

Asian Infrastructure Investment Bank
Auditor's Review Report
Condensed Financial Statements (Unaudited)
for the Nine Months Ended Sep. 30, 2018



羅兵咸永道

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Asian Infrastructure Investment Bank (the "Bank") as of September 30, 2018 and the related condensed statements of comprehensive income, changes in equity and cash flows for the nine-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review and to report our conclusion 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.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, November 15, 2018

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Asian Infrastructure Investment Bank
Condensed Statement of Comprehensive Income
For the nine months ended Sep. 30, 2018


<i>In thousands of US Dollars</i>	Note	For the nine months ended Sep. 30, 2018 (unaudited)	For the nine months ended Sep. 30, 2017 (unaudited)
Interest income	C1	176,378	86,932
Interest expense	C1	-	-
Net interest income		176,378	86,932
Net fee and commission expense	C2	(803)	(733)
Net gain on investment at fair value through profit or loss	C5	35,822	46,063
Impairment provision	C6	(51,487)	(4,163)
General and administrative expenses	C3	(60,387)	(37,327)
Net foreign exchange loss		13	(40)
Operating profit for the period		99,536	90,732
Accretion of paid-in capital receivables		82,733	110,419
Net profit for the period		182,269	201,151
Other comprehensive income		-	-
Total comprehensive income		182,269	201,151
Attributable to:			
Equity holders of the Bank		182,269	201,151

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

Asian Infrastructure Investment Bank
Condensed Statement of Financial Position
As at Sep. 30, 2018

<i>In thousands of US Dollars</i>	Note	Sep. 30, 2018 (unaudited)	Dec. 31, 2017 (audited)
Assets			
Cash and cash equivalents	C4	1,053,102	1,104,866
Term deposits	C4	7,555,880	5,885,854
Investments at fair value through profit or loss	C5	3,295,994	3,255,140
Funds deposited for cofinancing arrangements		13,791	1,592
Loan investments, at amortized cost	C6	1,148,852	773,238
Paid-in capital receivables	C7	6,354,921	7,948,901
Intangible assets		490	1,032
Other assets	C8	1,661	1,983
Total assets		19,424,691	18,972,606
Liabilities			
Other liabilities	C9	58,586	13,587
Total liabilities		58,586	13,587
Members' equity			
Paid-in capital	C10	19,237,400	19,000,300
Reserve for accretion of paid-in capital receivables		(89,994)	(160,444)
Retained earnings		218,699	119,163
Total members' equity		19,366,105	18,959,019
Total liabilities and members' equity		19,424,691	18,972,606

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

Asian Infrastructure Investment Bank
Condensed Statement of Changes in Equity
For the nine months ended Sep. 30, 2018

<i>In thousands of US Dollars</i>	Note	Subscribed capital	Less: callable capital	Paid-in capital	Reserve for accretion of paid-in capital receivables	Retained earnings	Total members' equity
Jan. 1, 2017 (unaudited)		90,327,000	(72,261,600)	18,065,400	(282,868)	7,297	17,789,829
Capital subscription and contribution		2,666,200	(2,132,900)	533,300	-	-	533,300
Net profit for the period		-	-	-	-	201,299	201,299
Paid-in capital receivables - accretion effect		-	-	-	(12,079)	-	(12,079)
Transfer of accretion		-	-	-	110,419	(110,419)	-
Sep. 30, 2017 (unaudited)		92,993,200	(74,394,500)	18,598,700	(184,528)	98,177	18,512,349
Jan. 1, 2018 (unaudited)		95,001,100	(76,000,800)	19,000,300	(160,444)	119,163	18,959,019
Capital subscription and contribution		1,185,600	(948,500)	237,100	-	-	237,100
Net profit for the period		-	-	-	-	182,269	182,269
Paid-in capital receivables - accretion effect		-	-	-	(12,283)	-	(12,283)
Transfer of accretion		-	-	-	82,733	(82,733)	-
Sep. 30, 2018 (unaudited)	C10	96,186,700	(76,949,300)	19,237,400	(89,994)	218,699	19,366,105

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

Asian Infrastructure Investment Bank
Condensed Statement of Cash Flows
For the nine months ended Sep. 30, 2018

<i>In thousands of US Dollars</i>	Note	For the nine months ended Sep. 30, 2018 (unaudited)	For the nine months ended Sep. 30, 2017 (unaudited)
Cash flows from operating activities			
Net profit for the period		182,269	201,151
Adjustments for:			
Interest income from term deposits		(141,584)	(73,855)
Accrued interest on funds deposited for cofinancing arrangements		(81)	(148)
Accretion of paid-in capital receivables		(82,733)	(110,419)
Net gain on investments at fair value through profit or loss	C5	(35,822)	(46,063)
Impairment provision	C6	51,487	4,163
Depreciation and amortization		821	41
Increase in loan investments	C6	(382,948)	(633,048)
Increase in funds deposited for cofinancing arrangements		(12,118)	-
Decrease in other assets		500	13,606
Increase in other liabilities		846	1,104
Net cash used in operating activities		(419,363)	(643,468)
Cash flows from investing activities			
Increase in investments	C5	(5,032)	-
Increase in term deposits, net of interest received		(1,528,443)	(2,705,664)
Intangible assets		(101)	(70)
Property improvements		(260)	(168)
Computer hardware		(95)	-
Net cash used in investing activities		(1,533,931)	(2,705,902)
Cash flows from financing activities			
Capital contributions received		1,901,530	2,210,362
Net cash from financing activities		1,901,530	2,210,362
Net decrease in cash and cash equivalents		(51,764)	(1,139,008)
Cash and cash equivalents at beginning of period		1,104,866	1,281,992
Cash and cash equivalents at end of period	C4	1,053,102	142,984

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

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2018
(All amounts in thousands of US Dollars unless otherwise stated)

A General Information

The Asian Infrastructure Investment Bank (the “Bank” or “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 Dec. 25, 2015. The Bank commenced operations on Jan. 16, 2016. The principal office of the Bank is located in Beijing, the People’s Republic of China (“PRC”).

In the nine months ended Sep. 30, 2018, the Bank approved three new membership applications. As at Sep. 30, 2018, the Bank’s total approved membership was 87, of which 68 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 PRC (the “Government”) and the Bank on Jan. 16, 2016.

These financial statements were signed by the President and the Vice President and Chief Financial Officer on Nov. 15, 2018.

B Accounting Policies

B1 Basis of preparation

These condensed interim financial statements for the nine months ended Sep. 30, 2018 have been prepared in accordance with International Financial Reporting Standard: IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the annual financial statements for the year ended Dec. 31, 2017.

The accounting policies adopted are consistent with those used in the Bank’s annual financial statements for the year ended Dec. 31, 2017.

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 financial statements have been prepared on a going concern basis.

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2018
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B Accounting Policies

B2 New accounting pronouncements

The new accounting pronouncements, amendments and interpretations issued during the nine months ended Sep. 30, 2018 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 Comparatives

The comparative date of the Condensed Statement of Financial Position is as of Dec. 31, 2017, while the comparative period of the Condensed Statement of Comprehensive Income, the Condensed Statement of Cash Flows and the Condensed Statement of Changes in Equity is from Jan. 1, 2017 to Sep. 30, 2017.

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2018
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C1 Interest income and expense

	For the nine months ended Sep. 30, 2018	For the nine months ended Sep. 30, 2017
Interest income		
Loan investments ⁽¹⁾	24,797	6,710
Cash and deposits	151,581	80,222
Total interest income	176,378	86,932
Interest expense	-	-
Total interest expense	-	-
Net interest income	176,378	86,932

⁽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 nine months ended Sep. 30, 2018	For the nine months ended Sep. 30, 2017
Loan service fee	123	-
Special Fund administration fee (Note C13)	52	52
Total fee and commission income	175	52
Cofinancing service fee	(978)	(785)
Total fee and commission expense	(978)	(785)
Net fee and commission expense	(803)	(733)

Asian Infrastructure Investment Bank
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For the nine months ended Sep. 30, 2018
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C3 General and administrative expenses

	For the nine months ended Sep. 30, 2018	For the nine months ended Sep. 30, 2017
Staff costs	28,650	18,889
Professional service expenses	12,898	5,971
Travel expenses	5,253	4,480
IT services	4,536	2,901
Facilities and administration expenses	4,318	4,138
Others	4,732	948
Total general and administrative expenses	60,387	37,327

Refer to Note C14 for details of key management remuneration.

C4 Cash and deposits with banks

	Sep. 30, 2018	Dec. 31, 2017
Cash	-	-
Deposits with banks		
- Demand deposits	219,052	457,124
- Term deposits, including with maturity of less than three months	8,389,930	6,533,596
Total cash and deposits with banks	8,608,982	6,990,720
Less: term deposits with maturity more than three months ⁽¹⁾	(7,555,880)	(5,885,854)
Total cash and cash equivalents	1,053,102	1,104,866

⁽¹⁾ Term deposits with maturity more than 3 months have maturities up to 12 months.

C5 Investments at fair value through profit or loss

	For the nine months ended Sep. 30, 2018	For the year ended Dec. 31, 2017
As at beginning of year/period	3,255,140	3,179,873
Additions	6,674	21,484
Distribution received	(1,642)	-
Fair value gain, net	35,822	53,783
Total investments at fair value through profit or loss	3,295,994	3,255,140

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2018
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C5 Investments at fair value through profit or loss (Continued)

Analysis of investments at fair value through profit or loss:

		Sep. 30, 2018	Dec. 31, 2017
Trust Fund	(a)	3,271,976	3,236,448
LP Fund	(b)	23,516	18,692
Others		502	-
Total investments at fair value through profit or loss		3,295,994	3,255,140

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 fund, established and registered as a limited partnership in England ("LP Fund"). The LP Fund is an emerging Asia growth-focused private equity fund, selectively investing in growth capital across multiple sectors. The LP Fund is managed by the General Partner, established and registered as a limited liability partnership in England, who makes all investment decisions on behalf of the Limited Partners. The Bank, along with other investors, has entered into the LP 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.

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2018
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C6 Loan investments, loan commitments and related ECL allowance

Loan investments	Sep. 30, 2018	Dec. 31, 2017
Gross carrying amount	1,161,459	778,511
ECL allowance	(12,607)	(5,273)
Net carrying amount	1,148,852	773,238

The following table sets out overall information about the credit quality of loan investments and loan commitments issued for effective contracts as at Sep. 30, 2018. The gross amounts of loans include the transaction costs and fees that are capitalized through the effective interest method, or EIR method.

	Sep. 30, 2018	Dec. 31, 2017
Loan investments, gross carrying amount	1,161,459	778,511
Loan commitments	3,341,037	1,947,528
	<u>4,502,496</u>	<u>2,726,039</u>
Total ECL allowance (a)	(60,852)	(9,365)
	<u>4,441,644</u>	<u>2,716,674</u>

During the nine months ended Sep. 30, 2018, new loan investments and loan commitments with the carrying amount of USD1,776 million (including sovereign-backed loans of USD1,356 million, rating ranged from 3 to 10, and nonsovereign-backed loans of USD420 million, rating ranged from 1 to 7) became effective and were included in the assessment of ECL at Sep. 30, 2018.

The increase of ECL allowance during the nine months ended Sep. 30, 2018 mainly attributed to the downgrade of internal ratings related to certain sovereign borrowers. Refer to Note D3.

(a) As at Sep. 30, 2018, ECL related to loan commitments were USD48.25 million (Dec. 31, 2017: USD4.09 million), presented as a provision in Note C9. Consequential to the disbursements, ECL for the loan commitments amounting of USD3.96 million that was presented as a provision at Dec. 31, 2017 were included in ECL allowance at Sep. 30, 2018.

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

Asian Infrastructure Investment Bank
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(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C7 Paid-in capital receivables (Continued)

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 nine months ended Sep. 30, 2018, a total discount of USD12.28 million (for the nine months ended Sep. 30, 2017: USD12.08 million) was debited to the Reserve (Note C12). An amount of USD82.73 million (for the nine months ended Sep. 30, 2017: USD110.42 million) has been accreted through income in the current period.

Members	Paid-in capital receivables at amortized cost as at	
	Sep. 30, 2018	Dec. 31, 2017
Afghanistan	13,451	13,268
Australia	292,248	289,241
Austria	39,668	39,260
Azerbaijan	20,160	30,151
Bahrain	15,477	-
Bangladesh	87,961	86,925
Brunei Darussalam	4,157	4,114
Cambodia	8,341	8,249
Canada	151,071	-
China	1,171,536	2,335,329
Cyprus	3,005	-
Denmark	14,537	29,075
Egypt	51,536	51,036
Ethiopia	7,205	7,127
Fiji	1,929	1,898
Finland	24,606	36,781
France	267,747	265,470
Georgia	4,277	4,235
Germany	355,037	351,383
Hong Kong, SAR	89,228	118,497
Hungary	11,664	15,491
Iceland	1,388	1,375
India	663,253	657,150
Indonesia	132,486	264,210
Iran	124,977	123,411
Ireland	20,429	20,144
Israel	29,589	59,015
Italy	101,398	202,212
Jordan	9,422	9,320
Kazakhstan	57,876	86,548
Korea	296,009	292,963
Kyrgyz Republic	3,617	3,580
Lao PDR	5,729	5,664
Luxembourg	5,501	5,442

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2018
(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	
	Sep. 30, 2018	Dec. 31, 2017
Madagascar	751	-
Malaysia	8,649	12,913
Maldives	924	911
Malta	1,070	1,060
Mongolia	3,247	3,215
Myanmar	34,906	34,429
Nepal	10,768	10,639
Netherlands	81,673	80,832
New Zealand	36,541	36,165
Norway	43,588	65,134
Oman	20,529	30,688
Pakistan	81,871	122,341
Philippines	77,497	76,681
Poland	66,002	65,447
Portugal	5,138	7,674
Qatar	47,852	47,473
Russia	517,650	512,461
Samoa	303	-
Saudi Arabia	202,062	200,573
Singapore	19,795	19,591
Spain	138,836	136,659
Sri Lanka	21,316	31,863
Sudan	8,686	-
Sweden	49,923	74,623
Switzerland	55,996	83,706
Tajikistan	4,130	4,702
Thailand	113,154	112,058
Timor-Leste	2,477	2,440
Turkey	207,081	205,374
United Arab Emirates	94,059	93,284
United Kingdom	241,853	361,402
Uzbekistan	17,427	17,256
Vanuatu	-	-
Vietnam	52,652	78,743
Total paid-in capital receivables	6,354,921	7,948,901

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2018
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C7 Paid-in capital receivables (Continued)

As at Sep. 30, 2018, the contractual undiscounted paid-in capital receivables overdue amounting to USD1.84 million (Dec. 31, 2017: USD346.04 million) (Note C10), because of an administrative delay and are not considered as impaired. The overdue amount was collected by the date of signing of the financial statements for the nine months ended Sep. 30, 2018.

As at Sep. 30, 2018, USD2,289 million (Dec. 31, 2017: USD4,021 million) of the above balance is due within 12 months from the reporting date.

C8 Other assets

	Sep. 30, 2018	Dec. 31, 2017
Property improvements	434	271
Tax refund receivable	-	750
Computer hardware	180	238
Prepayments	568	323
Others	479	401
Total other assets	1,661	1,983

C9 Other liabilities

	Sep. 30, 2018	Dec. 31, 2017
Provision – ECL allowance (Note C6)	48,245	4,092
Accrued expenses	8,329	7,715
Staff costs payable	1,064	1,205
Deferred administration fee (Note C14)	483	210
Others	465	365
Total other liabilities	58,586	13,587

C10 Share capital

	Sep. 30, 2018	Dec. 31, 2017
Authorized capital	100,000,000	100,000,000
– Allocated		
- Subscribed	96,186,700	95,001,100
- Unsubscribed	2,241,700	3,277,600
– Unallocated	1,571,600	1,721,300
Total authorized capital	100,000,000	100,000,000

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2018
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C10 Share capital (Continued)

	Sep. 30, 2018	Dec. 31, 2017
Subscribed capital	96,186,700	95,001,100
Less: callable capital	(76,949,300)	(76,000,800)
Paid-in capital	19,237,400	19,000,300
Paid-in capital comprises:		
– amounts received	12,792,485	10,890,955
– amounts due but not yet received	1,840	346,040
– amounts not yet due	6,443,075	7,763,305
Total paid-in capital	19,237,400	19,000,300

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	30,480	20,320
Bahrain	1,036	103,600	82,900	20,700	4,140	16,560
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

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2018
(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
Cambodia	623	62,300	49,800	12,500	3,750	8,750
Canada	9,954	995,400	796,300	199,100	39,820	159,280
China	297,804	29,780,400	23,824,300	5,956,100	4,764,880	1,191,220
Cyprus	200	20,000	16,000	4,000	800	3,200
Denmark	3,695	369,500	295,600	73,900	59,120	14,780
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	37,260	24,840
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	61,200	91,800
Hungary	1,000	100,000	80,000	20,000	8,000	12,000
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	537,680	134,420
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	120,000	30,000
Italy	25,718	2,571,800	2,057,400	514,400	411,520	102,880
Jordan	1,192	119,200	95,400	23,800	14,280	9,520
Kazakhstan	7,293	729,300	583,400	145,900	87,540	58,360
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
Luxembourg	697	69,700	55,800	13,900	8,340	5,560
Madagascar	50	5,000	4,000	1,000	200	800
Malaysia	1,095	109,500	87,600	21,900	13,140	8,760
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	66,060	44,040
Oman	2,592	259,200	207,400	51,800	31,080	20,720
Pakistan	10,341	1,034,100	827,300	206,800	124,080	82,720
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

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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
Portugal	650	65,000	52,000	13,000	7,800	5,200
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
Samoa	21	2,100	1,700	400	80	320
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	32,280	21,520
Sudan	590	59,000	47,200	11,800	2,450	9,350
Sweden	6,300	630,000	504,000	126,000	75,600	50,400
Switzerland	7,064	706,400	565,100	141,300	84,780	56,520
Tajikistan	309	30,900	24,700	6,200	1,860	4,340
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	366,540	244,360
Uzbekistan	2,198	219,800	175,800	44,000	26,400	17,600
Vanuatu	5	500	400	100	100	-
Vietnam	6,633	663,300	530,600	132,700	79,620	53,080
Total	961,867	96,186,700	76,949,300	19,237,400	12,792,485	6,444,915

C11 Reserves

Pursuant to 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. There was no allocation of the net income during the nine months ended Sep. 30, 2018.

C12 Distribution

Retained earnings as at Sep. 30, 2018 were USD218.70 million (Dec. 31, 2017: USD119.16 million). As at Sep. 30, 2018, USD82.73 million (for the nine months ended Sep. 30, 2017: USD110.42 million) of retained earnings has been transferred to the Reserve for accretion of the paid-in capital receivables.

No dividends were declared during the reporting period.

C Disclosure Notes

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 contributions received, and the Special Fund bears all expenses appertaining directly to operations financed from the resources of the Special Fund.

As at Sep. 30, 2018, the Special Fund had aggregate contributions received amounting to USD70.50 million (Dec. 31, 2017: USD38.00 million). The Bank, acting as administrator of the Special Fund, receives administration fees. For the nine months ended Sep. 30, 2018, fees recognized as income amounted to USD0.05 million (for the nine months ended Sep. 30, 2017: USD0.05 million) (Note C2).

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

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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:

	Sep. 30, 2018		Dec. 31, 2017	
	Key management personnel	Other related parties	Key management personnel	Other related parties
Assets – loans granted	35	-	100	-
Other liabilities (Note C9)	-	483	-	210

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

	For the nine months ended Sep. 30, 2018		For the nine months ended Sep. 30, 2017	
	Key management personnel	Other related parties	Key management personnel	Other related parties
Income	-	52	-	52
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.

C Disclosure Notes

C14 Related party transactions (Continued)

Key management personnel (Continued)

During the nine months ended Sep. 30, 2018, 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 period comprises short-term employee benefits of USD2.60 million (for the nine months ended Sep. 30, 2017: USD2.47 million) and defined contribution plans of USD0.42 million (for the nine months ended Sep. 30, 2017: USD0.40 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

There have been no material events since the reporting date that would require disclosure or adjustment to these financial statements.

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 and 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 cross-category basis for the Bank. The Committee of the Board – Audit and Risk Committee reviews the Bank's financial and risk-related policies and annually reviews the Bank's risk management framework and its risk appetite statement. 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.

D Financial Risk Management

D2 Financial risk management framework (Continued)

(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 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 of the Bank. 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 ratings 1 to 4 designated as investment grade.

As at Sep. 30, 2018, 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.

D Financial Risk Management

D3 Credit risk (Continued)

Credit risk management (Continued)

- 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 Sep. 30, 2018, the rating of nonsovereign-backed loans ranged from 1 to 9 and the related annualized PD was 0.03%-4.58%.

- LP Fund investments

As at Sep. 30, 2018, the investment operations portfolio includes LP Fund investments described in Note C5. The LP Fund investments are 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 Sep. 30, 2018, 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 nine months ended Sep. 30, 2018.

Asian Infrastructure Investment Bank
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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 sets out the loans and loan commitments for sovereign-backed loans and nonsovereign-backed loans, with their respective ECL allowance balances.

	Sep. 30, 2018		Dec. 31, 2017	
	Loans and loan commitments	ECL	Loans and loan commitments	ECL
Sovereign-backed loans	3,918,165	(59,306)	2,558,761	(5,050)
Nonsovereign-backed loans	584,331	(1,546)	167,278	(4,315)
Total	4,502,496	(60,852)	2,726,039	(9,365)

(i) Concentration of credit risk

As at Sep. 30, 2018, the geographical distribution of the Bank's loan investments (gross carrying amount of loans and exposure of loan commitments) is as follows:

Region	Sep. 30, 2018			Dec. 31, 2017		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Sovereign-backed loans						
Asia	2,657,189	1,260,976	3,918,165	2,194,438	364,323	2,558,761
NonAsia	-	-	-	-	-	-
Subtotal	2,657,189	1,260,976	3,918,165	2,194,438	364,323	2,558,761
Nonsovereign-backed loans						
Asia	440,783	-	440,783	20,198	-	20,198
NonAsia	143,548	-	143,548	147,080	-	147,080
Subtotal	584,331	-	584,331	167,278	-	167,278
Total	3,241,520	1,260,976	4,502,496	2,361,716	364,323	2,726,039

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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.

Internal credit rating	Sep. 30, 2018			Dec. 31, 2017		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Sovereign-backed loans						
Investment grade	1,625,439	-	1,625,439	828,834	99,977	928,811
Noninvestment grade (a)	1,031,750	1,260,976	2,292,726	1,365,604	264,346	1,629,950
Subtotal	2,657,189	1,260,976	3,918,165	2,194,438	364,323	2,558,761
Nonsovereign-backed loans						
Investment grade	246,668	-	246,668	-	-	-
Noninvestment grade (a)	337,663	-	337,663	167,278	-	167,278
Subtotal	584,331	-	584,331	167,278	-	167,278
Total	3,241,520	1,260,976	4,502,496	2,361,716	364,323	2,726,039

(a) For the noninvestment grade sovereign-backed loan exposures as at Sep. 30, 2018, balances of USD1,807 million have internal ratings ranging from 5 to 7 (Dec. 31, 2017: USD1,203 million), and balances of USD485 million have internal ratings ranging from 8 to 12 (Dec. 31, 2017: USD427 million).

For the noninvestment grade nonsovereign-backed loan exposures as at Sep. 30, 2018, balances of USD174 million have internal ratings ranging from 5 to 7, and balances of USD164 million have internal ratings ranging from 8 to 12 (Dec. 31, 2017: all the balances of non-investment grade have internal ratings ranging from 8 to 12).

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D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

(ii) Credit enhancement

As at Sep. 30, 2018, 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 Sep. 30, 2018 is USD3,341 million (Dec. 31, 2017: USD1,948 million).

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

	Sep. 30, 2018	Dec. 31, 2017
Guaranteed by sovereign members	1,567,983	864,303
Guaranteed by nonsovereign entities	267,147	20,199
Unguaranteed (a)	2,667,366	1,841,537
Total	4,502,496	2,726,039

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

There was no other credit enhancement held as at Sep. 30, 2018 and Dec. 31, 2017.

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D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

(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 Jan. 1, 2018	2,194,438	364,323	2,558,761
New loans and commitments originated	1,357,603	-	1,357,603
Movement in net transaction costs, fees, and related income through EIR method	2,740	(939)	1,801
Transfer to stage 1 (1)	99,712	(99,712)	-
Transfer to stage 2 (2)	(997,304)	997,304	-
As at Sep. 30, 2018	2,657,189	1,260,976	3,918,165
	Stage 1	Stage 2	Total
ECL allowance as at Jan. 1, 2018	1,478	3,572	5,050
Additions	298	-	298
Change in risk parameters (3)	(293)	(37)	(330)
Change from lifetime (stage 2) to 12-month (stage 1) ECL(1)	5	(463)	(458)
Change from 12-month (stage 1) to lifetime (stage 2) ECL(2)	(148)	54,894	54,746
As at Sep. 30, 2018	1,340	57,966	59,306

(1) At Sep. 30, 2018, as a result of improved implied credit rating primarily related to a favorable GDP growth rate forecast, the credit risk of one sovereign loan in Asia has decreased to its level at origination. The gross carrying amount of loans and commitment exposure were transferred to stage 1. The related ECL allowance was, therefore, based on 12-month, rather than lifetime, ECL.

(2) During the nine months ended Sep. 30, 2018, the outstanding loan balances and commitment exposure of two sovereign borrowers in Asia were transferred from stage 1 to stage 2 based on an internal ratings downgrade, primarily in response to increasing sovereign debt denominated in foreign currency and significant local currency depreciation of the borrowers' countries.

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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 Jan. 1, 2018	167,278	-	167,278
New loans and commitments originated	424,200	-	424,200
Movement in net transaction costs, fees, and related income through EIR method	(7,147)	-	(7,147)
As at Sep. 30, 2018	584,331	-	584,331
	Stage 1	Stage 2	Total
ECL allowance as at Jan. 1, 2018	4,315	-	4,315
Additions	178	-	178
Change in risk parameters (3)	(2,947)	-	(2,947)
As at Sep. 30, 2018	1,546	-	1,546
Total gross carrying amount of loans and exposure of loan commitments as at Sep. 30, 2018	3,241,520	1,260,976	4,502,496
Total ECL allowance as at Sep. 30, 2018	2,886	57,966	60,852

(3) The change in the loss allowance is due to change in the probability of default (PD) used to calculate the expected credit loss for the loans.

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.

D Financial Risk Management

D3 Credit risk (Continued)

ECL measurement (Continued)

All loans included in the Bank's investment portfolio are rated using internal rating methodologies. 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 ICRA's, the Bank uses the 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.
 - 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 would 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 was used for the year ended Dec. 31, 2017. It replaced 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.

D Financial Risk Management

D3 Credit risk (Continued)

ECL measurement (Continued)

(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 includes 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 = $\sum_{s=baseline,good,bad} w_s \times PIT PD_1 \times LGD_1 \times EAD_1$):

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.

D Financial Risk Management

D3 Credit risk (Continued)

ECL measurement (Continued)

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

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:

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

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

ECL_t is calculated as: $ECL_t = \sum_{s=baseline,good,bad} w_s \times PIT PD_t \times LGD_t \times EAD_t$, 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 three 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 three scenarios are the same as the 12-month ECL calculation.

D Financial Risk Management

D3 Credit risk (Continued)

ECL measurement (Continued)

(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 of 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.

D Financial Risk Management

D3 Credit risk (Continued)

ECL measurement (Continued)

(v) Definition of default

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

- Failure to make a payment (“payment default”) – 180 days past due for sovereign-backed infrastructure loans and 90 days past due for 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.

(vi) Write-off policy

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

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.

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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 Sep. 30, 2018, the currency risk is not material for the Bank. A currency table for the main monetary items is set out below:

As at Sep. 30, 2018	USD	Other currencies USD equivalent	Total
<i>Financial assets</i>			
Cash and cash equivalents	1,051,030	2,072	1,053,102
Term deposits	7,555,880	-	7,555,880
Investments at fair value through profit or loss	3,295,994	-	3,295,994
Funds deposited for cofinancing arrangements	13,791	-	13,791
Loan investments, at amortized cost	1,148,852	-	1,148,852
Paid-in capital receivables	6,354,921	-	6,354,921
	19,420,468	2,072	19,422,540

As at Dec. 31, 2017	USD	Other currencies USD equivalent	Total
<i>Financial assets</i>			
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

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.

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 Sep. 30, 2018, 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 three years, ignoring those years where income was not positive. For initial years, the Bank allocates capital for operational risk at 1% of its paid-in capital, reserves and retained earnings.

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.

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 nine months ended Sep. 30, 2018.

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.

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E Fair Value Disclosures

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:

	Sep. 30, 2018		Dec. 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	1,053,102	1,053,102	1,104,866	1,104,866
Term deposits	7,555,880	7,555,880	5,885,854	5,884,195
Funds deposited for cofinancing arrangements	13,791	13,791	1,592	1,592
Loan investments, at amortized cost	1,148,852	1,140,202	773,238	779,443
Paid-in capital receivables	6,354,921	6,280,717	7,948,901	7,947,268
Financial liabilities				
Other liabilities	58,586	58,586	13,587	13,587

As at Sep. 30, 2018, 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.

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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 Sep. 30, 2018

	Level 1	Level 2	Level 3	Total
Investments at fair value through profit or loss				
- Trust Fund	-	3,271,976	-	3,271,976
- LP Fund	-	-	23,516	23,516
- Others	-	-	502	502
Total	-	3,271,976	24,018	3,295,994

As at Dec. 31, 2017

	Level 1	Level 2	Level 3	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

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 period (for the nine months ended Sep. 30, 2017: same).