

AIB Project Preparation Special Fund

**Auditor's Report and Financial Statements
for the Year Ended Dec. 31, 2022**



羅兵咸永道

Independent Auditor's Report

To the Board of Governors of the Asian Infrastructure Investment Bank (the "Bank" or "AIIB"):

Opinion

What we have audited

The financial statements of AIIB Project Preparation Special Fund (the "PPSF"), which are set out on pages 1 to 14, comprise:

- the statement of comprehensive income for the year ended December 31, 2022;
- the statement of financial position as at December 31, 2022;
- the statement of changes in contributors' resources for the year ended December 31, 2022;
- the statement of cash flows for the year ended December 31, 2022; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the PPSF as at December 31, 2022, 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 PPSF in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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 PPSF'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 PPSF or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 PPSF's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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- 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 PPSF'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 PPSF 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.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, China, March 21, 2023

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**AIB Project Preparation Special Fund
Statement of Comprehensive Income
For the year ended Dec. 31, 2022**


<i>In thousands of US Dollars</i>	Note	For the year ended Dec. 31, 2022	For the year ended Dec. 31, 2021
Interest income		1,454	134
Disbursements	C1	(4,599)	(2,153)
Transfer to Special Fund Window	C2	(4,937)	-
General and administrative expenses	C3	(280)	(381)
Net loss and total comprehensive loss for the year		(8,362)	(2,400)
Attributable to:			
Contributors		(8,362)	(2,400)

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


AIIB Project Preparation Special Fund
Statement of Financial Position
As at Dec. 31, 2022

<i>In thousands of US Dollars</i>	Note	Dec. 31, 2022	Dec. 31, 2021
Assets			
Cash and cash equivalents	C4	37,133	8,640
Term deposits	C4	50,428	87,023
Other assets	C8	300	550
Total assets		87,861	96,213
Liabilities			
Other liabilities	C5	41	31
Total liabilities		41	31
Contributors' resources			
Contributions	C6	128,000	128,000
Accumulated losses		(40,180)	(31,818)
Total contributors' resources		87,820	96,182
Total liabilities and contributors' resources		87,861	96,213

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



Mr. Jin Lixin
 President of the Bank



Mr. Andrew Cross
 Chief Financial Officer of the Bank



Ms. Hui Fong Lee
 Controller of the Bank

AllB Project Preparation Special Fund
Statement of Changes in Contributors' Resources
For the year ended Dec. 31, 2022

<i>In thousands of US Dollars</i>	Note	Contributions	Accumulated losses	Total
Jan. 1, 2021		128,000	(29,418)	98,582
Contributions	C6	-	-	-
Net loss for the year		-	(2,400)	(2,400)
Dec. 31, 2021		128,000	(31,818)	96,182
Jan. 1, 2022		128,000	(31,818)	96,182
Contributions	C6	-	-	-
Net loss for the year		-	(8,362)	(8,362)
Dec. 31, 2022		128,000	(40,180)	87,820

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

AllB Project Preparation Special Fund
Statement of Cash Flows
For the year ended Dec. 31, 2022

<i>In thousands of US Dollars</i>	Note	For the year ended Dec. 31, 2022	For the year ended Dec. 31, 2021
Cash flows from operating activities			
Net loss for the year		(8,362)	(2,400)
Adjustments for:			
Interest income from term deposits		(486)	(35)
Decrease in other assets		250	350
Increase in other liabilities		10	-
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Net cash used in operating activities		(8,588)	(2,085)
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Cash flows from investing activities			
Decrease/(increase) in term deposits		37,000	(87,000)
Interest received from term deposits		81	12
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Net cash from/(used in) investing activities		37,081	(86,988)
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Cash flows from financing activities			
Contributions received	C6	-	-
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Net cash from financing activities		-	-
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Net increase/(decrease) in cash and cash equivalents		28,493	(89,073)
Cash and cash equivalents at the beginning of the year		8,640	97,713
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Cash and cash equivalents at the end of the year		37,133	8,640
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The accompanying notes are an integral part of these financial statements.

AIIB Project Preparation Special Fund
Notes to the Financial Statements
For the year ended Dec. 31, 2022
(All amounts in thousands of US Dollars unless otherwise stated)

A General Information

On June 24, 2016, the AIIB Project Preparation Special Fund (“PPSF”) 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”).

PPSF is established as a multi-donor fund, which is open to contributions by all Bank members and others (the “Contributors”). The purpose of PPSF is to support and facilitate preparatory activities during the preparation and early implementation 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 PPSF, and the Contribution Agreements.

The following table sets out the total commitments and paid contributions as at Dec. 31, 2022.

Contributors	Commitments/ Paid Contributions
People’s Republic of China	50,000
United Kingdom of Great Britain and Northern Ireland	50,000
Republic of Korea	18,000
Hong Kong, China	10,000
Total	128,000

These financial statements were signed by the President, the Chief Financial Officer, and the Controller of the Bank on March 21, 2023.

B Accounting Policies

B1 Basis of preparation

These financial statements for PPSF 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 Jan. 1 and ends on Dec. 31 of each year. PPSF follows the same financial year end as the Bank.

PPSF has adopted all of the IFRS standards and interpretations effective for annual periods beginning on Jan. 1, 2022.

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

B Accounting Policies

B1 Basis of preparation (Continued)

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 the AllIB 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 2022 do not have any significant impact on the operating results, financial position, and comprehensive income of PPSF.

B3 Summary of significant accounting policies

B3.1 Functional currency and foreign currency transactions

The functional currency and the presentation currency of PPSF are United States Dollars ("USD" or "US Dollars").

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. Foreign currency exchange differences arising on the settlement of monetary items, and the retranslation of monetary items, are recognized in profit or loss during the period in which they arise.

B3.2 Financial instruments

B3.2.1 Financial assets

PPSF'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.

B Accounting Policies

B3.2 Financial instruments (Continued)

B3.2.1 Financial assets (Continued)

(a) Classification of financial assets at amortized cost

PPSF 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.

PPSF 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 the 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 PPSF 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 represents a recovery of part of the cost of the investment.

B Accounting Policies

B3.2 Financial instruments (Continued)

B3.2.1 Financial assets (Continued)

(c) Classification of financial assets at FVPL

PPSF 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 PPSF has not elected to recognize fair value gains or losses through OCI.

B3.2.2 Financial liabilities

PPSF'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

PPSF recognizes contributions received from Contributors as equity on the basis that a contributor cannot choose to withdraw contributions from PPSF. Contributors are only entitled to a distribution of net assets on termination of PPSF in proportion to the contributions made available by them to PPSF.

B3.2.4 Recognition and derecognition

PPSF recognizes a financial asset or a financial liability in its Statement of Financial Position when, and only when, PPSF becomes a party to the contractual provisions of the instrument.

A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade date accounting.

At initial recognition, PPSF 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.

B Accounting Policies

B3.2 Financial instruments (Continued)

B3.2.4 Recognition and derecognition (Continued)

Before evaluating whether, and to what extent, derecognition is appropriate, PPSF determines whether the derecognition analysis should be applied to a part of a financial asset or a financial asset in its entirety. PPSF derecognizes a financial asset when the contractual rights to the cash flow 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 PPSF neither transfers nor retains substantially all the risks and rewards of ownership and has not retained control of the transferred financial asset, PPSF 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 PPSF 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.

AllB Project Preparation Special Fund
Notes to the Financial Statements
For the year ended Dec. 31, 2022
(All amounts in thousands of US Dollars unless otherwise stated)

B Accounting Policies

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.

B3.5 Administration fees and expenses

In accordance with the provisions of Section 4.05 of the Rules and Regulations of PPSF, 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

Except for the noncurrent asset disclosed in Note C8, assets and liabilities in the Statement of Financial Position are classified as current as at Dec. 31, 2022.

AIIB Project Preparation Special Fund
Notes to the Financial Statements
For the year ended Dec. 31, 2022
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C1 Disbursements

Total projects	Commitments approved ⁽¹⁾	Disbursements ⁽²⁾	Undrawn commitments
At Dec. 31, 2020	24,106	4,372	19,734
Movement in the year 2021	8,088	2,153	5,935
At Dec. 31, 2021	32,194	6,525	25,669
Movement in the year 2022	13,286	4,599	8,687
At Dec. 31, 2022	45,480	11,124	34,356

⁽¹⁾ Approved commitments amounts are net of cancellation.

⁽²⁾ Disbursements also include USD69,000 of technical assistance for the year of 2022 (2021: USD26,200) under an approved PPSF grant executed by AIIB on request of the client.

C2 Transfer to Special Fund Window

On May 7, 2020, the Board of Directors of the Bank has approved the establishment of a new special fund, namely the Special Fund Window to support eligible low-income members seeking financing under the Bank's COVID-19 Crisis Recovery Facility ("Facility"). The Board has approved USD30 million from PPSF to be reallocated to Special Fund Window.

On June 5, 2020, PPSF transferred USD30 million to Special Fund Window as initial amount to provide interest rate buy-down for eligible sovereign-backed financing.

On April 27, 2021, the Board of Directors of the Bank has approved the replenishment of Special Fund Window under the Facility, by carving out up to USD25 million from PPSF. The transfer of up to USD25 million will be made based on the required interest rate buy-down amount after the respective project is approved by the Board of Directors.

On March 23, 2022, AIIB Board of Directors approved the renaming of the SFW under the Facility as the Special Fund Window for Less Developed Members ("Special Fund Window") and the revision of the applicable Rules and Regulations. With this approval, Special Fund Window serves a broadened scope with new contributions once new contributions are received. The Special Fund Window provides interest rate buy-down to eligible sovereign-backed financing aligned with AIIB's Corporate Strategy in eligible members according to the approved Rules and Regulations.

On October 28, 2022, PPSF transferred USD4.9 million to Special Fund Window to provide interest rate buy-down for an eligible sovereign-backed financing.

AIB Project Preparation Special Fund
Notes to the Financial Statements
For the year ended Dec. 31, 2022
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C2 Transfer to Special Fund Window (Continued)

On Dec. 19, 2022, the Bank approved a transfer of USD5.0 million from PPSF to Special Fund Window to provide interest rate buy-down for an eligible sovereign-backed financing. The USD5.0 million remains undisbursed as at Dec. 31, 2022. On Jan. 5, 2023, USD5.0 million was transferred from PPSF to Special Fund Window and disbursed for the use of the interest rate buy-down.

C3 General and administrative expenses

	Year ended Dec. 31, 2022	Year ended Dec. 31, 2021
AIB administration fee (Note C8)	250	350
Annual audit fee	30	31
Total general and administrative expenses	280	381

C4 Cash, cash equivalents, and deposits with banks

	Dec. 31, 2022	Dec. 31, 2021
Cash	-	-
Deposits with banks		
- Demand deposits	20,086	8,640
- Term deposits with initial maturity of three months or less	17,047	-
Total cash and cash equivalents	37,133	8,640
Add: term deposits with initial maturity more than three months ⁽¹⁾	50,428	87,023
Total cash, cash equivalents, and deposits with banks	87,561	95,663

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

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

C5 Other liabilities

	Dec. 31, 2022	Dec. 31, 2021
Auditor's fee payable	30	31
Other payables	11	-
Total other liabilities	41	31

AIB Project Preparation Special Fund
Notes to the Financial Statements
For the year ended Dec. 31, 2022
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C6 Contributions

	Year ended Dec. 31, 2022	Year ended Dec. 31, 2021
As at Jan. 1, 2022/2021	128,000	128,000
Movement during the year	-	-
As at Dec. 31, 2022/2021	128,000	128,000

Refer to Note A for the breakdown of contributions by Contributors.

C7 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.

C8 Other assets

The Bank is entitled to charge PPSF an administration fee of an amount equal to 1% of any contribution. An administration fee of USD0.25 million (2021: USD0.35 million) has been recognized for the current year.

As at Dec. 31, 2022, unamortized administration fee recognized as other assets amounted to USD0.30 million (Dec. 31, 2021: USD0.55 million). Of the USD0.30 million, USD0.15 million is classified as current and USD0.15 million as noncurrent (Dec. 31, 2021: USD0.25 million and USD0.30 million respectively).

C9 Related party transactions

PPSF's related parties include the Bank, the Contributors, Special Fund Window and other special funds of the Bank.

The contributions received from Contributors are outlined in Note A and C6. Refer to Note C2 for the PPSF's transfers to Special Fund Window. Refer to C8 other assets for details on unamortized administration fee.

PPSF enters into transactions with enterprises ultimately controlled by the People's Republic of China (PRC) Government, including mainly deposits and related banking activities. PPSF considers the transactions with PRC state-owned entities are activities conducted in PPSF's ordinary course of business, and the dealings of PPSF have not been significantly or unduly affected by the fact that these entities are ultimately controlled by the PRC Government.

C10 Events after the end of the reporting period

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

PPSF 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 established with 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 and other investment risk, market risk, liquidity risk, counterparty credit risk, model risk, operational risk, and compliance risk in the Bank's activities. It is also designed to manage assets and liabilities to minimize the volatility of equity value and to maintain sufficient liquidity.

The primary purpose of PPSF is to finance, on a grant basis, technical assistance for project preparation in members of the Bank that are classified as recipients of financing from the International Development Association and other members of the Bank with substantial development needs and capacity constraints, rather than to generate a return on its assets. Therefore, for the year ended Dec. 31, 2022, PPSF is not exposed to significant 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

PPSF 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 PPSF'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 minus or higher.

The carrying amount of cash, cash equivalents, and deposits with banks presented on the Statement of Financial Position represents PPSF's maximum exposure to credit risk as at Dec. 31, 2022.