and 1970s in rural China. The experience I gained from those years shaped to a great extent my mental world and nourished my sense and sensibility to the mission of development. We work for those who need us. We want to ensure that sustainable development by our standard is not fiction, but reality. All those years of academic pursuit, hard toils in rural life and experience in development work at the World Bank and the Asian Development Bank were just years of apprenticeship for my responsibility at AIIB today.

We at AIIB have all developed a deep understanding of international issues, global concerns over environmental and social problems and the approaches to addressing conflicts of national interests related to trade and cross-border investment. At the stage of preparing for our new bank, we were all very clear about the blueprint of such an institution—a new type of MDB with 21st century governance. Such a dream could only be realized through the concerted efforts of the 57 founding members and the new members who are continuously joining us. They will all contribute to the management of this bank with the highest standards of integrity, governance and environmental and social protections.

With its second year of operations completed, AIIB has been emerging from an idea into its own reality. But it is steeped in the reality of an Asia that is now at the nexus of global shifts and is increasingly integrated with the global economy. Asia itself orbits fast, but is not a passive observer so far as the growth of other regions is concerned. An Asia in the global supply chain will witness its production and income continue to rise, and will play a huge role in bridging people, services and markets worldwide. I believe that continuously honing Asian skills and services can lead to increased productivity despite the march of technology and an aging population in middle- and high-income countries. These beliefs are supported by a passion to finance the kind of infrastructure that will promote social and economic betterment for everyone—in Asia and beyond.

As we turned two, we at AIIB took steps—through our projects and programs—to fight climate change, empower women and girls, build sustainable infrastructure and connect lives and livelihoods.

CLICK ON IMAGE OR SCAN QR CODE TO WATCH VIDEO.

We will continue to select and approve our projects efficiently and with accountability for our decisions, always keeping in mind the interests of our shareholders, clients and the local people we are here to help.

We face the coming years with optimism as we apply what we have learned in our first two. We will cater to the shifting needs of the changing world. We will continue to balance our investments among a whole range of sectors and countries. Our continued focus on Asia will not compromise our efforts to care for nonregional members. Expanding our global footprint will require closer cooperation with other MDBs who are active in their respective geographies. We will adapt and innovate as we formulate creative ways to respond to our clients' needs. We will constantly hone ourselves as we attract world-class partners and talents who will join us as we face the challenges of a new tomorrow.

All this is possible only if we collaborate. Our members are our primary partners on this journey. We thank them for their guidance and wisdom through the Board of Governors and Board of Directors. We enjoy an ever-increasing pool of dedicated staff who come from all over the globe to harness their years of specialized experience. Our relationship with other MDBs, critical to our early successes, will continue to strengthen. To all our partners and staff, we thank you for what you have done so far and we look forward to all we will achieve together in the future.

There could be more than a single way to fulfill Asia's aspirations. Our firm belief in and passion for development are informed by the success stories of Asian economies that shed light on innovative approaches to economic and social achievements. I have no doubt that AIIB can play a role in that story and in realizing Asia's great change.

OUR BOARD'S MESSAGE

The need for more infrastructure in Asia and beyond is real, and to respond to that need the world came together in partnership to establish the Asian Infrastructure Investment Bank (AIIB).

AIIB's Board of Directors acknowledges that ours is a young bank at the very early stages of its development. 2017 was only our second year of operations, yet we are making progress in developing our core capabilities, systems and processes. Under the guidance of the Board of Governors and the Board of Directors, and through the hard work of AIIB's staff, the results are encouraging, as illustrated in this Annual Report. AIIB's institutional capacity is growing, our investment portfolio is expanding and our membership is increasingly wide and diverse.

The Board of Directors is responsible for establishing the strategic direction and policies of AIIB. We work with Management to steer AIIB in the right direction and ensure that we are practicing our core values of being lean, clean and green. We are also helping AIIB's Management give content to the bank's thematic priorities: sustainable infrastructure, cross-border connectivity and private sector mobilization. In this context, it is important for us to be able to hold AIIB's Management accountable for delivery on these priorities. Though nonresident, we meet regularly through in-person and virtual Board meetings. We have also undertaken visits to member countries and project sites to better understand the needs of AIIB's clients.

In 2017 we began developing an operational framework that will lay the foundations for stronger accountability mechanisms, as envisaged in our Articles of Agreement. Progress here has been underpinned by increasingly robust processes and procedures, including the effective operation of the three Committees of the Board. This will be a continuing priority in 2018.

Over the last year, we have agreed strategies for AIIB's operations in the energy sector, in nonregional members and in mobilizing private sector capital. We are particularly focused on defining success and measuring results. We have also encouraged the development of a robust policy on the public provision of information and of an effective and accessible mechanism for dealing with possible concerns of project-affected people.

We are pleased to see AIIB's risk management architecture continue to develop. In 2017 we built upon and expanded the risk management capabilities in support of managing both the financial and nonfinancial risks we face. We further strengthened our core financial systems and formulated our risk appetite statement, the cornerstone for the management of risk at our institution. The results of these efforts culminated in securing a triple-A credit rating from three international credit rating agencies in 2017. These systems will be increasingly important as our volume of business grows.

The Board believes that a culture of accountability, excellence and results focus will be critical to AIIB's success. We have emphasized the need for a strategic approach to human resources and skills improvement by investing in the recruitment of the right people and ensuring diversity, gender balance and integrity are embedded into the very fiber of the bank. We are particularly conscious of the need to focus on how we can measure results, so we know what success will look like.

It is an exciting period for AIIB. We value the constructive partnership established with the bank's Management as we work to build the strategies, policies and systems that will ensure AIIB emerges from its start-up phase well placed to improve the lives and livelihoods of people across Asia and beyond.

OUR STORY SO FAR

2014

Oct. 24
AIIB Memorandum of Understanding Signed
MOU to establish AIIB signed by 21 Asian countries.

Nov. 28
First Chief Negotiators Meeting Held
Representatives from more than 20 countries attended the first chief negotiators meeting in Kunming, China.

2015

May 22
AIIB Charter Finalized
Negotiations on AIIB Charter concluded among 57 prospective founding members.

June 29
Articles of Agreement Signed
Representatives from 57 prospective founding members attended the signing ceremony.

Aug. 24
AIIB President-Designate Selected
Jin Liqun was selected by consensus as President-designate of AIIB at the sixth Meeting of Chief Negotiators.

Dec. 25
AIIB Charter Ratified
Charter ratified by 17 prospective founding members.

2016

Jan. 16
AIIB Operations Launched
Operations launched following a 15-month participatory process during which founding members worked collaboratively to shape AIIB's core value system and operating platform.

June 24
First Projects Approved
Projects in Bangladesh, Indonesia, Pakistan and Tajikistan approved by AIIB Board of Directors.

June 24
2016 Annual Meeting
First Annual Meeting held in Beijing, China.

Sep. 27
First Private Sector Project Approved
Myingyan Power Plant Project in Myanmar approved by AIIB Board of Directors.

2017

March 21
Thirteen New Prospective Members Join
Approved applicants include five regional (Afghanistan; Armenia; Fiji; Hong Kong, China and Timor-Leste) and eight nonregional prospective members (Belgium, Canada, Ethiopia, Hungary, Ireland, Peru, Sudan and Venezuela).

May 12
Seven New Prospective Members Join AIIB
Approved applicants include three regional prospective members (Bahrain, Cyprus and Samoa) and four nonregional prospective members (Bolivia, Chile, Greece and Romania).

June 15
First Equity Investment
Board of Directors approves a USD150 million equity investment into the India Infrastructure Fund.

June 16
Three Milestones Achieved

Sustainable Energy for Asia Strategy Launched
The strategy sets out a clear framework for investing in energy projects that will increase access to clean, safe and reliable electricity for millions of people in Asia.

Three New Prospective Members Join
Approved applicants include one regional prospective member (Tonga) and two nonregional prospective members (Argentina and Madagascar).

2017 Annual Meeting
AIIB and Korea jointly hosted the Second Annual Meeting of the AIIB Board of Governors in Jeju, Korea.

June 29
Triple-A Rating from Moody's Investor Services Received
AIIB given Aaa/Prime-1 long- and short-term issuer credit ratings by Moody's.

July 13
Triple-A Rating from Fitch Ratings Received
AIIB given AAA/F1+ long- and short-term issuer credit ratings by Fitch.

July 18
Triple-A Rating from S&P Global Ratings Received
AIIB given AAA/A-1+ long- and short-term issuer credit ratings by S&P.

Sep. 4
First Solar Power Program Approved
The Egypt Round II Solar PV Feed-in Tariffs Program involves 11 photovoltaic power plants with an aggregate power generation capacity of 490MW.

Dec. 8
First Investment in China
USD250-million loan approved for a project that will reduce China's coal use by about 650,000 tons annually.

Dec. 19
Four New Prospective Members Join
Approved applicants include two regional prospective members (Cook Islands and Vanuatu) and two nonregional prospective members (Belarus and Ecuador).

2018

2017 AT A GLANCE

OUR MEMBERSHIP IS INCREASING

APPROVED MEMBERS

84

End-2017 Total

OUR PROJECTS ARE ON THE RISE

APPROVED PROJECTS[3]

23

End-2017 Total

OUR INVESTMENTS ARE EXPANDING

INVESTMENTS IN PROJECTS AND FUNDS

USD 4.22 BILLION

End-2017 Total

WE ARE HELPING THE MOBILIZATION OF PRIVATE FINANCE

PRIVATE COFINANCING (PRIVATE MOBILIZATION)

USD 566 MILLION

End-2017 Total

CREDIT RATINGS VALIDATE OUR FINANCIAL STABILITY

	JUNE 29	JULY 13	JULY 18
	Moody's	Fitch Ratings	Standard & Poor's
LONG-TERM RATING	Aaa	AAA	AAA
SHORT-TERM RATING	PRIME-1	F1+	A-1+

[3] "Approved projects" are those that have been approved by AIIB's Board of Directors. In some mentions of this term where AIIB projects are referred to collectively, the Egypt Round II Solar PV Feed-in Tariffs Program is considered a loan for 11 projects counted under a single lending program. Where relevant, this will be the definition in other mentions of the same term throughout this report.

OUR IMPACT

WE ARE HELPING OUR MEMBERS AND CLIENTS...

...transform an open desert in Benban into a solar power park to hasten Egypt's use of renewable energy sources while decreasing the country's dependency on gas and fuel.

...improve India's rural roads in 1,060 villages of Gujarat to give access to about eight million people, 16.6 percent of whom are below the poverty line.

...create a 14.3-kilometer road to improve the regional connectivity of Georgia's East-West Highway which carries over 60 percent of total foreign trade.

...reduce travel time in metropolitan areas of India by building an electric rapid transit system, improving the overall mobility of Bangalore's urban population.

...connect about 216,751 Chinese households in 510 rural villages to the natural gas distribution network of Beijing, reducing coal use by about 650,000 tons annually.

...develop a broadband communications infrastructure to help Oman shift its economy away from a reliance on the export of hydrocarbons.

...augment the transmission and distribution networks of Andhra Pradesh to help about 49 million people in India by increasing access to grid-based electricity.

280 million

...enhance electricity supply capacity in India's southern region to help about 280 million people in the country who are not connected to the power grid.

...improve flood management, drainage areas and pumping stations in the Philippines to protect about 970,000 people in about 210,000 households in Manila from worsening floods.

70%

...boost the efficiency of three power-generating units in Tajikistan to help 70 percent of the population who suffer from electricity shortages during winters.

...enhance the efficiency of natural gas production and transmission in Bangladesh to address the gas supply deficit and energy security for the country's 160 million people.

...upgrade Indonesia's dams and ancillary structures to ensure the country's water security and increase the safety and functionality of its water infrastructure.

IN ADDITION, WE HAVE MADE AN INVESTMENT...

...to the IFC Emerging Asia Fund to facilitate private equity investments in emerging Asia as we continue to foster sustainable economic development.

$150 million

...of up to USD150 million to the India Infrastructure Fund, investing in infrastructure platforms and services companies with high growth potential.

$100 million

...of USD100 million to help Indonesia access infrastructure finance through the creation of the Regional Infrastructure Development Fund.

PROGRESS THROUGH PARTNERSHIPS

We facilitate development by partnering with other entities, primarily through financing projects that foster sustainable development and promote regional cooperation, in line with our Articles of Agreement. Our members and clients are our stakeholders, and the projects they execute impact the people at the core of AIIB's mission—the people of Asia and beyond.

OUR MEMBERS

On June 29, 2015, representatives from 37 regional and 20 nonregional members gathered at the signing ceremony of the Articles of Agreement that form the legal basis of our existence. Our members are our primary stakeholders. The first 57 are our founders, and as our membership has increased since 2015, all of them today are our partners.

From those 57 founders, our Board of Governors approved 27 more membership applications for a total of 84 approved members by end-2017. We remain open to further applications for membership. Members of the International Bank for Reconstruction and Development or the Asian Development Bank (ADB) may be admitted as AIIB members by a special majority vote of our Board of Governors.

All of our members participate in the governance of AIIB through the Board of Governors and the Board of Directors. They joined this bank because they collectively believe in its mission to improve social and economic development through investment in infrastructure and other productive sectors. Our members are aligned in the belief that development, growth and environmental protection are not mutually exclusive, but can coexist through smart investments, high environmental and social standards and by working with leading partners.

TRANSPARENCY AND PUBLIC INFORMATION

As a responsible member of the global community, we also listen and respond to our external stakeholders, beginning with public interaction and sharing of information.

As a recipient of public funds, we understand transparency's crucial role in multilateral organizations such as ours. We are intensely aware of this—so much so that our Chief Negotiators included in the very articles that established our organization a requirement to create a policy on information disclosure. This policy, we believe, supports transparency in our operations.

This obligation to disclose information led us to adopt an interim public information policy in January 2016. In June 2017, our Board of Directors approved the review of this policy. In August 2017, we made public the first directive that provides details on how the policy would be implemented. This marked the start of our efforts to become more transparent, beginning with monitoring our ability to respond to information requests from our stakeholders.

We knew a review of the interim policy would not be complete without input from the same public we serve, and so we began work on consulting a diverse group of stakeholders on what we now call the Policy on Public Information.

RESPONDING TO PROJECT-AFFECTED PEOPLE

As a user of public funds for development, we understand the need to demonstrate our accountability and responsiveness to stakeholders, our openness to learning and our ability to improve the work we do. We do this through a bankwide commitment to building an institutional culture of accountability and continuous learning to better serve borrowers and communities.

Our commitment includes developing a complaint handling instrument called the Project-affected People's Mechanism (PPM).[4] The PPM is an oversight mechanism mandated by our 2016 Environmental and Social Policy. It aims to provide an independent, impartial and effective way to address concerns, requests for dispute resolution (problem solving) and complaints from project-affected people. We believe inclusive project design and implementation can can help to address difficulties, build trust, increase effectiveness and benefit us all.

In 2017, we worked with key stakeholders to craft a consultation strategy for designing the PPM. We began by listening and learning from stakeholders through video and audio calls, written submissions and small group and in-person discussions. We then drew on these insights and ideas in preparing a discussion draft for further public consultation in 2018.

We will continue to listen, respond and learn.

ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

Environmental and social sustainability is a fundamental aspect of our support for infrastructure development and enhanced interconnectivity in Asia.

Consistent with the United Nations' Sustainable Development Goals, we recognize the need to address the three dimensions of sustainable development—economic, social and environmental—in a balanced and integrated way. We also subscribe to the principles of sustainable development in the identification, preparation and implementation of our projects.

These principles gave birth to our Environmental and Social Framework. This framework supports our institution and our borrowers in achieving environmentally and socially sustainable development outcomes. We do this by using sound international practice on environmental and social planning and management of risks and impacts when we decide which projects to finance. The same care is applied to the preparation and implementation of those projects.

This framework is the basis for our Environmental and Social Policy which comprises mandatory environmental and social requirements for every project we fund.

These requirements include Environmental and Social Standards relating to:

- Environmental and social assessment and management.
- Involuntary resettlement.
- Indigenous Peoples.

The policy also provides that we will not knowingly finance a project that involves activities or items specified in an exclusion list.

We believe that sustainable development requires an inclusive approach where all segments of society, including the marginalized, share in the benefits of development. Being inclusive also recognizes the importance of gender sensitivity in the development process. It is through this inclusive approach that AIIB seeks—through the projects it finances—to promote equity of opportunity and nondiscrimination.

[4] As it was called in 2017.

ABOUT OUR WORK IN 2017

In 2017, our second year of operations, we immersed ourselves deeper into our priorities, achieving milestones we set for ourselves while helping our clients achieve concrete results.

OUR THEMATIC PRIORITIES

SUSTAINABLE INFRASTRUCTURE

CROSS-BORDER CONNECTIVITY

PRIVATE CAPITAL MOBILIZATION

We approach investment, developing our business lines and selecting our projects based on three thematic priorities. These priorities form the foundation on which we create our sector strategies, enhance our core competencies and sharpen our focus.

During our first two years of operations, client demand and stakeholder engagement strongly validated the original rationale for our creation. Such demand and engagement demonstrate the ongoing relevance of our thematic priorities and will continue to guide us on our journey.

PRIORITY: SUSTAINABLE INFRASTRUCTURE

We promote infrastructure and help our members meet their commitments under the Sustainable Development Goals.[5] Green finance or the funding of sustainable infrastructure is demonstrated by our investment in projects related to climate mitigation, climate adaptation and other environmental objectives. We refer to green finance as defined by the methodology of the International Development Finance Club (IDFC), formed in 2011 by 23 leading international, national and subregional development banks from Africa, Asia, Europe and Central and South America.[6]

CLICK ON IMAGE OR SCAN QR CODE TO WATCH VIDEO.

PHILIPPINES: METRO MANILA FLOOD MANAGEMENT PROJECT

Gemma Dominguez, 45, lives in a shanty beside Maytunas Creek in San Juan City, Philippines. Roberto Custodio, 58, is her neighbor. They both remember Typhoon Ketsana (Philippine name: Ondoy) which killed 747 Filipinos and caused USD1.09 billion in damages in 2009. They remember Ondoy very well because, in the Philippines, typhoons and floods cause 80 percent of deaths due to natural disasters.

"We live in the natural basin of all the other villages around here," said Gemma. "The worst of the floods came during Ondoy. I was sent to the hospital then because of leptospirosis. If it stops flooding, deaths and diseases could be avoided."

"I grew up here and I've seen many high floods, but Ondoy brought the worst," said Roberto. "Floods here rise higher than people. They take long to subside. I hope we don't experience another Ondoy. The drainage should be declogged of solid waste so water would flow when it rains."

Pumping stations siphon water from overflowing waterways like Maytunas Creek, but can't keep up with worsening floods. This is why the Government of the Philippines, AIIB and the World Bank have embarked on a project that aims to improve solid waste management and modernize pumping stations along Metro Manila's critical waterways.

"If the pumps stop working, 578 hectares of Metro Manila would go under water during a strong typhoon," said Jude Eric Paz, plant manager at one of the pumping stations included in the project.

AIIB is partnering with the Government of the Philippines and the World Bank to help Gemma, Roberto, their families and other Metro Manila communities live in a flood-resilient tomorrow.

[5] UN. 2015. Sustainable Development Goals. United Nations. http://www.un.org/sustainabledevelopment/sustainable-development-goals/
[6] IDFC. 2015. IDFC Green Finance Mapping for 2014.

CLICK ON IMAGE OR SCAN QR CODE TO WATCH VIDEO.

CHINA: BEIJING AIR QUALITY IMPROVEMENT AND COAL REPLACEMENT PROJECT

Decades have passed since 91-year-old former photographer Wei Pu snapped his camera professionally. It has been years since his 76-year-old wife Liu Jinxiang performed in a "pingju," a local opera northeast of China. Today the elderly couple live in Xiaozhuang, 45 kilometers east of Tiananmen in the rural outskirts of Beijing.

Their active days have flown and so have their five children, living lives of their own. For years Wei Pu and Liu Jinxiang traveled far to buy coal for cooking and to heat their home. After expending their coal supply, they shoveled the ashes and disposed of it even farther from their home. Then the cycle of buying coal and throwing away its residue continued. It was a difficult task for elderly people.

Today they no longer do that.

"When I was boy, I used to collect cooking firewood for my mother every day, but we always feared the poisonous fumes," said Wei Pu.

"In the past I used coal to cook—it was always polluted inside the house," added his wife Liu Jinxiang.

Today, the elderly couple benefit from the coal-to-gas conversion project of Beijing Gas Group Co., recipient of a USD250-million loan from AIIB for a project that aims to provide gas service connections to approximately 217,000 rural households in about 510 rural villages in Beijing, reducing coal consumption by a conservative estimate of 650,000 tons annually. Xiaozhuang, with a population of about 320 including Wei Pu and Liu Jinxiang, is one of those villages. In villages under the project's scope, freshly covered road excavations, pipes leading to houses and meters attached to walls are signs of last-mile natural gas pipeline installations.

Upon completion in 2021 and after subtracting the emissions of burning natural gas, the project is expected to reduce annual carbon dioxide emissions by 595,700 tons; particulate matter by 3,700 tons; sulfur dioxide by 1,488 tons and nitrogen oxide by 4,442 tons. This in turn gives Wei Pu and Liu Jinxiang—as well as other residents in Xiaozhuang and other beneficiary villages—a better environment in which to live.

"Natural gas has lessened pollution in our village," said Wei Pu. "The sky is blue now."

AIIB is working with Beijing Gas Co. to help Wei Pu, Liu Jinxiang and other villagers in Beijing breathe better today and tomorrow.

PRIORITY: CROSS-BORDER CONNECTIVITY

We explore investments that support linkages across two or more economies through transport, communications, energy and water networks. We believe a regional approach to infrastructure planning results in better outcomes and increased value for our investments.

GEORGIA: BATUMI BYPASS ROAD PROJECT

Georgia is strategically located between the Black Sea and the Caspian Sea, making it a regional transit corridor. At the heart of this corridor is the East-West Highway which carries over 60 percent of the country's total foreign trade. It connects Tbilisi with the border of Azerbaijan and runs west to the Black Sea ports of Batumi and Poti, and finally to the border with Turkey.

Georgia's integration within regional and international transport systems would improve the country's border connectivity and link its ports and airports to neighboring countries and beyond. This is why the Government of Georgia, AIIB and ADB began a cross-border connectivity project to improve the country's transport efficiency, with AIIB and ADB financing USD114 million each.

The project began in 2017 and is scheduled for completion in 2023. A new, two-lane highway will be constructed—approximately 14.3 kilometers long in a key section of the East-West Highway serving as a quick bypass road to the port city of Batumi, Georgia's second-largest city. Five tunnels and 19 bridges will allow people and goods to navigate the area's mountainous terrain and settlements, crossing over rivers and valleys. Such connectivity and flow of goods would boost Georgia's transit and trade potential and improve private sector competitiveness and inclusive economic growth.

The project is seen to boost Georgia's regional trade and connectivity between Western Asia, Central Asia and Europe.

By linking people, services and markets, AIIB is helping the Government of Georgia connect with tomorrow.

PRIORITY: PRIVATE CAPITAL MOBILIZATION

We aspire to devise innovative solutions that pool together private capital in collaboration with MDBs, governments, the private sector and other partners. Along with peer MDBs, we are involved in the preparation of the 2017 joint report on mobilization of private finance by MDBs and development finance institutions. In 2017, the total amount of private cofinancing by AIIB was USD561 million, a substantial increase from the USD5 million in private mobilization in 2016.

In 2017, we began refining our Strategy on Mobilizing Private Capital for Infrastructure, and in early 2018 the strategy was approved by our Board of Directors.

Our strategy will guide our efforts to bridge the growing infrastructure financing gap. Private capital—particularly those from institutional investors—can become a key part of the solution to finance Asia's infrastructure investment needs over the coming decades. We aim to catalyze these sources. Our strategy identifies and sequences our short- and medium-term priority activities to mobilize private capital and continue addressing Asia's infrastructure needs.

INDIA: INDIA INFRASTRUCTURE FUND

One way of bridging the infrastructure financing gap is to create a mechanism to mobilize private capital from global long-term investors such as pension funds, endowments and insurance companies. AIIB is helping to do this by approving an equity investment of up to USD150 million for the India Infrastructure Fund, the bank's first equity investment.

The fund aims to make private equity investments in India's infrastructure sector, with Morgan Stanley as the fund manager. Like other private sector investments, fund investments also result in a capital infusion to emerging markets without using public capital and creating public debt. Supporting small and medium-sized enterprises in these markets has a local development impact in terms of job creation, income generation and service provision.

The strategy involves investing in infrastructure platforms and infrastructure services companies with high growth potential. Investments being considered cover several sectors, including energy and utilities (renewable energy, electric transmission and distribution networks, water and wastewater systems, etc.), transportation and logistics (roads, airports, bridges, tunnels, ports, railways, waterways, intermodal systems linking various transport modes, urban transport, logistics and logistics-related infrastructure, etc.) and other sectors including telecommunications, broadband, urban public-private partnership projects, healthcare and education.

The result: AIIB is able to enhance its development impact by increasing the number of investments in which it can transact. It also gives us an effective way to deploy capital by allowing AIIB to make investments it would not have been able to execute on its own.

AIIB is helping the Government of India mobilize private capital to narrow the country's infrastructure gap.

RESPONDING TO THE NEEDS OF OUR MEMBERS

Aside from investing in projects categorized in one or more of our thematic priorities of sustainable infrastructure, cross-border connectivity and private capital mobilization, we also listen and respond to the project needs of our members.

INDIA: GUJARAT RURAL ROADS (MMGSY) PROJECT

In the rural roads of Gujarat, poverty-stricken women and children face obstructions to schools, markets, government services and healthcare centers. They face missing links to main road networks. The roads they travel are not all-weather and are prone to flooding; water is not diverted from the roads due to lack of bridges, culverts and other infrastructure.

More than 16 percent of the population of Gujarat is below the poverty line. Forty-six percent of the population is female. Rural access roads are dilapidated and some are unpassable during the monsoon. These are roads mothers ply to go to clinics or bring their farm produce to market; these are roads on which girls travel to school.

Their conditions and fortunes are about to change.

A USD329-million loan from AIIB to improve rural road connectivity in the 33 districts of Gujarat is helping the Government of India improve rural road connectivity in the country's westernmost state. The project's primary beneficiaries are villagers who use rural roads daily for social and economic activities, while the secondary beneficiaries are service providers to the rural population such as clinics, traders, public transport operators and educational institutions. About 233 kilometers of the new and upgraded roads will pass through tribal areas.

The project will better integrate rural populations, tribal villages, businesses and industries with the national and state economies through better transport connectivity. This in turn would improve agricultural productivity, increase nonfarm employment opportunities and enhance rural income.

A digitized map of Gujarat's rural road networks connected to a geographic information system for real-time communication will provide progress updates. This project monitoring tool could be used in future programs so that beneficiaries would be assured of timely delivery of services and better quality of life.

This is yet another concrete example of how infrastructure improves human social and economic conditions. By integrating isolated and poor rural populations with the rest of a country and improving their access to critical social services, we can have a positive impact on the economic and social outcomes of these local communities.

We are helping the Government of India improve rural poor access to Gujarat's education, healthcare and basic services.

OUR FOCUS ON ENERGY

We help our members fulfill their Paris Agreement obligations by aligning AIIB operations with members' national energy investment plans, including their nationally determined contributions under the Paris accord.

With this in mind, our Sustainable Energy for Asia Strategy was finalized in 2017. The strategy sets out a clear framework for investments in energy projects that will increase access to clean, safe and reliable electricity across Asia. It guides us in our efforts to identify good, bankable energy projects.

Our strategy benefited from two rounds of consultations where we welcomed over 300 submissions from a diverse set of stakeholders. Their input helped strengthen the language in the final version of the strategy.

In 2017 we focused on projects in renewable energy, energy efficiency, rehabilitation and upgrading of existing plants and transmission and distribution networks. More importantly, we cooperated with other MDBs, bilateral agencies and the private sector to make this happen, with five out of six of our energy projects approved last year being cofinanced with partner-MDBs.

CLICK ON IMAGE OR SCAN QR CODE TO WATCH VIDEO.

BANGLADESH: DISTRIBUTION SYSTEM UPGRADE AND EXPANSION PROJECT

Rekha Begum of Narsingdi, a rural district 50 kilometers from the Bangladeshi capital of Dhaka, was struggling to study at night.

"It was difficult to read in the dark using a kerosene lamp," she said.

Md. Rajib Mia, also from Narsingdi, experienced similar problems at night. He had to close his small grocery after sunset, limiting his income opportunity.

Despite recent successes in rural electrification, Bangladesh still has about 13 million rural households without access to electricity, and the country's rural electrification rate is only about 40 percent. Unreliable power supply impedes Bangladesh's economic performance, reduces business opportunities and affects citizens' quality of life. Out of 140 countries, Bangladesh was ranked 124th on quality of overall infrastructure and 120th on quality of electricity supply in 2015, according to the World Economic Forum's Global Competitiveness Report 2015-2016.

The Government of Bangladesh welcomed AIIB's involvement in their national plan to enhance electrical distribution capacity and increase the number of electricity consumers in Bangladesh. The plan is to provide about 2.5 million service connections to rural consumers, upgrade two grid substations and convert 85 kilometers of overhead distribution lines to underground cables.

Upon completion in 2019, the project is expected to benefit about 12.5 million Bangladeshis. AIIB approved a USD165-million loan to Bangladesh for the project in 2016. A year later in 2017, the project is bearing fruit.

Today Rekha is able to study at night using electricity at home. Rajib is able to extend his store's operating hours till late at night. Bangladeshis are benefiting from new electrical service connections, better distribution capacity and improved power supply quality and reliability.

AIIB is helping the Government of Bangladesh light up the dark for Rekha, Rajib, their families and millions of Bangladeshis.

CLICK ON IMAGE OR SCAN QR CODE TO WATCH VIDEO.

EGYPT: ROUND II SOLAR PV FEED-IN TARIFFS PROGRAM

A village south of Cairo, Egypt basks in the Sahara Desert, one where locals deal in agriculture and camel trading. It is in Aswan, one of the hottest, sunniest and driest cities in the world. Egypt itself lies within the Global Sun Belt and has among the best solar energy resources on the planet.

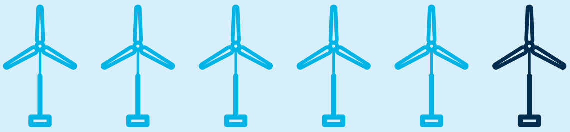
It is for this reason that the village—Benban—is an ideal location for a massive solar power park currently under construction. This renewable energy program is part of Egypt's infrastructure investment plan to achieve an additional 20-25 gigawatts of energy capacity by 2022. The program will help diversify Egypt's economy which is highly dependent on oil, gas and tourism—sectors that have been hit severely by downturns due to different circumstances.

Egypt's huge solar resource, together with its strategic vision for green growth, will allow the program to generate global environmental benefits. It will provide clean energy, avoiding about 576,432 tons of greenhouse gas emissions of carbon dioxide per year. It will increase Egypt's energy generation capacity and help the country export energy throughout Africa and neighboring Asia and Europe.

And it all begins in the camel-trading village of Benban.

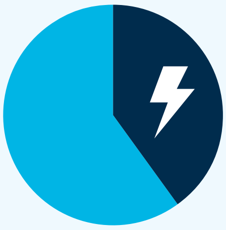
AIIB and our partner institutions are helping the Government of Egypt transition to solar power and produce clean energy for the country and neighboring regions.

ENERGY IN PARTNERSHIP

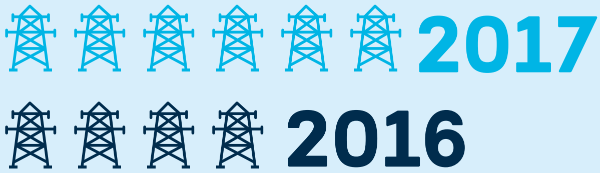


Five out of the six energy projects in 2017 were cofinanced with MDB partners.

In 2017, we held the second round of energy strategy public consultations.



Forty percent of projects in 2017 fall under the energy sector category.



Six energy projects in 2017; four in 2016.

Country	Project	Sector	Partner	Date
Bangladesh	Natural Gas Infrastructure and Efficiency Improvement	Energy	With ADB	March 22, 2017
China	Beijing Air Quality Improvement and Coal Replacement	Energy	AIIB only	Dec. 8, 2017
Egypt	Round II Solar PV Feed-in Tariffs Program	Energy	With IFC	Sep. 4, 2017
India	Andhra Pradesh 24x7 – Power For All	Energy	With WB	May 2, 2017
India	Transmission System Strengthening	Energy	With ADB	Sep. 27, 2017
Tajikistan	Nurek Hydropower Rehabilitation, Phase 1	Energy	With WB (IDA) and EDB	June 15, 2017

ADB = Asian Development Bank. **IFC** = International Finance Corporation. **WB** = World Bank. **IDA** = International Development Association. **EDB** = Eurasian Development Bank.

OUR INTERNATIONAL COOPERATION

We are a member of and partner with a global family of multilateral organizations. We believe in cooperating with private and public institutions and other partners in various sectors. Here is a snapshot of some of our collaborative activities in 2017.

Jan. 10-11

OUR PRESIDENT'S DISCUSSIONS WITH THE PRIME MINISTER OF INDIA

Our President, Jin Liqun, met with Prime Minister of India Narendra Modi in Gujarat where we have a project to improve rural roads in 1,060 villages and give access to about eight million people. They discussed the importance of empowering our regional members to draw on each other's development experiences and create "made in Asia" solutions to shared infrastructure challenges.

Feb. 9

OUR INVESTMENT AGREEMENT WITH IFC

We signed an international master agreement with IFC on investing in emerging-market projects. We would hedge with each other the interest rate and currency risks associated with our investments, effectively expanding our overall lending capacity.

March 1

WE SAID "NO" TO CORRUPT BIDDERS

We adopted the list of sanctioned firms and individuals under the Agreement for Mutual Enforcement of Debarment Decisions. Close to a thousand entities debarred by five other leading MDBs are now also debarred by our organization.

April 22

WE JOINED THE GLOBAL INFRASTRUCTURE FORUM

Leaders of the top MDBs gathered in Washington, DC to enhance coordination and better develop sustainable, resilient and quality infrastructure for developing countries. The forum focused on how governments and their partners can attract more resources for infrastructure.

April 22

WE DEEPENED OUR COLLABORATION WITH THE WORLD'S MDBs

We agreed to collaborate with the world's leading MDBs to encourage private sector investment in vital infrastructure. We were joined in this commitment by the African Development Bank (AfDB), ADB, European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IDB), Inter-American Investment Corporation, IFC, Islamic Development Bank, New Development Bank (NDB) and the World Bank.

April 23

WE EXPANDED OUR COOPERATION WITH THE WORLD BANK

We signed a framework of cooperation and knowledge sharing with the World Bank Group in common areas of interest, including development financing, staff exchanges and analytical and sector work. The framework paves the way for us to further enhance coordination at the regional and country levels.

May 4

WE JOINED THE MDB HEADS OF PROCUREMENT FORUM

This high-level forum comprises members of senior management of procurement operations of major MDBs. The forum is held annually and provides a network to discuss and share issues and developments affecting current global procurement practices. The forum also interacts with international contractor and consultant associations. AIIB is scheduled to host the forum in September 2018.

May 14

WE JOINED MAJOR MDBs FOR INFRASTRUCTURE COLLABORATION

We joined a memorandum with five other MDBs (ADB, EBRD, EIB, NDB and the World Bank) to enable greater investment in infrastructure crucial for cross-border trade, strengthening growth and development across three continents.

May 16

WE PARTNERED WITH THE IDB GROUP

President Jin, IDB President Luis Alberto Moreno and Inter-American Investment Corporation Chief Executive Officer James P. Scriven signed an agreement that aims to strengthen cooperation and improve coordination of project financing.

June 16-18

OUR SECOND ANNUAL MEETING IN JEJU, KOREA

With the Republic of Korea, we jointly hosted our Second Annual Meeting of the AIIB Board of Governors in Jeju. Over 1,300 registrants took part in the meetings and related events.

Sep. 22-23

OUR BOARD VISIT TO CHINA

Members of our Board of Directors met local government officials in Shanghai, after which they conducted a site tour of the Waigaoqiao Power Plant. The Board members also visited the Suzhou River Rehabilitation Project site and inspected the Suzhou Industrial Park.

Oct. 16-19

OUR GATHERING OF GLOBAL LEGAL EXPERTS

Our inaugural AIIB Legal Week was held at our headquarters, assembling counsels from regional and international financial institutions and about 100 guests from law firms, academic institutions and the private sector. UN Under-Secretary-General for Legal Affairs Miguel de Serpa Soares delivered a lecture on the need for cooperation between international organizations.

Nov. 6-10

OUR BOARD VISIT TO PAKISTAN

Members of our Board of Directors engaged with federal and provincial government representatives of Pakistan as they visited Islamabad, Lahore and Karachi. They discussed Pakistan's infrastructure priorities and visited our cofinanced hydropower project at Tarbela Dam. Here, members of the Board survey the site of a wastewater treatment facility in the north of Lahore.

DEC. 9-14

WE JOINED THE GLOBAL FIGHT AGAINST CORRUPTION

We joined other MDBs, international organizations and civil society in celebrating the United Nations' International Anti-Corruption Day. True to our commitment to ensure our operations remain clean, we held our inaugural Anti-Corruption Week. At the event, our staff wrote down ideas on fighting corruption.

BUILDING ON COLLABORATION

2017 built on our efforts to collaborate with partners in 2016, our first year of operations. We joined our peer MDBs in the global development effort to bridge the gap in infrastructure financing.

April 14, 2016

WE SIGNED OUR FIRST COFINANCING FRAMEWORK AGREEMENT WITH THE WORLD BANK

The first cofinancing framework between our institution and the World Bank was signed by President Jin and World Bank Group President Jim Yong Kim.

May 2, 2016

WE STRENGTHENED OUR COOPERATION WITH ADB

President Jin signed an agreement with ADB President Takehiko Nakao to strengthen cooperation—including cofinancing—at the strategic and technical levels on matters of common interest.

May 11, 2016

WE DEEPENED OUR COLLABORATION WITH EBRD

We agreed to deepen cooperation with EBRD as we invest across countries where we are both active. President Jin and EBRD President Suma Chakrabarti signed the agreement during the 25th EBRD Annual Meeting in London.

May 30, 2016

WE PARTNERED WITH EIB

We agreed to broaden cooperation with EIB to support investment in strategically important projects, jointly finance projects and increase cooperation in countries where both of us are active.

2017: IN NUMBERS

OUR MEMBERSHIP IS INCREASING

APPROVED MEMBERS

End-2016 Total	% Change	End-2017 Total
57	+47%	84

Our members are our partners in development. We collaborate with nations and territories around the world to develop much-needed infrastructure.

OUR PROJECTS ARE ON THE RISE

APPROVED PROJECTS

End-2016 Total	% Change	End-2017 Total
8	+188%	23

We partner with fellow MDBs to get things done. In 2017, 73 percent (11 of 15) of our projects were cofinanced with partner MDBs.

OUR INVESTMENTS ARE EXPANDING

INVESTMENTS IN PROJECTS AND FUNDS

End-2016 Total	% Change	End-2017 Total
USD1.69 BILLION	+150%	USD4.22 BILLION

OUR MEMBER CLIENTS ARE INCREASING

MEMBERS WITH AIIB INVESTMENT

End-2016 Total	% Change	End-2017 Total
7	+71%	12

Some of our equity-based finance projects benefit multiple members.

OUR STAFF DIVERSITY IS IMPROVING

PROFESSIONAL STAFF COUNT

End-2016 Total	% Change	End-2017 Total
79	+66%	131

NATIONALITIES REPRESENTED

End-2016 Total		End-2017 Total
23	+57%	36

AIIB staff are partners in development, with experts from around the globe contributing their talent and expertise to create tomorrow together. In 2017, our professional staff from the private sector increased to 42 percent, up from 33 percent in 2016. Meanwhile, our professional staff whose expertise were honed in MDBs increased from 32 percent in 2016 to 35 percent in 2017.

WE ARE HELPING THE MOBILIZATION OF PRIVATE FINANCE

PRIVATE COFINANCING (PRIVATE MOBILIZATION)

End-2016 Total	End-2017 Total
USD5 MILLION	USD566 MILLION

OUR SPECIAL FUND IS GROWING

CONTRIBUTIONS AND COMMITMENTS

End-2016 Total	% Change	End-2017 Total
USD58 MILLION	+86%	USD108 MILLION

AIIB members are helping each other by giving other members opportunities to prepare better projects in their countries.

PROCUREMENT IN INVESTMENT PROJECTS

For our sovereign-backed standalone and cofinanced investment projects, the total value of all contracts awarded in accordance with International Open Competitive Tendering (IOCT) procedures during 2017 amounted to USD396 million. These contracts were awarded to firms and suppliers from Turkey, China, India, Korea, Bangladesh and Australia. The cumulative value of IOCT contracts placed since AIIB began operations now stands at USD885 million.

AIIB PROJECT PREPARATION SPECIAL FUND

Our Board of Directors approved the Rules and Regulations of the AIIB Special Fund for Project Preparation on June 24, 2016. The fund helps members improve their capacity to prepare and deliver infrastructure projects up to the standards necessary to attract AIIB financing.

The fund is used for projects intended to benefit low- and middle-income countries listed as recipients of the International Development Association (IDA), including IDA "blend" countries. In some cases the fund might be used to benefit other AIIB members, such as for projects that are innovative, complex or those with significant regional impact.

As of end-2017, three countries have contributed to the fund. The first commitment (USD50 million) came from China, the second commitment (USD8 million) from Korea and the third commitment (USD50 million) from the United Kingdom (the UK made the first installment of its contribution on March 26, 2018).

AIIB's special operations financed from the fund's resources consist of grants to finance technical assistance needed for project preparation, including:

- Reviewing and improving feasibility studies.
- Conducting environmental, financial, legal, social and technical assessments and analyses.
- Providing advisory services in relation to procurement, transaction and contract management.
- Developing project implementation plans and schedules.

During 2017, a total of USD1.7 million was approved for two grants from the fund.

Member	Project Name	Grant Amount (USD)
Nepal	Urban Infrastructure Improvement Project	1,000,000
Sri Lanka	Solid Waste Management Project	700,000
Total Amount Approved		**1,700,000**

Our bylaws require a financial statement of the fund separate from our ordinary resources. The 2017 Audited Financial Statement of the fund is provided on page 87 onward.

OUR MILESTONES

Our 2017 Business Plan supported four strategic and institutional priorities: (1) sharpening our strategic focus and shaping our corporate brand, (2) scaling up support for our clients, (3) bolstering our financial sustainability and paving the way for market access and (4) continuing to build our institution. As we go through our start-up mode for the first five years, we are completing critical milestones with more on track for completion.

SHARPENING OUR STRATEGIC FOCUS, SHAPING OUR CORPORATE BRAND

We focused on building specialized skills, expertise and market knowledge to help us deliver on our geographic and sectoral mandate. We drew on our thematic priorities to identify and develop the competencies we will need. We sharpened our focus on particular business lines, beginning with the energy sector. And so—on June 15, 2017—AIIB's Sustainable Energy for Asia Strategy was finalized.

MILESTONE ACHIEVED IN 2017:

Sustainable Energy for Asia Strategy finalized.

SCALING UP SUPPORT FOR OUR CLIENTS

At the heart of our mandate is the delivery of high-quality, cost-effective and timely services to clients. In 2017, we enhanced borrower engagement to better understand their needs. Our programming approach—the process for developing our investment pipeline—was further refined to better integrate our core thematic priorities with the demands of our borrowers.

By year-end, 15 projects with investments of USD2.5 billion had been approved, bringing our total to 23 approved projects with investments of USD4.22 billion, and more being processed in the pipeline.

In 2016, seven of our members became our clients as AIIB funding assistance was approved for projects in their countries. By end-2017, that number had grown to 12, an increase of 71.42 percent. On top of this, in 2017 we embarked on equity-based and sovereign finance projects that benefit several of our members.

MILESTONE ACHIEVED IN 2017:

USD1.5-2.5 billion lending for 10-20 projects with a rolling pipeline for 2017/2018 program and beyond.

BOLSTERING OUR FINANCIAL SUSTAINABILITY AND PAVING THE WAY FOR MARKET ACCESS

We further strengthened our core financial architecture—including risk management—as we prepared ourselves to scale up investment and secure international credit ratings.

We successfully secured short-term and long-term triple-A issuer ratings from the internationally recognized credit rating agencies: Standard & Poor's Global Ratings, Moody's Investors Service and Fitch Ratings. We also successfully published our audited financial statements, both for AIIB as a bank and for the Project Preparation Special Fund.

Throughout 2017 we continued to build and expand the risk management capabilities in support of management of both the financial and nonfinancial risks we face. We formulated a comprehensive rating methodology and conducted necessary training which in turn helped us secure our first nonsovereign project.

The direction and oversight of risk management at our organization is entrusted to the Risk Management Department (RMD). We formulated our risk appetite statement, the cornerstone of the management of risk at our institution. Risk appetite and stress testing are core components of our approach to risk management, and these are aligned with the strategic planning process. Risk appetite articulates the aggregate levels of risk we are willing to accept in pursuit of our mandate. It defines our integrated approach to business, risk and capital management.

As we continue to scale up, it is important for our business growth plans to be capably supported by an effective and efficient risk management infrastructure and a strong risk culture throughout the organization. We have a well-developed risk management strategy based on our Risk Management Framework with clear objectives that enable us to identify, respond to, escalate, manage and monitor risks that present themselves to AIIB in accordance with our mandate and strategy. The rollout of our Risk Management Framework is aimed at enhancing and developing our capacities in the policy, methodology and modeling areas, which is an institutional priority for us.

RMD aims to manage our risk profile in a forward-looking manner through the routine monitoring of indicators and triggers and the continued strengthening of our risk infrastructure and internal control environment. This way, we help our executives improve the control and coordination of risk-taking across our organization while maintaining our independence in analytical and objective decision making.

MILESTONES ACHIEVED IN 2017:

Triple-A ratings from S&P, Moody's and Fitch.

Publication of audited financials.

Risk appetite statement formulated.

CONTINUING TO BUILD OUR INSTITUTION

In our second year of operations, we continued to refine, deepen and enhance our institutional and policy frameworks and ensure their effective implementation. This allowed us to meet immediate business needs and pave the way for longer-term business development.

Our membership is integral to our institution, and our vision is to constantly improve client service—whether for internal stakeholders such as sovereign clients or external stakeholders such as nonsovereign clients.

In 2017, our first tranche of membership expansion was completed successfully, having determined a transparent and principled approach toward admitting new members.

We set up the Internal Audit Office (IAU) with the purpose of providing professional and objective assurance and advisory services designed to add value and improve our operations. The IAU helps us accomplish our objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of governance, risk management and control processes. Since its establishment, IAU has followed up on the management letter issued by the external auditor and facilitated our adoption of the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. It has also conducted in phases an advisory engagement on the expenses review.

At the end of 2017, the first phase of our information technology (IT) strategy ended and the second phase began. Several initiatives had been undertaken during the second wave of our IT roadmap, including the redesign and launch of internal systems and the deployment of IT tools for staff.

We also established our Young Professionals (YP) Program in 2017 to recruit and develop outstanding professionals in the early stages of their careers. They work with our staff to develop, enhance and leverage their professional skills and expertise while acquiring hands-on experience with us.

MILESTONES:

First tranche of membership expansion completed successfully.

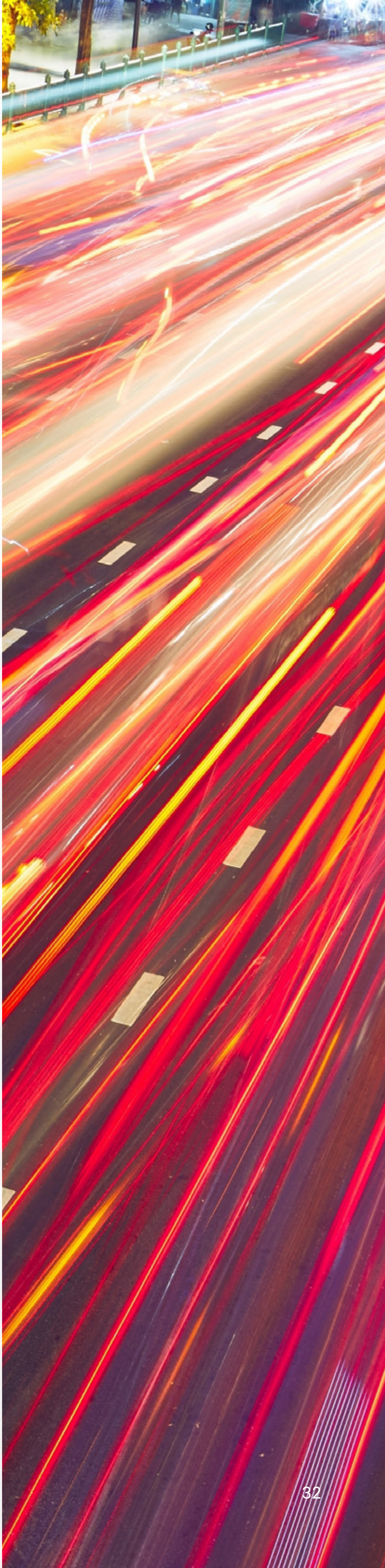
Rollout of second phase of IT strategy.

Internal control system established.

Young Professionals Program established.

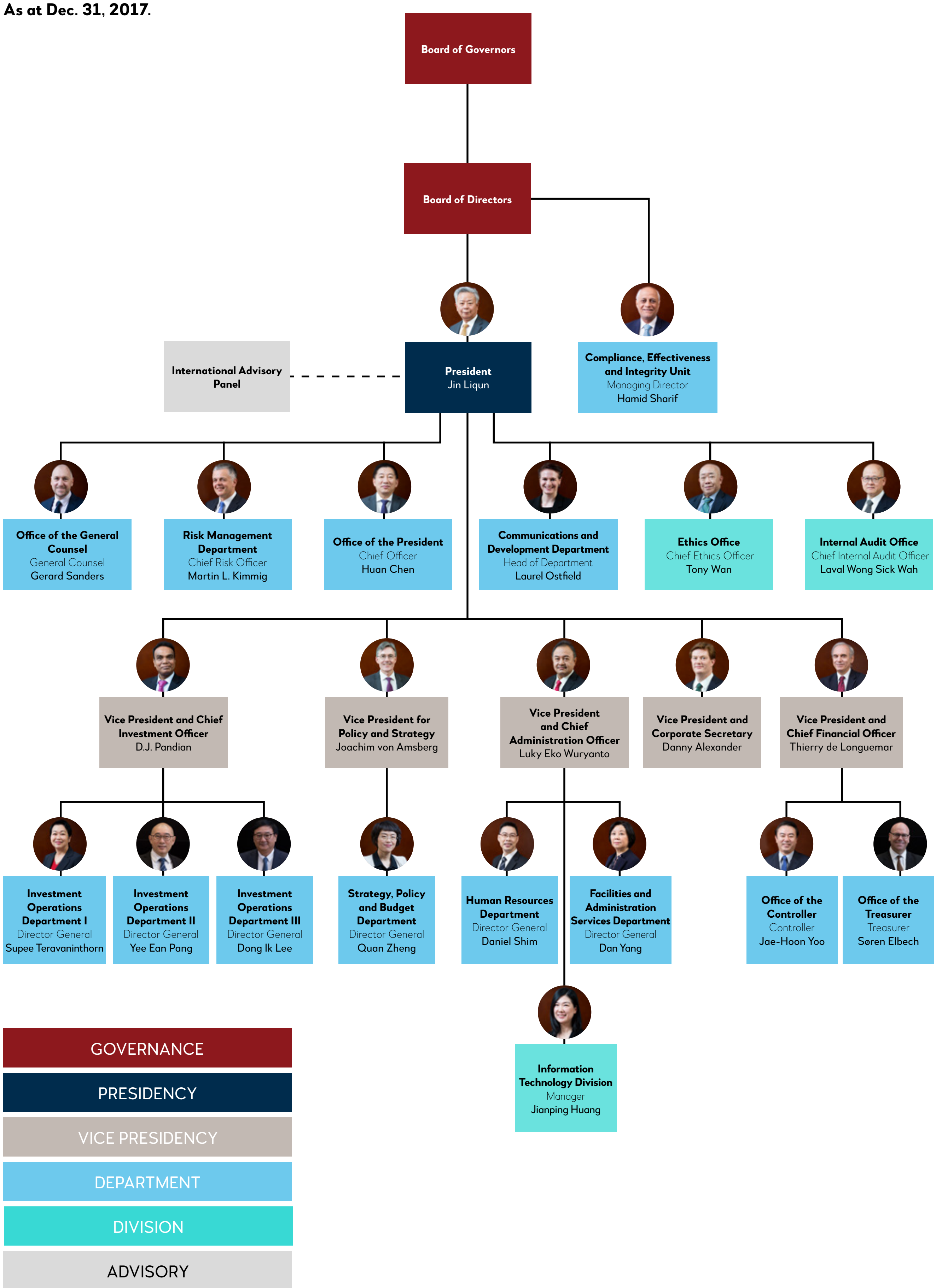
ABOUT OUR STRUCTURE

We have a focused mandate. We strive to be agile. We aim for the most efficient use of our capital. We practice effective governance and hold ourselves accountable for our actions.



OUR STRUCTURE

As at Dec. 31, 2017.



OUR BOARDS

BOARD OF GOVERNORS

Each AIIB member will appoint a Governor to represent it on the Board of Governors.
All powers of AIIB are vested in the Board of Governors.

BOARD OF DIRECTORS

Nonresident Board of Directors.
12 Directors—nine elected by regional members and three elected by nonregional members.
Quarterly physical meetings in Beijing and virtual meetings.

PRESIDENT

President is elected by the Board of Governors.
May serve up to two five-year terms.
National of a regional member country.

CHIEF RISK OFFICER

Appointed by the President.
Board of Directors are informed.

GENERAL COUNSEL

Appointed by the President.
Board of Directors are informed.

VICE PRESIDENTS

Appointed by the Board of Directors upon the recommendation of the President.
Based on open, transparent and merit-based process.

RESPONSIBILITIES OF OUR GOVERNORS

All our powers are vested in our Board of Governors, where each member is represented by a Governor and an Alternate Governor, both of whom serve at the pleasure of the appointing member. At each of its annual meetings, the Board elects one of the Governors as chair who holds office until the election of the next chair.

The Board of Governors has the power to, among others, admit new members and determine the conditions of their admission, suspend a member, increase or decrease our authorized capital stock, elect our Directors, elect our President or suspend or remove the President from office.

The Board of Governors has delegated a broad range of operational oversight functions to the Board of Directors.

The 2017 Annual Meeting of our Board of Governors took place June 16-17 on Jeju Island in the Republic of Korea. A total of 76 members and prospective members sent delegations, and around 20 international organizations and multilateral development institutions sent observers to our Annual Meeting.

RESPONSIBILITIES OF OUR DIRECTORS

Our 12-member Board of Directors functions on a nonresident basis in line with our lean culture.

We are lean. By being cost-effective and efficient, we become agile and responsive to our clients' demands and deliver results. A nonresident Board of Directors, a small yet highly experienced management team and a core of highly motivated, skilled and dedicated staff move us forward. This combination of dedication, skills and experience enables us to listen to our borrowers and shareholders and develop innovative solutions tailored for them.

Our Board of Directors is responsible for the direction of our general operations, exercising all powers delegated to it by the Board of Governors. This includes approving our policies and strategies, annual work plan and budget; making decisions concerning our operations; supervising management and operations and establishing an oversight mechanism.

The Board of Directors meets as often as business requires—both through physical meetings and by videoconference—and maintains regular communication with our management between meetings.

Our Board has been getting real-time, on-ground exposure to the frontline work of AIIB through visits to project sites. These experiences and observations are converted into useful inputs to our Senior Management which will help guide and shape our future program of activities.

In 2017, our Board of Directors began a rolling program of visits to help deepen their understanding of our members' infrastructure needs and AIIB's operations. A delegation from the Board of Directors visited China in September and Pakistan in November. The delegation met and engaged with high-level representatives of the host countries' governments, project delivery authorities and the private sector. The delegation visited project sites in China and Pakistan.

Our Board of Directors held seven meetings in 2017. These included four physical meetings and three virtual meetings. During Board meetings, Directors receive updates and take decisions on matters pertaining to the development of our organization. In addition, the Rules of Procedure of the Board allow decisions to be taken by correspondence under the Absence of Objection Basis. In 2017, our Board of Directors adopted 46 decisions, which may be broken down into the following themes:

- 15 decisions on operations. This refers to the approval of 15 different investments in member territories.
- 22 decisions concerning the governance of AIIB. This includes matters pertaining to our membership, changes to the composition of the committees of the Board or the minutes of meetings of the Board.
- 5 decisions on institutional development. This includes matters pertaining to the 2017 Financial Statements and the 2018 Business Plan and Administrative Budget.
- 4 decisions on policy and strategy. This includes approval of AIIB's Energy Sector Strategy and Operational Policy on International Relations.

THE FOLLOWING ARE OUR DIRECTORS, ALTERNATE DIRECTORS AND CONSTITUENCY MEMBERS AS AT DEC. 31, 2017:

DIRECTORS	ALTERNATE DIRECTORS		CONSTITUENCY MEMBERS
Khalid ALKHUDAIRY (Saudi Arabia)	**Adel AL HOSANI** (United Arab Emirates)	**Ahmad Hassan ALOBAIDLY** (Qatar)	Jordan, Oman, Qatar, Saudi Arabia, United Arab Emirates
Mehmet Alper BATUR (Turkey)	**Muhammad Aslam CHAUDHARY** (Pakistan)	**Toghrul GULIYEV** (Azerbaijan)	Azerbaijan, Brunei Darussalam, Georgia, Kyrgyz Republic, Pakistan, Turkey
BOONCHAI Charassangsomboon (Thailand)	**Md. Zahidul HAQUE** (Bangladesh)		Bangladesh, Malaysia, Maldives, Nepal, Philippines, Thailand
Grigory BUTRIN (Russia)	**Nurym AYAZBAYEV** (Kazakhstan)		Iran, Kazakhstan, Russia, Tajikistan
Shixin CHEN (China)	**WU Guoqi** (China)		China; Hong Kong, China
Ahmed KOUCHOUK (Egypt)	**Fisseha Abera KIDANE** (Ethiopia)		Egypt, Ethiopia
Christopher LEGG (Australia)	**Dao Thuy HANG** (Vietnam)		Australia, New Zealand, Singapore, Vietnam
Emil LEVENDOĞLU (United Kingdom)	**Michelle GYSIN** (Switzerland)	**Radek PYFFEL** (Poland)	Denmark, Hungary, Iceland, Norway, Poland, Sweden, Switzerland, United Kingdom
Nikolai PUTSCHER (Germany)	**Philippe BAUDRY** (France)	**Alberto COGLIATI** (Italy)	Austria, Finland, France, Germany, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal
Dinesh SHARMA (India)	**Bandana PREYASHI** (India)		India
Rionald SILABAN (Indonesia)	**Angkhansada MOUANGKHAM** (Lao People's Democratic Republic)	**Priyantha RATHNAYAKE** (Sri Lanka)	Cambodia, Indonesia, Lao People's Democratic Republic, Myanmar, Sri Lanka
Taesik YOON (Korea)	**Ofer PELEG** (Israel)		Israel, Korea, Mongolia

OUR BOARD COMMITTEES

To ensure that we perform our mandate based on sound strategies and practices, three committees under the Board of Directors give us guidance. These are the Audit and Risk Committee (ARC), the Budget and Human Resources Committee (BHRC) and the Policy and Strategy Committee (PSC).

The ARC assesses our financial statements, reporting practices, procedures and issues and reviews reports from the external auditors. The committee reviews the effectiveness of the internal audit function, internal control systems, risk management processes and policies and information technology security. The ARC is composed of four Director members and two external members. The committee held its inaugural meeting in May and another two meetings in September and December in 2017.

The BHRC assesses the proposed annual budget and implementation of the compensation and benefits policies and considers any other aspects of the budget and our human resources as the Board may request. The BHRC comprises six Director members. The committee held five meetings in 2017—in March, June, September, November and December. The November meeting was convened virtually.

Meanwhile, the PSC reviews our financial and operational policies (such as environment, social and procurement policies) and advises us on the development of our strategies. The PSC comprises six Director members. The committee held five meetings in 2017—in March, June, September, November and December. The November meeting was convened virtually.

OUR SENIOR MANAGEMENT

Staff are headed by our President who is elected by AIIB shareholders for a five-year term and eligible for reelection once. He is supported by our Senior Management which includes five Vice Presidents (responsible for policy and strategy, investment operations, finance, administration and the corporate secretariat), the General Counsel and the Chief Risk Officer. Together they comprise our Executive Committee, the most senior management body advising the President on all matters.

Jin Liqun, President and Chair of the Board of Directors
Prior to leading us, our inaugural President served as secretary-general of the Multilateral Interim Secretariat tasked to establish AIIB. Previously he was chair of China International Capital Corporation, chair of the Supervisory Board of China Investment Corporation and chair of the International Forum of Sovereign Wealth Funds. He was also vice president of ADB and vice minister of the Ministry of Finance. Earlier in his career, he served as alternate executive director for China at the World Bank and at the Global Environment Facility as well as alternate governor for China at ADB. Our President holds a master's degree in English Literature from Beijing Foreign Studies University. He was also a Hubert Humphrey Fellow in the Economics Graduate Program of Boston University.

Danny Alexander, Vice President and Corporate Secretary
Our Corporate Secretary is responsible for relations with our members, Board of Governors, Board of Directors and other aspects of governance, including the admission of new members. Formerly chief secretary to the Treasury of the United Kingdom, he was one of the leaders of the UK coalition government between 2010 and 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 was knighted in 2015.

Thierry de Longuemar, Vice President and Chief Financial Officer
Our Chief Financial Officer designs and implements our financial strategies and policies, including oversight of the Offices of the Treasurer and of the Controller. He previously served as, first, treasurer of and later vice president of finance at ADB and at AfDB. His career extends to the private sector, including senior roles at ABN AMRO, Credit Agricole, Compagnie Bancaire and TOTAL. He graduated from l'Ecole des Sciences Economiques et Commerciales.

D.J. Pandian, Vice President and Chief Investment Officer

Our Chief Investment Officer leads our investment portfolio with oversight for all sovereign and nonsovereign lending. With his team of specialists, he is responsible for end-to-end management of our project pipeline, from identification to implementation. He previously served in the Government of Gujarat in various capacities and had an extensive 30-year career with the Indian Administrative Services. He has a PhD in energy security and an MBA from the University of Madras.

Joachim von Amsberg, Vice President for Policy and Strategy

Our Vice President for Policy and Strategy drives our strategic direction, including sectoral and country priorities, investment strategy and programming, operating budget and economic analysis and research. He oversees our operational policies and their implementation. He was previously vice president for development finance at the World Bank. He has a PhD in economic policy analysis and an MBA from the University of British Columbia. He also holds an MS in industrial engineering from the Technical University of Berlin.

Luky Eko Wuryanto, Vice President and Chief Administration Officer

Our Chief Administration Officer oversees our human resources, information technology and facilities and administration services. Prior to this role, he served in senior positions in the Indonesian government for more than 20 years, most recently as deputy coordinating minister at the 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.

Gerard Sanders, General Counsel

Our General Counsel advises our Board of Governors, Board of Directors and President and is responsible for the legal aspects of our work. Prior to joining us, he was general counsel of the International Fund for Agricultural Development and deputy general counsel at EBRD. He worked with law firms in Wellington; Washington, DC; Amsterdam and in a corporate role in London. He has graduate law degrees from Victoria University of Wellington and Harvard Law School. He is a chartered accountant and is qualified to practice law in New Zealand, the state of Victoria in Australia, England and Wales.

Martin Kimmig, Chief Risk Officer

Our Chief Risk Officer ensures our stability and financial continuity. He oversees capital allocation and utilization, manages financial and nonfinancial risks (including reputational consequences) and fosters a strong risk culture in our organization. He joined us from The Rock Creek Group where he was managing director covering emerging market equities. He spent 24 years at the World Bank Group where he held leadership positions in investment operations and risk management. He has a PhD in economics from the University of Freiburg and a CFA designation.

OUR INTERNATIONAL ADVISORY PANEL

We have a pool of global experts who give our management impartial advice and perspectives. Our International Advisory Panel (IAP) shares with us years of experience and a wide range of professional expertise in both the international private and public sectors.

The President selects and appoints members of the IAP to two-year terms. Panelists receive a small honorarium and do not receive a salary. The IAP supports our President and Senior Management, advising us on the development and implementation of our strategies, policies and general operations.

The panel meets in tandem with the annual meeting of our Board of Governors, or as requested by our President. AIIB pays the costs associated with panel meetings.

Shaukat Aziz	Former Prime Minister of Pakistan
Zeti Akhtar Aziz	Former governor of Bank Negara Malaysia, Malaysia's Central Bank
Anders Borg	Former finance minister of Sweden
Tung Chee-Hwa	Former chief executive of Hong Kong SAR
Yukio Hatoyama	Former Prime Minister of Japan
Steve Howard	Secretary general of the Global Foundation
Oh-Seok Hyun	Chair professor of the Korea National Diplomatic Academy and former deputy prime minister and minister of strategy and finance of Korea
Ngozi Okonjo-Iweala	Senior advisor, Lazard; former finance minister, Nigeria; former managing director, World Bank
Paul Speltz	Former US ambassador, chair and CEO of Global Strategic Associates
Nicholas Stern	Professor at the London School of Economics, former chief economist of the World Bank
Ngaire Woods	Inaugural dean of the Blavatnik School of Government and professor of Global Economic Governance

OUR COMPLIANCE, EFFECTIVENESS AND INTEGRITY UNIT

Hamid Sharif, Managing Director, CEIU

Our Compliance, Effectiveness and Integrity Unit (CEIU) reports directly to our Board of Directors and has an oversight role to help strengthen our accountability, learning and effectiveness related to investment operations. It is the focal point for project-related grievances—including submissions from project-affected people and issues relating to fraud and corruption in our projects—and develops policies and practices to bolster the integrity of activities we finance. It also has an oversight function, including responsibility for the rigorous and independent assessment of the effectiveness of projects. This includes deriving real-time learning to our operations and providing our Board with essential information for accountability. Across these three functions, CEIU also aims to bring learning to the frontline.

We are clean. We have zero tolerance for corruption and we adhere to the highest standards of integrity, accountability and ethics in our projects and for our staff. We have institutionalized measures to protect whistleblowers who report fraud and corruption. We espouse transparency by releasing public information based on our guiding principles of disclosure.

CEIU 2017 HIGHLIGHTS

Staffing—Three international professional staff recruited in February and March.

Compliance—CEIU made a call for public consultations over 60 days from April to June to begin preparing AIIB's Project-affected People's Mechanism (PPM).[7] Fifteen written submissions were received from nongovernment organizations, academics, the United Nations, business and professional bodies based in Asia (including Russia), Australia, Europe, South America and the United States. Video conference, roundtable and in-person discussions were also held. Participants raised over 340 individual points for consideration.

CEIU met with other international financial institutions' members of the Independent Accountability Mechanisms (IAM) to discuss PPM development in Washington, DC; London and the annual IAM networks meeting hosted by the Black Sea Trade and Development Bank in Greece. Together with inputs from AIIB's Board of Directors, constituency members and an AIIB interdepartmental task force, these comments helped inform PPM drafting.

CEIU was also invited to introduce the draft PPM at a conference on independent accountability mechanisms held in China. Chinese banks expressed strong interest in continued dialogue on the development of environmental and social compliance systems and complaint handling mechanisms.

[7] As it was called in 2017.

CEIU 2017 HIGHLIGHTS CONTINUED...

Effectiveness—As a young bank, AIIB project investments have just started and several years will pass before evaluations can occur at project completion, or even midterm. This means we need to develop an approach to project effectiveness that suits our current stage of development and institutional requirements. However, this early stage also provides an opportunity to review the quality of projects at entry, to plan for early assessment of their evaluability and to ensure continuous learning and feedback is occurring across the project cycle.

CEIU also established cooperation with the World Bank's Global Delivery Initiative to explore how to incorporate good learning tools, information and cases into our operations.

Integrity—A directive and an administrative guidance for the Policy on Prohibited Practices (PPP) were issued to support the implementation of and supplement the PPP. A database for integrity due diligence work was also selected and procured. Several training courses were delivered to AIIB staff.

Integrity risk reviews were undertaken for projects and corporate procurement activities. CEIU provided substantive integrity-related technical feedback and guidance on specific financing, legal and project documents.

CEIU also reviewed an integrity allegation on an AIIB project during the procurement stage, which was unsubstantiated. Other complaints that did not involve suspected prohibited practices were referred to other AIIB units for appropriate action.

CEIU generated regular debarment list updates on the AIIB website, reviewed cross-debarment decisions for entities that sought to participate in AIIB projects and maintained contact with other MDBs on sanctions-related matters.

CEIU also used the week around International Anti-Corruption Day on Dec. 9 to raise staff awareness on fraud and corruption issues.

OUR STAFF

We are a collection of motivated staff. We are diverse professionally, culturally and geographically and we are committed to a shared endeavor. We bring to AIIB a rich combination of experiences from the private and public sectors and from international financial institutions.

We are looking for people who bring together relevant experiences from government, the private sector, multilateral development organizations or other institutions—people who are motivated to build a career by making a difference.

We are gradually building our team of highly skilled professional staff based on defined competencies and the needs of our business. We seek professionals with proven experience in infrastructure investments and various specialists with expertise and experience in different sectors. We value work experience in regional integration initiatives, urban planning, energy (including renewables and energy efficiency), transportation (including roads, railways, ports and airports), urban planning, telecommunications, water, sanitation and waste management, environmental and social management and other infrastructure-related fields.

We have a global recruitment strategy that allows us to hire the best experts worldwide. We encourage diversity in our workplace and support an inclusive, high-performing, empowering and respectful work environment.

We collaborate. We innovate. We are accountable for our actions. We are AIIB, and we come from six continents, united in our goal to create tomorrow together.

CLICK ON IMAGE OR SCAN QR CODE TO WATCH VIDEO.

“There isn’t a universally agreed definition of development. AIIB has developed a more narrowly prescribed definition that looks at both geographic and functional considerations. I see this as an opportunity for me to use my past experiences in the private and public sectors to help AIIB in its remit.”

—Christopher Smith of the United States, Senior Counsel

“The first project AIIB approved was a power distribution improvement project, helping rural communities access electricity. Women and children are the primary beneficiaries. Stories like this are being written by AIIB. I’m proud to be part of AIIB’s story.”

—Xiao Jun of China, Senior Program Officer

CLICK ON IMAGE OR SCAN QR CODE TO WATCH VIDEO.

CLICK ON IMAGE OR SCAN QR CODE TO WATCH VIDEO.

“The bank is promoting the buildup of infrastructure in Asia to improve connectivity. Connectivity brings benefits such as enhanced trade flows, more frequent cultural exchanges and the mobility of people, resources, goods and services. As an employee it is a privilege to be part of this mission. I was the first Latin American to be hired at the bank so I am proud to help build the bank from scratch.”

—Ricardo Rico Franco of Colombia, Principal Treasury Officer

ABOUT A BETTER TOMORROW

To bridge the gap in infrastructure funding, financial and human resources need to be combined. We will continue to deepen our talent pool and work with our members, partners and stakeholders to create tomorrow together.

LOOKING FORWARD

As we entered 2018, our third year of operations, we began to sharpen our strategic vision. Our first two years were part of our start-up phase when we established our basic policy framework, launched sectoral strategies and financed our preliminary operations. We also spent our first two years building strategic relationships with peer MDBs and related organizations.

CONTINUED INVESTMENT IN OUR MEMBERS

From 57 in 2016, our approved membership grew to 84 in 2017.[8] In 2018, we will continue to support new members to complete the membership process before the year-end deadline.

We will use strategy, borrower demand and our financial policies to determine our investment programming and individual member financing. Our investment decisions are not determined by our members' capital share nor the region to which they belong, although all projects must benefit Asia to fulfill our mandate. We will continue the trend of expanding our investments into a larger number of members, all the while maintaining a high bar for quality.

We will continue to make investments where sensible. Our Strategy on Financing Operations in Nonregional Members will guide our investment approach outside Asia. By marking a portion of our investments for nonregional members, we can best live up to the expectations of our diverse membership base.

ACCESS TO INFORMATION

We acknowledge the value of records-keeping in support of our transparency goals and to promote access to information by documenting our administration and operations. We have built the foundations of records and information management (RIM) by adding a new function to the Facilities and Administration Services Department. The preliminary work of establishing a bankwide RIM program began by establishing an internal legal framework in 2016, and work on this continued in 2017 and onward to 2018.

BUSINESS CONTINUITY

Like all major organizations, we are vulnerable to a variety of external threats and hazards beyond our control. If not identified in advance and analyzed for their potential negative impact on operations, these have the potential to cause us significant harm. This potential vulnerability was recognized, and in December 2017 the first bankwide Business Continuity plan was adopted, covering all identified threats with suitable mitigation measures aimed at ensuring that we remain resilient at all times.

This business continuity approach will be continuously enhanced throughout 2018 and beyond.

DEEPENING OUR TALENT POOL

Our talent pool is our backbone.

In 2018, we expect to continue attracting high-caliber talents from a variety of markets. We are taking a broader approach by expanding our network to make ourselves more visible in the job market.

As an international organization, we are building a team that reflects our international character and diversity. We are giving increased attention to underrepresented groups in the selection process through a series of innovative recruitment campaigns and employer branding.

We aim to retain and develop our talents by creating a competency-based training and development framework, reviewing the effectiveness of our compensation and benefits policies and creating a customer- and team-oriented culture. In 2018, we will also take the first steps toward developing a talent pool and succession plan.

We are also recruiting and training tomorrow's talent today. Our second group of young professionals came on board in April 2018. We also initiated our first internship program in 2018. The program—open to postgraduate students of any nationality—gives candidates an opportunity to gain relevant work experience while contributing to the growth and success of our institution.

[8] By the time this report was finalized, AIIB's approved membership had grown to 86. Updated AIIB member list and numbers can be viewed at https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html

CONTINUING STAKEHOLDER ENGAGEMENT

We are listening closely and responding to our internal and external stakeholders.

Internally, we are assisting our new members in fulfilling their requirements for approval while utilizing sound strategies for investing in members who are already approved. Our Board and Senior Management teams are internal stakeholders as well, and we will continue to strike a balance between organizational, functional and operational accountability to serve clients better. We will continue to listen to staff feedback, develop a good corporate culture, deepen our talent pool and enhance our performance management process.

Externally, this year we will continue working on our policies which address the needs of our external stakeholders, such as the Policy on Public Information and the Project-affected People's Mechanism. We will listen closely and respond to our audiences and stakeholders.

From a communications perspective, we are sharpening our messaging and branding focus, gathering inputs from stakeholders to refine messaging pillars around which our communication efforts are built. This will allow us to have a unified vision, a consistent narrative, a clear framework and a global lens that will shape and guide action—not just that of our audiences but our own actions as well.

OUR PERMANENT HOME

We practice our core values at home by being green. With our continued growth comes the anticipation of moving into our permanent headquarters.

We are green. We have integrated into our operations a profound sense of awareness and respect for the environment and social sustainability. We support our members in addressing climate concerns as they transition to a low-carbon energy mix.

In 2017, we continued construction on our headquarters located near the Beijing Olympic Park. Work is progressing quickly—from ground breaking in September 2016 to structural topping out in December 2017. Designed and built with environmental sustainability features, our new home has already obtained precertification of Leadership in Energy and Environmental Design (LEED) Platinum accreditation. LEED is a rating system devised by the United States Green Building Council to evaluate the environmental performance of a building and encourage market transformation toward sustainable design.

Once completed, this building will become our permanent home from 2020 onward.

OUR FINANCIALS

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 Asian Infrastructure Investment Bank (the "Bank") set out on pages 51 to 86, which comprise:

- the statement of comprehensive income for the year ended December 31, 2017;
- the statement of financial position as at December 31, 2017;
- the statement of changes in equity for the year ended December 31, 2017;
- the statement of cash flows for the year ended December 31, 2017; 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 December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, 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.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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pwc

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 ISAs 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 ISAs, 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 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 those charged with governance 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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, April 10, 2018

Financial Statements (AIIB)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2017

In thousands of US Dollars	Note	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
Interest income	C1	124,193	23,455
Interest expense	C1	-	-
Net interest income		**124,193**	**23,455**
Net fee and commission expense	C2	(866)	(70)
Net gain on investments at fair value through profit or loss	C5	53,783	14,873
Impairment provision	C6	(9,088)	(277)
General and administrative expenses	C3	(56,098)	(30,658)
Net foreign exchange loss		(58)	(26)
Operating profit for the year/period		**111,866**	**7,297**
Accretion of paid-in capital receivables	C7	140,442	160,063
Net profit for the year/period		**252,308**	**167,360**
Other comprehensive income		-	-
Total comprehensive income		**252,308**	**167,360**
Attributable to:			
Equity holders of the Bank		**252,308**	**167,360**

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

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

In thousands of US Dollars	Note	December 31, 2017	December 31, 2016
Assets			
Cash and cash equivalents	C4	1,104,866	1,281,992
Term deposits	C4	5,885,854	2,292,141
Investments at fair value through profit or loss	C5	3,255,140	3,179,873
Funds deposited for co-financing arrangements		1,592	23,623
Loan investments, at amortized cost	C6	773,238	9,553
Paid-in capital receivables	C7	7,948,901	11,007,227
Intangible assets		1,032	-
Other assets	C8	1,983	958
Total assets		**18,972,606**	**17,795,367**
Liabilities			
Other liabilities	C9	13,587	5,538
Total liabilities		**13,587**	**5,538**
Members' equity			
Paid-in capital	C10	19,000,300	18,065,400
Reserve for accretion of paid-in capital receivables		(160,444)	(282,868)
Retained earnings		119,163	7,297
Total members' equity		**18,959,019**	**17,789,829**
Total liabilities and members' equity		**18,972,606**	**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

Mr. Jae Hoon Yoo
Controller

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2017

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 members' equity
January 16, 2016		**-**	**-**	**-**	**-**	**-**	**-**
Capital subscription and contribution		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		-	-	-	(442,931)	-	(442,931)
Transfer of accretion	C7	-	-	-	160,063	(160,063)	-
December 31, 2016	C10	**90,327,000**	**(72,261,600)**	**18,065,400**	**(282,868)**	**7,297**	**17,789,829**
January 1, 2017		**90,327,000**	**(72,261,600)**	**18,065,400**	**(282,868)**	**7,297**	**17,789,829**
Capital subscription and contribution		4,674,100	(3,739,200)	934,900	-	-	934,900
Net profit for the year		-	-	-	-	252,308	252,308
Paid-in capital receivables - accretion effect		-	-	-	(18,018)	-	(18,018)
Transfer of accretion	C7	–	–	–	140,442	(140,442)	-
December 31, 2017	C10	**95,001,100**	**(76,000,800)**	**19,000,300**	**(160,444)**	**119,163**	**18,959,019**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

In thousands of US Dollars	Note	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
Cashflows from operating activities			
Net profit for the year/period		252,308	167,360
Adjustments for:			
Interest income from term deposits		(104,710)	(17,141)
Accrued interest on funds deposited for co-financing arrangements		(167)	-
Accretion of paid-in capital receivables	C7	(140,442)	(160,063)
Net gain on investments at fair value through profit or loss	C5	(53,783)	(14,873)
Impairment provision	C6	9,088	277
Depreciation and amortization		193	-
Increase in loan investments	C6	(768,681)	(9,830)
Decrease/(Increase) in funds deposited for co-financing arrangements		22,198	(23,623)
Increase in other assets		(1,651)	(958)
Increase in other liabilities		3,957	5,538
Net cash used in operating activities		(781,690)	(53,313)
Cash flows from investing activities			
Investment purchases	C5	(21,484)	(3,165,000)
Increase in term deposits, net of interest received		(3,489,003)	(2,275,000)
Intangible assets		(222)	-
Property improvements		(232)	-
Computer hardware		(145)	-
Net cash used in investing activities		(3,511,086)	(5,440,000)
Cash flows from financing activities			
Capital contributions received	C7	4,115,650	6,775,305
Net cash from financing activities		4,115,650	6,775,305
Net (decrease)/increase in cash and cash equivalents		(177,126)	1,281,992
Cash and cash equivalents at beginning of year/period		1,281,992	-
Cash and cash equivalents at end of year/period	**C4**	**1,104,866**	**1,281,992**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

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

A 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 December 25, 2015. The Bank commenced operations on January 16, 2016. The principal office of the Bank is located in Beijing, the People's Republic of China (the "PRC").

For the year ended December 31, 2017, the Bank has approved 27 new membership applications. As at December 31, 2017, the Bank's total approved membership is 84, of which 61 have completed the membership process and have become members of the Bank in accordance with the AOA.

The purpose of the Bank is to: (i) foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors; and (ii) promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions.

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 on January 16, 2016.

These financial statements were signed by the President, the Vice President and Chief Financial Officer, and the Controller on April 10, 2018.

B ACCOUNTING POLICIES

B1 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 commenced operations, the financial year begins on the date the Bank commences operations and ends on December 31 of that year.

The Bank has adopted all of the IFRS standards and interpretations effective for annual periods beginning on January 1, 2017. In addition, the Bank has adopted IFRS 9 Financial Instruments (full version issued in July 2014 and mandatorily effective on January 1, 2018), IFRS 15 Revenue from Contracts with Customers (mandatorily effective on January 1, 2018), and IFRS 16 Leases (mandatorily effective on January 1, 2019) from the commencement of operations.

The financial statements have been prepared under the historical cost convention, except for those financial instruments 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 judgment in its process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where judgments or estimates are significant to the financial statements are disclosed in Note B4. The financial statements have been prepared on a going concern basis.

B2 New accounting pronouncements

The new accounting pronouncements, amendments and interpretations issued in 2017 do not have any significant impact on the operating results, financial position and comprehensive income of the Bank, based on the assessment of the Bank.

B3 Summary of significant accounting policies

B3.1 Functional currency and foreign currency transactions

The functional currency of the Bank and the presentation currency of the Bank are 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 recognized in profit or loss during the period in which they arise.

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

B ACCOUNTING POLICIES

B3.2 Cash and cash equivalents

Cash and cash equivalents are items which 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.

B3.3 Financial instruments

B3.3.1 Financial assets

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

(a) Amortized 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 amortized cost

The Bank classifies its financial assets at amortized 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 or interest on the principal outstanding.

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

(b) Classification of financial assets at FVOCI

Financial assets at FVOCI comprise:

(i) Financial assets having contractual cash flows which 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 which are neither held for trading nor contingent consideration, and for which the Bank has made an irrevocable election at initial recognition to recognize changes in fair value through other comprehensive income (OCI) rather than profit or loss.

For (i) above, interest is calculated using the effective interest method and recognized 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 derecognized, the cumulative gain or loss previously recognized in OCI is reclassified to profit or loss.

For (ii) above, the accumulated fair value changes in OCI will not be reclassified to profit or loss in the future. Dividends on such investments are recognized 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 amortized 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 recognize fair value gains or losses through OCI.

B ACCOUNTING POLICIES

B3.3 Financial instruments (Continued)

B3.3.2 Financial liabilities

The Bank's financial liabilities are classified as either financial liabilities through FVPL or other financial liabilities, carried at amortized 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 December 31, 2017 and 2016.

(b) Other financial liabilities

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

B3.3.3 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity 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.

B3.3.4 Impairment of financial instruments

Financial assets of the Bank that are measured at amortized cost (Note B3.3.1(a)), FVOCI (Note B3.3.1 (b) (i)) and certain unrecognized 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 recognizes 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 recognized 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 recognized as a provision.

B ACCOUNTING POLICIES

B3.3 Financial instruments (Continued)

B3.3.5 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.

B3.3.6 Recognition and derecognition

The Bank recognizes a financial asset or a financial liability in its statement of financial position when, and only when, the Bank becomes a 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 issuance 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 derecognizes 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 derecognizes the financial asset and recognizes 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 recognized in other comprehensive income is reclassified to profit or loss, except for those investments in equity instruments designated as FVOCI.

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

B3.4 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 no more than 3 years.

B3.5 Intangible assets

Intangible assets are stated at cost less accumulated amortization. Amortization 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. Intangible assets comprise computer software which is amortized over a useful economic life of no more than 3 years.

B ACCOUNTING POLICIES

B3.6 Revenue

B3.6.1 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) Purchased or originated credit-impaired financial assets, for which the credit adjusted effective interest rate is applied to the amortized cost of the financial assets from initial recognition; and

(ii) Credit-impaired financial assets that have been recognized 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.

B3.6.2 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, it is an integral part of the effective interest rate of a financial instrument. If the commitment expires without the Bank making the loan, the fee is recognized as revenue at expiration of the commitment.

(ii) If it is likely that a specific lending arrangement will not be entered into, it 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.

B3.6.3 Administration fees

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

B3.7 Employee benefits

Employee benefits represent considerations 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 recognizes 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 base salary and location premiums, pre-retirement medical insurance, life insurance, accidental death and disability provision, death grant, leave, travel accident coverage, long-term disability, multipurpose loans to staff as well as flexible allowance and resettlement allowance which are special allowances for staff recruited globally.

Defined contribution plans

A defined contribution plan is a retirement plan under which the Bank pays fixed contributions into a separate entity. When an employee has rendered service to the Bank during a period, the Bank recognizes a contribution payable to a defined contribution plan in exchange for that service, along with the related expense. Defined contribution plans include defined contribution retirement plans and post-retirement medical benefit plans.

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

B ACCOUNTING POLICIES

B3.8 Leases

A lease contract is one which 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.

B3.9 Dividends

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

B3.10 Current and noncurrent presentation

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

B3.11 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.

B4 Critical accounting estimates and judgments in applying accounting policies

The Bank makes estimates and assumptions that affect the amounts recognized in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments 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 judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized 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:

B4.1 Impairment losses on financial instruments

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

A number of significant judgments 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 D3, which also presents sensitivities of the ECL.

B4.2 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. The Bank made judgments about the expected timing of future cash flows and the appropriate discount rate to apply. If the interest rate were changed +/-1 basis point ("bps"), the carrying amount of the capital receivables as at December 31, 2017 would have decreased/increased by approximately USD1.09 million (2016: USD3 million).

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

B ACCOUNTING POLICIES

B4 Critical accounting estimates and judgments in applying accounting policies (Continued)

B4.3 Structured entity consolidation

The Bank manages AIIB's Project Preparation Special Fund (the "Special Fund"), and has made a judgment 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 decisionmaking 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 administration services and 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 C13.

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

C DISCLOSURE NOTES

C1 Interest income and expense

	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
Interest income		
Loan investments [1]	11,795	6
Cash and deposits	112,398	23,449
Total interest income	**124,193**	**23,455**
Interest expense	-	-
Total interest expense	-	-
Net interest income	**124,193**	**23,455**

[1] Interest income for loan investments includes amortization 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.

C2 Net fee and commission expense

	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
Special Fund administration fee (Note C13)	70	100
Loan service fee	49	-
Total fee and commission income	**119**	**100**
Co-financing service fee	(985)	(170)
Total fee and commission expense	**(985)**	**(170)**
Net fee and commission expense	**(866)**	**(70)**

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

C DISCLOSURE NOTES

C3 General and administrative expenses

	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
Staff costs [1]	25,226	12,226
Professional service expenses	12,607	6,729
IT services	5,691	3,170
Facilities and administration expenses	5,028	4,553
Travelling expenses	4,186	2,102
Auditor's remuneration	1,000	455
Others	2,360	1,423
Total general and administrative expenses	**56,098**	**30,658**

[1] Staff costs

	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
Short-term employee benefits	22,092	10,826
Defined contribution plans	3,120	1,391
Others	14	9
Total	**25,226**	**12,226**

Refer to Note C14 for details of key management remuneration.

C4 Cash and deposits with banks

	December 31, 2017	December 31, 2016
Cash	-	-
Deposits with banks		
Demand deposits	457,124	4,488
Term deposits	6,533,596	3,569,645
Total cash and deposits with banks	**6,990,720**	**3,574,133**
Less: term deposits with maturity more than 3 months [1]	(5,885,854)	(2,292,141)
Total cash and cash equivalents	**1,104,866**	**1,281,992**

[1] Term deposits with maturity more than 3 months have maturities up to 24 months.

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

C DISCLOSURE NOTES

C5 Investments at fair value through profit or loss

	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
As at beginning of year/period	3,179,873	-
Additions	21,484	3,165,000
Fair value gain, net	53,783	14,873
Total investments at fair value through profit or loss	**3,255,140**	**3,179,873**

Analysis of investments at fair value through profit or loss:

		December 31, 2017	December 31, 2016
Trust Fund	(a)	3,236,448	3,179,873
LP Fund	(b)	18,692	-
Total investments at fair value through profit or loss		**3,255,140**	**3,179,873**

The Bank has the following investments in certain unconsolidated structured entities:

(a) 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 or 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.

(b) The Bank also invests in a Limited Partnership Fund ("LP Fund"). The LP Fund is an Emerging Asia growth-focused private equity fund with a returns-driven strategy, selectively investing growth capital across multiple sectors. The LP Fund is managed by the General Partner who makes all investment decisions on behalf of the Limited Partners. The Bank, along with other investors, has entered into the Fund as a Limited Partner with a capital commitment which will be drawn down over the life of the LP Fund, based on drawdown notices sent by the General Partner. The management fee is payable on a quarterly basis.

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

C DISCLOSURE NOTES

C6 Loan investments, loan commitments and related ECL allowance

Loan investments	December 31, 2017	December 31, 2016
Gross carrying amount	778,511	9,830
ECL allowance	(5,273)	(277)
Net carrying amount	**773,238**	**9,553**

The following table sets out overall information about the credit quality of loan investments and loan commitments issued for effective contracts as at December 31, 2017. The gross amounts of loans include the transaction costs and fees that are capitalized through the effective interest method.

	December 31, 2017	December 31, 2016
Loan investments, gross carrying amount	778,511	9,830
Loan commitments	1,947,528	334,305
	2,726,039	344,135
Total ECL allowance (a)	(9,365)	(277)
	2,716,674	**343,858**

(a) As at December 31, 2017, ECL related to loan commitments were USD4.09 million, presented as a provision in Note C9.

C7 Paid-in capital receivables

According to the AOA, payments for paid-in capital (refer to Note C10) are due in five installments, with the exception of members designated as less developed countries, who may pay in ten installments. Paid-in capital receivables represent amounts due from members in respect of paid-in capital. These amounts are initially recognized at fair value and subsequently measured at amortized costs. The fair value discount is accreted through income using the effective interest method. For the year ended December 31, 2017, a total discount of USD18 million (2016: USD443 million) was debited into reserve. An amount of USD140 million (2016: USD160 million) has been accreted through income in the current year.

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

C DISCLOSURE NOTES

C7 Paid-in capital receivables (Continued)

Members	Paid-in capital receivables at amortized cost as at December 31, 2017	Paid-in capital receivables at amortized cost as at December 31, 2016
Afghanistan	13,268	-
Australia	289,241	430,896
Austria	39,260	58,488
Azerbaijan	30,151	39,999
Bangladesh	86,925	98,609
Brunei Darussalam	4,114	6,129
Cambodia	8,249	9,359
China	2,335,329	3,479,854
Denmark	29,075	44,043
Egypt	51,036	102,081
Ethiopia	7,127	-
Fiji	1,898	-
Finland	36,781	48,753
France	265,470	395,954
Georgia	4,235	6,310
Germany	351,383	523,473
Hong Kong, SAR	118,497	-
Hungary	15,491	-
Iceland	1,375	2,052
India	657,150	979,699
Indonesia	264,210	394,036
Iran	123,411	-
Ireland	20,144	-
Israel	59,015	58,368
Italy	202,212	301,572
Jordan	9,320	13,892
Kazakhstan	86,548	114,798
Korea	292,963	436,442
Kyrgyz Republic	3,580	4,153
Lao PDR	5,664	6,424
Luxembourg	5,442	8,106
Malaysia	12,913	-
Maldives	911	1,031
Malta	1,060	1,580
Mongolia	3,215	4,791
Myanmar	34,429	38,995
Nepal	10,639	12,063
Netherlands	80,832	120,420
New Zealand	36,165	53,876
Norway	65,134	86,287
Oman	30,688	30,320
Pakistan	122,341	162,072

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

C DISCLOSURE NOTES

C7 Paid-in capital receivables (Continued)

Members	Paid-in capital receivables at amortized cost as at December 31, 2017	Paid-in capital receivables at amortized cost as at December 31, 2016
Philippines	76,681	192,537
Poland	65,447	97,622
Portugal	7,674	-
Qatar	47,473	71,024
Russia	512,461	763,574
Saudi Arabia	200,573	299,384
Singapore	19,591	29,186
Spain	136,659	-
Sri Lanka	31,863	42,232
Sweden	74,623	98,908
Switzerland	83,706	110,959
Tajikistan	4,702	5,251
Thailand	112,058	167,149
Timor-Leste	2,440	-
Turkey	205,374	306,373
United Arab Emirates	93,284	139,159
United Kingdom	361,402	478,770
Uzbekistan	17,256	25,714
Vietnam	78,743	104,460
Total paid-in capital receivables	**7,948,901**	**11,007,227**

	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
As at beginning of year/period	11,007,227	-
Paid-in capital receivables originated	916,882	17,622,469
Contributions received	(4,115,650)	(6,775,305)
Accretion to profit or loss	140,442	160,063
Carrying amount	**7,948,901**	**11,007,227**

As at December 31, 2017, the contractual undiscounted paid-in capital receivables overdue amounting to USD346.04 million (December 31, 2016: USD433.80 million) (Note C10), because of an administrative delay but are not considered as impaired. Of this amount, USD342.44 million was collected by the date of signing of the 2017 financial statements (2016: USD433.18 million) (Note C15).

As at December 31, 2017, USD4,021 million (December 31, 2016: USD3,856 million) of the above balance is due within 12 months from the reporting date.

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

C DISCLOSURE NOTES

C8 Other assets

	December 31, 2017	December 31, 2016
Tax refund receivable	750	305
Property improvements	271	168
Computer hardware	238	-
Prepaid co-financing service fee	63	175
Others	661	310
Total other assets	**1,983**	**958**

C9 Other liabilities

	December 31, 2017	December 31, 2016
Accrued expenses	8,080	5,102
Provision – ECL allowance (Note C6)	4,092	-
Staff costs payable	1,205	436
Deferred administration fee (Note C14)	210	-
Total other liabilities	**13,587**	**5,538**

C10 Share capital

	December 31, 2017	December 31, 2016
Authorized capital	100,000,000	100,000,000
– Allocated		
- Subscribed	95,001,100	90,327,000
- Unsubscribed	3,277,600	7,824,400
– Unallocated	1,721,300	1,848,600
Total authorized capital	100,000,000	100,000,000
Subscribed capital	95,001,100	90,327,000
Less: callable capital	(76,000,800)	(72,261,600)
Paid-in capital	19,000,300	18,065,400
Paid-in capital comprises:		
- amounts received	10,890,955	6,775,305
- amounts due but not yet received	346,040	433,795
- amounts not yet due	7,763,305	10,856,300
Total paid-in capital	**19,000,300**	**18,065,400**

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

C DISCLOSURE NOTES

C10 Share capital (Continued)

In accordance with Articles 4 and 5 of the AOA, the initial authorized capital stock of the Bank is USD100 billion, divided into 1,000,000 shares, which shall be available for subscription only by members.

The original authorized capital stock is divided into paid-in shares and callable shares, with paid-in shares having an aggregate par value of USD20 billion and callable shares having an aggregate par value of USD80 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.

Members	Total shares	Subscribed capital	Callable capital	Paid-in capital	Paid-in capital received	Paid-in capital not yet received
Afghanistan	866	86,600	69,300	17,300	3,460	13,840
Australia	36,912	3,691,200	2,953,000	738,200	442,920	295,280
Austria	5,008	500,800	400,600	100,200	60,120	40,080
Azerbaijan	2,541	254,100	203,300	50,800	20,320	30,480
Bangladesh	6,605	660,500	528,400	132,100	39,630	92,470
Brunei Darussalam	524	52,400	41,900	10,500	6,300	4,200
Cambodia	623	62,300	49,800	12,500	3,750	8,750
China	297,804	29,780,400	23,824,300	5,956,100	3,573,660	2,382,440
Denmark	3,695	369,500	295,600	73,900	44,340	29,560
Egypt	6,505	650,500	520,400	130,100	78,060	52,040
Ethiopia	458	45,800	36,600	9,200	1,840	7,360
Fiji	125	12,500	10,000	2,500	500	2,000
Finland	3,103	310,300	248,200	62,100	24,840	37,260
France	33,756	3,375,600	2,700,500	675,100	405,060	270,040
Georgia	539	53,900	43,100	10,800	6,480	4,320
Germany	44,842	4,484,200	3,587,400	896,800	538,080	358,720
Hong Kong, SAR	7,651	765,100	612,100	153,000	30,600	122,400
Hungary	1,000	100,000	80,000	20,000	4,000	16,000
Iceland	176	17,600	14,100	3,500	2,100	1,400
India	83,673	8,367,300	6,693,800	1,673,500	1,004,100	669,400
Indonesia	33,607	3,360,700	2,688,600	672,100	403,260	268,840
Iran	15,808	1,580,800	1,264,600	316,200	189,725	126,475
Ireland	1,313	131,300	105,000	26,300	5,260	21,040
Israel	7,499	749,900	599,900	150,000	90,000	60,000
Italy	25,718	2,571,800	2,057,400	514,400	308,640	205,760
Jordan	1,192	119,200	95,400	23,800	14,280	9,520
Kazakhstan	7,293	729,300	583,400	145,900	58,360	87,540
Korea	37,387	3,738,700	2,991,000	747,700	448,620	299,080
Kyrgyz Republic	268	26,800	21,400	5,400	1,620	3,780
Lao PDR	430	43,000	34,400	8,600	2,580	6,020

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

C DISCLOSURE NOTES

C10 Share capital (Continued)

Members	Total shares	Subscribed capital	Callable capital	Paid-in capital	Paid-in capital received	Paid-in capital not yet received
Luxembourg	697	69,700	55,800	13,900	8,340	5,560
Malaysia	1,095	109,500	87,600	21,900	8,760	13,140
Maldives	72	7,200	5,800	1,400	420	980
Malta	136	13,600	10,900	2,700	1,620	1,080
Mongolia	411	41,100	32,900	8,200	4,920	3,280
Myanmar	2,645	264,500	211,600	52,900	15,870	37,030
Nepal	809	80,900	64,700	16,200	4,860	11,340
Netherlands	10,313	1,031,300	825,000	206,300	123,780	82,520
New Zealand	4,615	461,500	369,200	92,300	55,380	36,920
Norway	5,506	550,600	440,500	110,100	44,040	66,060
Oman	2,592	259,200	207,400	51,800	20,720	31,080
Pakistan	10,341	1,034,100	827,300	206,800	82,720	124,080
Philippines	9,791	979,100	783,300	195,800	117,480	78,320
Poland	8,318	831,800	665,400	166,400	99,840	66,560
Portugal	650	65,000	52,000	13,000	5,200	7,800
Qatar	6,044	604,400	483,500	120,900	72,540	48,360
Russia	65,362	6,536,200	5,229,000	1,307,200	784,320	522,880
Saudi Arabia	25,446	2,544,600	2,035,700	508,900	305,340	203,560
Singapore	2,500	250,000	200,000	50,000	30,000	20,000
Spain	17,615	1,761,500	1,409,200	352,300	211,380	140,920
Sri Lanka	2,690	269,000	215,200	53,800	21,520	32,280
Sweden	6,300	630,000	504,000	126,000	50,400	75,600
Switzerland	7,064	706,400	565,100	141,300	56,520	84,780
Tajikistan	309	30,900	24,700	6,200	1,240	4,960
Thailand	14,275	1,427,500	1,142,000	285,500	171,300	114,200
Timor-Leste	160	16,000	12,800	3,200	640	2,560
Turkey	26,099	2,609,900	2,087,900	522,000	313,200	208,800
United Arab Emirates	11,857	1,185,700	948,600	237,100	142,260	94,840
United Kingdom	30,547	3,054,700	2,443,800	610,900	244,360	366,540
Uzbekistan	2,198	219,800	175,800	44,000	26,400	17,600
Vietnam	6,633	663,300	530,600	132,700	53,080	79,620
Total	**950,011**	**95,001,100**	**76,000,800**	**19,000,300**	**10,890,955**	**8,109,345**

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

C DISCLOSURE NOTES

C11 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.

C12 Distribution

Distributable retained earnings as at December 31, 2017 were USD119.16 million (December 31, 2016: USD7.30 million). As at December 31, 2017, USD140.44 million (December 31, 2016: USD160.06 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.

C13 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 December 31, 2017, the Special Fund had aggregate contributions received amounting to USD38 million (December 31, 2016: USD10 million). The Bank, acting as administrator of the Special Fund, receives administration fees. For the year ended December 31, 2017, fees recognized as income amounted to USD0.07 million (for the period from January 16, 2016 to December 31, 2016: USD0.10 million) (Note C2).

The Bank is not obliged to provide financial support to the Special Fund.

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

C DISCLOSURE NOTES

C14 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.

Outstanding balances with related parties were as follows:

	December 31, 2017		December 31, 2016	
	Key management personnel	Other related parties	Key management personnel	Other related parties
Assets – loans granted	100	-	23	-
Other liabilities (Note C9)	-	210	-	-

The income and expense items affected by transactions with related parties were as follows:

	For the year ended December 31, 2017		For the period from January 16, 2016 to December 31, 2016	
	Key management personnel	Other related parties	Key management personnel	Other related parties
Income	-	70	-	100
Expense	-	-	-	-

Income from other related parties relates to the Special Fund administration fee (Note C13).

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, Vice Presidents, the General Counsel and the Chief Risk Officer.

During the year ended December 31, 2017, other than loans 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 year comprises short-term employee benefits of USD3.31 million (2016: USD2.12 million) and defined contribution plans of USD0.54 million (2016: USD0.30 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.

C15 Events after the end of the reporting period

Subsequent to December 31, 2017, USD342.44 million of paid-in capital receivables that were overdue has been received by the Bank from members.

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

D FINANCIAL RISK MANAGEMENT

D1 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 and 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 risk to minimize the volatility of equity value and to maintain sufficient liquidity.

D2 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 crosscategory 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

The Investment Committee of Senior Management reviews that a proposed project prepared by Investment Operation staff is in line with the Bank's policies and procedures. In order to make its recommendations, the committee is supported by relevant departments with assessments specific to their area, including risk management, legal, finance, strategy, environmental and social aspects, and procurement. The Board of Directors makes final approval of investment projects.

Accountabilities at different stages of the credit risk/project approval and monitoring 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 C5, 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 objective of the investment strategy is foremost to maintain adequate liquidity to meet foreseeable cash flow needs and preserve capital and then, to maximize investment returns. The Pool is exposed to credit, market and liquidity risks.

D3 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.

D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

Credit risk management (Continued)

(i) Credit risk in the investment operations portfolio

- Sovereign-backed loans

Sovereign-backed loans are the obligation of a member 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 utilize, 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 at December 31, 2017, the rating of sovereign-backed loans ranged from 3 to 10 and the related range of annualized PD was 0.14%-8.67%.

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.

- Nonsovereign-backed financings

The Bank provides private enterprises and state-owned or state-controlled enterprises with loans and investments 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. For nonsovereign projects, risk ratings are normally capped by the sovereign credit rating, except where the Bank has recourse to a guarantor from outside the country which may have a better rating than the local sovereign credit rating.

As at December 31, 2017, the rating of nonsovereign-backed loans was 9 and the related annualized PD was 4.58%.

- LP Fund investment

As at December 31, 2017, the investment operations portfolio includes LP Fund investment described in Note C5. The LP Fund investment is measured at fair value through profit or loss. The fair value related information is described in Note E.

(ii) Credit risk in the treasury portfolio

Treasury activities and risk appetite are monitored by the Audit and 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 Department periodically.

As at December 31, 2017, the treasury portfolio includes term deposits with banks and investment in the Trust Fund described in Note C5. The Trust Fund is measured at fair value through profit or loss, and the fair value related information is described in Note E. 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, no significant loss provisions were made for the investments in the treasury portfolio for the year ended December 31, 2017 and 2016.

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

D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

Credit quality analysis

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

The following table set out the loans and loan commitments for sovereign-backed loans and nonsovereign-backed loans, with their respective ECL allowance balances.

	December 31, 2017		December 31, 2016	
	Loans and loan commitments	**ECL**	**Loans and loan commitments**	**ECL**
Sovereign-backed loans	2,558,761	(5,050)	344,135	(277)
Nonsovereign-backed loans	167,278	(4,315)	-	-
Total	**2,726,039**	**(9,365)**	**344,135**	**(277)**

(i) Concentration of credit risk

As at December 31, 2017, the geographical distribution of the Bank's loan investments (gross carrying amount of loans and exposure of loan commitments) is as follows:

	December 31, 2017			December 31, 2016
Region	**Stage 1**	**Stage 2**	**Total**	**Stage 1**
Sovereign-backed loans				
Asia	2,194,438	364,323	2,558,761	344,135
NonAsia	-	-	-	-
Subtotal	**2,194,438**	**364,323**	**2,558,761**	**344,135**
Nonsovereign-backed loans				
Asia	20,198	-	20,198	-
NonAsia	147,080	-	147,080	-
Subtotal	**167,278**	**-**	**167,278**	**-**
Total	**2,361,716**	**364,323**	**2,726,039**	**344,135**

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

D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

Credit quality analysis (Continued)

The following table sets out the credit quality of loan investments (gross carrying amount of loans and exposure of loan commitments) segmented by the Bank's internal credit rating system and their respective staging.

	December 31, 2017			December 31, 2016
Internal credit rating	**Stage 1**	**Stage 2**	**Total**	**Stage 1**
Sovereign-backed loans				
Investment grade	828,834	99,977	928,811	216,059
Noninvestment grade (a)	1,365,604	264,346	1,629,950	128,076
Subtotal	**2,194,438**	**364,323**	**2,558,761**	**344,135**
Nonsovereign-backed loans				
Investment grade	-	-	-	-
Noninvestment grade (a)	167,278	-	167,278	-
Subtotal	**167,278**	**-**	**167,278**	**-**
Total	**2,361,716**	**364,323**	**2,726,039**	**344,135**

(a) For the noninvestment grade sovereign-backed loan exposures as at December 31, 2017, the balances of USD1,203 million are within internal rating ranging from 5 to 7, and the balances of USD427 million are within internal rating ranging from 8 to 12 (2016: all the balances of non-investment grade are within internal rating ranging from 8 to 12).

For the nonsovereign-backed loan exposures as at December 31, 2017, all the balances of noninvestment grade are within internal rating ranging from 8 to 12 (2016: nil).

(ii) Credit enhancement

As at December 31, 2017, the Bank's maximum exposure to credit risk from financial instruments other than undrawn loan commitments 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 as at December 31, 2017 is USD1,948 million (December 31, 2016:USD334 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

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

D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

Credit quality analysis (Continued)

Credit enhancement for loan investments (gross carrying amount of loans and exposure of loan commitments) are as below:

	December 31, 2017	December 31, 2016
Guaranteed by sovereign members	864,303	-
Guaranteed by nonsovereign entities	20,199	-
Unguaranteed (a)	1,841,537	344,135
Total	**2,726,039**	**344,135**

(a) The unguaranteed loan investments represent sovereign loans and loan commitments granted to member countries.

There was no other credit enhancement held as at December 31, 2017 and December 31, 2016.

(iii) Reconciliation of loan gross carrying amount and ECL

An analysis of the changes in the gross carrying amount of loans and exposure of loan commitments, with the related changes in ECL allowances is as follows:

Sovereign-backed loans

	Stage 1	Stage 2	Total
Gross carrying amount of loans and exposure of loan commitments as at January 1, 2017	344,135	-	344,135
New loans and commitments originated	2,214,626	-	2,214,626
Transfer to Stage 2	(364,323)	364,323	-
As at December 31, 2017	**2,194,438**	**364,323**	**2,558,761**

	Stage 1	Stage 2	Total
ECL allowance as at January 1, 2017	277	-	277
Additions	4,730	-	4,730
Change in risk parameters*	43	-	43
Transfer to Stage 2	(3,572)	3,572	-
As at December 31, 2017	**1,478**	**3,572**	**5,050**

*The increase in the loss allowance is due to an increase in the probability of default (PD) used to calculate the 12-month expected credit loss for the performing loans.

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

D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

Credit quality analysis (Continued)

Nonsovereign-backed loans

	Stage 1	Stage 2	Total
Gross carrying amount of loans and exposure of loan commitments as at January 1, 2017	-	-	-
New loans and commitments originated	167,278	-	167,278
Transfer to Stage 2	-	-	-
As at December 31, 2017	**167,278**	**-**	**167,278**

	Stage 1	Stage 2	Total
ECL allowance as at January 1, 2017	-	-	-
Additions	4,315	-	4,315
Change in risk parameters	-	-	-
Transfer to Stage 2	-	-	-
As at December 31, 2017	**4,315**	**-**	**4,315**
Total gross carrying amount of loans and exposure of loan commitments as at December 31, 2017	**2,361,716**	**364,323**	**2,726,039**
Total ECL allowance as at December 31, 2017	**5,793**	**3,572**	**9,365**

(iv) Past due information

As at December 31, 2017, a front-end and supervision fee receivable amount of USD2.28 million was past due but not yet more than 30 days. All the amounts were collected by the date of signing of the 2017 financial statements (2016: nil).

D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

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 has not experienced significant increase in credit risk ("SICR") in its credit quality as compared to its rating at origination is classified in 'Stage 1', and has its credit risk continuously monitored by the Bank;
- If it has experienced SICR since initial recognition, 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 related to ECL measurement is from loan investments and loan commitments.

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

The key judgments 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 determined by comparing the current rating (incorporating forward looking information) with rating at origination;
  - For noninvestment grade loans, rating downgrade by 1 notch determined by comparing the current rating (incorporating forward looking information) with rating at origination.

All loans included in the Bank's investment portfolio are rated using internal rating methodology. The methodology used to rate these individual loans depends on the type of loan. For sovereign loans, an internal credit rating methodology is used. The methodology uses the same factors considered by the major international credit rating agencies ("ICRA"s) such as Standard & Poor's ("S&P"), Moody's and Fitch. In case the sovereign borrower is not rated by any of the three ICRAs, the Bank uses Economist Intelligence Unit rating assessment as the basis for further analysis. For nonsovereign loans, the loan may be rated using the risk rating methodology that is in-line with the Bank's policy for nonsovereign-backed financing depending on the type of their financing structure. More specifically, project finance transactions will be rated using a credit scoring tool for project finance. Similarly, corporate financing transactions will be rated based on a credit scoring tool for corporate finance: these initial ratings are used to estimate the Stage 1 - 12-month ECL at each reporting date to determine the SICR since origination.

- 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 watch list/monitoring; and
  - Changes in payment behavior.

- Backstop
  - 30 days past due.

D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

ECL measurement (Continued)

(i) Significant increase in credit risk (Continued)

- Overlay

Temporary adjustments ("overlay adjustments") to the allowance are adjustments which may be used to account for circumstances when it becomes evident that existing or expected risk factors have not been considered in the credit risk rating and modelling process. Management should evaluate the appropriateness of overlay adjustments made to the output of quantitative models, and assess such overlays for indication of bias. Any overlay adjustment shall be properly discussed with the Risk Committee.

A new ECL calculation software has been used for the year ended December 31, 2017. It is used to replace the previous excel based template used for calculating ECL. The new tool applies the same three-stage ECL methodology in compliance with IFRS 9 requirements, with enhancements in a more sophisticated approach to incorporate the PIT PD term structure and forward-looking assessment.

(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 reorganization.

In addition, the credit-impaired assets also include the purchased or originated financial assets 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. For sovereign-backed loans, the same criteria of past due for "default assets" (see D3 (vi)) is also being applied for assessing credit impaired financial assets.

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

Estimation of 12-month ECL is calculated by using the following formula: 12-month ECL = $\Sigma_{s = baseline,good,bad} w_s \times PIT\ PD_1 \times LGD_1 \times EAD_1$):

1. PIT PD is the Point-in-time Probability of Default, and is converted from Through-The-Cycle (TTC) PD by first mapping to Moody's unconditional PIT PDs, then conditioning on three future scenarios (baseline, good, bad).
2. Loss Given Default (LGD) is currently set as 30% for sovereign loans and on a case-by-case basis or 70% in case of insufficient information available to estimate LGD for nonsovereign-backed loans, based upon management's estimate established on the analysis of market data statistics and related judgment.
3. Exposure at Default (EAD) is calculated as loan balance at the period end plus projected net disbursement in the next year.

The above calculation is performed for three different scenarios. The weights of the 3 scenarios are 50%, 25%, and 25% respectively for the Baseline, Good and Bad scenarios. The estimation is based on the best representative management judgment 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 macroeconomic projections of those countries and relevant industries that the Bank has credit exposures.

- Estimation of lifetime ECL

Estimation of the lifetime ECL is calculated using the following formula as the summation of net present value of the ECL for each year:

Lifetime ECL = $\Sigma^{n}_{t=1} PV \text{ of } ECL_t$

Where ECL_t is the ECL for each year and n is the year for which ECL is calculated.

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

D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

ECL measurement (Continued)

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

ECLt is calculated as: $ECL_t = \Sigma_{s = baseline,good,bad} w_s \times PIT\ PD_t \times LGD_t \times EAD_t)$, where w_s is the weight of each scenario – 50% for Baseline, 25% for both Good and Bad scenarios.

1) Conditional PIT PD

   The process to convert TTC PD to conditional PIT PD term structure is the same as 12-month ECL calculation for the first 3 years and is assumed to revert back to the long-run PD for the remaining years.

2) LGD is the same as 12-month ECL calculation.

3) EAD for any given year is based on loan balance at the period end + net projected disbursement in the next 1 year, as by the disbursement schedule for each year.

4) Lifetime is equal to contractual lifetime.

5) Discount rate is equal to calculated 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 3 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**
  - 3 Macro Scenarios – Baseline, Good, Bad. Each scenario is forecasted for 3 years.
  - For each member, the corresponding long-term average and standard deviation each macro factor would be computed. Good and bad scenarios would be established based on a view of movement in macro factors in terms of 'number of standard deviations from average'.
  - 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 borrower's internal AIIB rating.
- **Calculation of Forward-looking PIT PD**

  First, each borrower's TTC PD will be mapped to the unconditional PIT PD derived by the software for each credit rating. Second, to convert the unconditional PIT PD into forward-looking PIT PD, the software utilizes forecasts of macroeconomic variables associated with the country and industry where the borrower operates.

(v) Sensitivity analysis

The output of the Bank's ECL model is most sensitive to the credit quality of the obligors especially of those with the lowest credit quality and/or the largest amount of exposure. The Bank identified two obligors meeting these criteria. Should their ratings have been downgraded by one more notch and consequentially moved to Stage 2 when SICR criteria is met, the amount of ECL would have been USD31.14 million, or increased by USD21.78 million.

The weights of the scenarios used is another source of sensitivity. Should the Bank have changed the weights to 30%, 40% and 30% respectively for good, baseline and bad scenarios, the amount of ECL would have been USD9.51 million, or increased by USD0.15 million.

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

D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

ECL measurement (Continued)

(vi) 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 nonsovereign-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 judgment or court order.
- Bankruptcy, liquidation or the appointment of a receiver or any similar official.

(vii) 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.

D4 Market risk

The Bank is exposed to currency and interest rate risk in its investment, lending and other activities. Currency risk is the potential for loss that arises when assets or liabilities are denominated in a non-US dollar currency and the price of that currency versus US dollars fluctuates. Interest rate risk arises when the value of assets or liabilities changes with the fluctuation of interest rates.

In its asset and liability management process, the Bank pursues five 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; (c) assigning clear responsibility for all market risks to which the Bank is exposed; (d) minimizing volatility of available equity; and (e) maintaining sufficient liquidity to meet all of the Bank's obligations with an extremely high level of confidence and continue its lending program, even in times of market stress.

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

D FINANCIAL RISK MANAGEMENT

D4 Market risk (Continued)

Currency risk

The Bank currently offers loans only in US Dollars. This will continue to be the case until the Bank is prepared to hedge nondollar lending through swaps or other hedging mechanisms. As at December 31, 2017, the currency risk is not material for the Bank. A currency table for the main monetary items is set out below:

As at December 31, 2017	USD	Other currencies USD equivalent	Total
Financial assets			
Cash and cash equivalents	1,104,756	110	1,104,866
Term deposits	5,885,854	-	5,885,854
Investments at fair value through profit or loss	3,255,140	-	3,255,140
Funds deposited for cofinancing arrangements	1,592	-	1,592
Loan investments, at amortized cost	773,238	-	773,238
Paid-in capital receivables	7,948,901	-	7,948,901
	18,969,481	**110**	**18,969,591**

As at December 31, 2016	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
Investments at fair value through profit or loss	3,179,873	-	3,179,873
Funds deposited for cofinancing arrangements	23,623	-	23,623
Loan investments, at amortized cost	9,553	-	9,553
Paid-in capital receivables	11,007,227	-	11,007,227
	17,794,249	**160**	**17,794,409**

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

D FINANCIAL RISK MANAGEMENT

D4 Market risk (Continued)

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. Currently, all loans of the Bank are subject to floating rate.

Sensitivity analysis

As the Bank has no material financial liabilities as at December 31, 2017, the following table illustrates the potential impact for the current year, 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 and certain managed rate overnight deposits which are measured at amortized cost, based on the carrying value 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 unparalleled 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	
	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
+50 basis points	26	3
-50 basis points	(26)	(3)

D5 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 December 31, 2017, the Bank does not have any significant financial liabilities.

D6 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 3 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.

D7 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 stand-alone basis at all times, two limits are relevant to be always observed. The first, as required by Article 12.1 of the Bank'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.

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

E 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 nonfinancial assets and nonfinancial 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 nonrecurring fair value measurements for the year ended December 31, 2017.

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 or using unobservable inputs relevant to the Bank's assessment.

Fair value hierarchy

The Bank classifies financial assets and financial liabilities into the following 3 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 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 unobservable inputs are significant to the entire measurement.

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

The table below summarizes 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:

	December 31, 2017		December 31, 2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and cash equivalents	1,104,866	1,104,866	1,281,992	1,281,992
Term deposits	5,885,854	5,884,195	2,292,141	2,291,991
Funds deposited for co-financing arrangements	1,592	1,592	23,623	23,623
Loan investments, at amortized cost	773,238	779,443	9,553	9,553
Paid-in capital receivables	7,948,901	7,947,268	11,007,227	10,522,553
Financial assets				
Other liabilities	13,587	13,587	5,538	5,538

As at December 31, 2017, the Bank's balances of those financial assets and liabilities not measured at fair value but with short-term maturity approximate their fair values.

Fair value of loan investments and paid-in capital receivables measured at amortized 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 receivable.

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

E FAIR VALUE DISCLOSURES

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

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

As at December 31, 2017

	Level 1	Level 2	Level 1	Total
Investments at fair value through profit or loss				
Trust Fund	-	3,236,448	-	3,236,448
LP Fund	-	-	18,692	18,692
Total	**-**	**3,236,448**	**18,692**	**3,255,140**

As at December 31, 2016

	Level 1	Level 2	Level 1	Total
Investments at fair value through profit or loss				
Trust Fund	-	3,179,873	-	3,179,873

Investments at fair value through profit or loss are amounts invested in the Trust Fund and the LP Fund (Note C5).

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. Discounted cash flow valuation technique is used for the valuation of the underlying assets of the LP Fund. The unobservable inputs include weighted average cost of capital, liquidity discount and projected cash flows. The fair value of the investment in the LP fund is based on an adjusted net assets method.

There has been no transfer among Level 1, Level 2 and Level 3 during the year.

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 89 to 96, which comprise:

- the statement of comprehensive income for the year ended December 31, 2017;
- the statement of financial position as at December 31, 2017;
- the statement of changes in contributors' resources for the year ended December 31, 2017;
- the statement of cash flows for the year ended December 31, 2017; 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 December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, 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.

Those charged with governance are responsible for overseeing the Special Fund's financial reporting process.

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pwc

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 ISAs 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 ISAs, 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 Special Fund'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 those charged with governance 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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, April 10, 2018

Financial Statements (Special Fund)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2017

In thousands of US Dollars	Note	For the year ended December 31, 2017	For the period from June 24, 2016 (date of the establishment of the Special Fund) to December 31, 2016
Interest income	C2	481	-
General and administrative expenses	C1	(96)	(126)
Net profit/(losses) and total comprehensive income/(losses) or the year/period		**385**	**(126)**
Attributable to:			
Contributors		**385**	**(126)**

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

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

In thousands of US Dollars	Note	December 31, 2017	December 31, 2016
Assets			
Cash and cash equivalents	C2	38,075	9,900
Other assets	C6	210	-
Total assets		**38,285**	**9,900**
Liabilities			
Other liabilities	C3	26	26
Total liabilities		**26**	**26**
Contributors' resources			
Contributions	C4	38,000	10,000
Accumulated gains/(losses)		259	(126)
Total contributors' resources		**38,259**	**9,874**
Total liabilities and contributors' resources		**38,285**	**9,900**

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

Mr. Jae Hoon Yoo
Controller

STATEMENT OF CHANGES IN CONTRIBUTORS' RESOURCES FOR THE YEAR ENDED DECEMBER 31, 2017

In thousands of US Dollars	Note	Contributions	Accumulated gains/(losses)	Total
June 24, 2016		**-**	**-**	**-**
Contributions	C4	10,000	-	10,000
Net losses for the period		-	(126)	(126)
December 31, 2016		**10,000**	**(126)**	**9,874**
January 1, 2017		**10,000**	**(126)**	**9,874**
Contributions	C4	28,000	-	28,000
Net profit for the year		-	385	385
December 31, 2017		**38,000**	**259**	**38,259**

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017

In thousands of US Dollars	Note	For the year ended December 31, 2017	For the period from June 24, 2016 to December 31, 2016
Cash flows from operating activities			
Net profit/(losses) for the year/period		385	(126)
Increase in other assets		(210)	-
Increase in other liabilities		-	26
Net cash from/(used in) operating activities		175	(100)
Cash flows from financing activities			
Contributions received	C4	28,000	10,000
Net cash from financing activities		28,000	10,000
Net increase in cash and cash equivalents		**28,175**	**9,900**
Cash and cash equivalents at the beginning of the year/period		9,900	-
Cash and cash equivalents at the end of the year/period		**38,075**	**9,900**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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

A GENERAL INFORMATION

On June 24, 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 Bank members and others (the "Contributors"). The purpose of the Special Fund is to support and facilitate the preparation of projects to be financed by the Bank. 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.

The People's Republic of China, the Republic of Korea and the United Kingdom of Great Britain and Northern Ireland through the Contribution Agreements with the Bank, concluded on June 25, 2016, December 22, 2016 and December 16, 2017, have committed contributions in the amount of USD 50 million, USD 8 million and USD 50 million, respectively.

These financial statements were signed by the President, the Vice President and Chief Financial Officer, and the Controller of the Bank on April 10, 2018.

B ACCOUNTING POLICIES

B1 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"). According to the By-Laws of the AIIB, the financial year of the Bank begins on January 1 and ends on December 31 of each year. The Special Fund follows the same financial year end as the Bank. For the year in which the Special Fund commenced operations, the financial year begins on the date of the establishment of the Special Fund and ends on December 31 of that year.

The Special Fund follows the Bank's accounting policies, and has adopted all of the IFRS standards and interpretations effective for annual periods beginning on January 1, 2017. In addition, the Special Fund has adopted IFRS 9 Financial Instruments (full version issued in July 2014 and mandatorily effective on January 1, 2018), IFRS 15 Revenue from Contracts with Customers (mandatorily effective on January 1, 2018), and IFRS 16 Leases (mandatorily effective on January 1, 2019) from the commencement of operations.

The financial statements have been prepared under the historical cost convention, except for those financial instruments 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 judgment in its process of applying the accounting policies. The area involving a higher degree of judgment or complexity is the determination of the recognition period for AIIB administration fee. The financial statements have been prepared on a going concern basis.

B2 New accounting pronouncements

The new accounting pronouncements, amendments and interpretations issued in 2017 do not have any significant impact on the operating results, financial position and comprehensive income of the Special Fund.

B3 Summary of significant accounting policies

B3.1 Functional currency and foreign currency transactions

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

There were no foreign currency transactions for the year ended December 31, 2017.

B ACCOUNTING POLICIES

B3.2 Financial instruments

B3.2.1 Financial assets

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

(a) Amortized 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 amortized cost

The Special Fund classifies its financial assets at amortized 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 Special Fund applies the effective interest method to the amortized cost of a financial asset.

(b) Classification of financial assets at FVOCI

Financial assets at FVOCI comprise:

(i) Financial assets having contractual cash flows which 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 which are neither held for trading nor contingent consideration, and for which the Special Fund has made an irrevocable election at initial recognition to recognize changes in fair value through other comprehensive income (OCI) rather than profit or loss.

For (i) above, interest is calculated using the effective interest method and recognized 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 derecognized, the cumulative gain or loss previously recognized in OCI is reclassified to profit or loss.

For (ii) above, the accumulated fair value changes in OCI will not be reclassified to profit or loss in the future. Dividends on such investments are recognized 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 amortized cost or 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 Special Fund has not elected to recognize fair value gains or losses through OCI.

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

B ACCOUNTING POLICIES

B3.2 Financial instruments(Continued)

B3.2.2 Financial liabilities

The Special Fund's financial liabilities are measured at amortized cost, using the effective interest method. The interest expenses are recognized in profit or loss.

B3.2.3 Contributors' resources

The Special Fund recognizes contributions received from Contributors as 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.

B3.2.4 Recognition and derecognition

The Special Fund recognizes a financial asset or a financial liability in its Statement of Financial Position when, and only when, the Special Fund becomes a 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 FVPL, transaction costs that are directly attributable to the acquisition or issuance 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 should be applied to a part of a financial asset or a financial asset in its entirety. The Special Fund derecognizes 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 financial asset, the Special Fund derecognizes the financial asset and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer.

B3.2.5 Impairment of financial instruments

Financial assets of the Special Fund that are measured at amortized cost and FVOCI are subject to credit loss estimated through an expected credit loss ("ECL") model, assessed on a forward-looking basis.

B3.2.6 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 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.

B3.3 Cash and cash equivalents

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

B3.4 Interest income

Interest is recorded on an accrual basis. All interest income is recognized within "interest income" in the Statement of Comprehensive Income.

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

B ACCOUNTING POLICIES

B3.5 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 contributions. A proportionate amount of such administration fee shall be debited from each installment of the contribution paid in by the contributors and credited to the Bank's ordinary resources.

Administration fees and expenses are recognized throughout the period to the satisfaction of the relevant services received.

B3.6 Current and noncurrent presentation

All assets and liabilities in the Statement of Financial Position are classified as current as at December 31, 2017.

C DISCLOSURE NOTES

C1 General and administrative expenses

	Year ended December 31, 2017	Period from June 24, 2016 to December 31, 2016
AIIB administration fee (Note C6)	70	100
External auditor's remuneration	26	26
Total general and administrative expenses	**96**	**126**

C2 Cash and cash equivalents

	December 31, 2017	December 31, 2016
Demand deposits	98	9,900
Term deposits with original maturity of three months or less	37,977	-
Total cash and cash equivalents	**38,075**	**9,900**

Interest income presented in the Statement of Comprehensive Income is generated from bank deposits held by the Special Fund.

C3 Other liabilities

	December 31, 2017	December 31, 2016
External auditor's remuneration payable	26	26
Total other liabilities	**26**	**26**

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

C. DISCLOSURE NOTES

C4. Contributions

	Year ended December 31, 2017	Period from June 24, 2016 to December 31, 2016
As at January 1, 2017/June 24, 2016	**10,000**	**-**
Contributions received from:		
People's Republic of China	20,000	10,000
Republic of Korea	8,000	-
As at December 31, 2017/2016	**38,000**	**10,000**

C5. 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, due to the short-term in nature.

C6. 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 one percent of contributions received. An administration fee of USD0.07million (2016: USD0.1 million) was charged for the current year. The administration fee paid but not yet charged to the Statement of Comprehensive Income as at December 31, 2017 amounted to USD0.21 million (December 31, 2016: Nil).

The contributions received from Contributors are outlined in Note C4.

C7. Approved projects

For the year ended December 31, 2017, the Special Funds Committee of the Bank has approved two projects which include USD1 million grant to Nepal to prepare for an urban infrastructure investment project and USD0.7 million grant to Sri Lanka to prepare for a solid waste management project, of which a Grant Agreement has been signed on the latter one between the Bank and the Democratic Socialist Republic of Sri Lanka.

As at December 31, 2017, neither project has been disbursed by the Special Fund.

C8. Events after the end of the reporting period

The first disbursement of USD0.2 million to Sri Lanka for the solid waste management project has been made on March 13, 2018.

On March 26, 2018, the United Kingdom of Great Britain and Northern Ireland made a first instalment amounted to USD12.50 million in respect of its USD50 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.

D. FINANCIAL RISK MANAGEMENT

D1. 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 management 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 finance, on a grant basis, technical assistance for project preparation of members of the Bank that are classified as recipients of financing from the International Development Association, including Blend countries, rather than to generate a return on its assets, for the year ended December 31, 2017, the Special Fund was not exposed to most financial risks, with the exception of credit risk associated with the financial institutions with which it deposits its cash resources.

D2. 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 ordinary resources. The credit ratings of the financial institution counterparties are 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 December 31, 2017.

We see infrastructure as vital to long-term growth. We aim to hold a leadership role in this area, backed by our strong governance and financial foundations while partnering and investing to transform and connect people and communities. We see ourselves offering new ways to a new world guided by our core values and infrastructure focus. AIIB's journey has just begun, but it is one we will take with our members, clients, partners and stakeholders.

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