

AIIB Project Preparation Special Fund
Auditor's Review Report
and Condensed Financial Statements (Unaudited)
for the Six Months Ended June 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 (the "Bank"):

Introduction

We have reviewed the accompanying interim condensed statement of financial position of AIIB Project Preparation Special Fund (the "Special Fund") as of June 30, 2018 and the related condensed statements of comprehensive income, changes in contributors' resources and cash flows for the six-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, September 27, 2018

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**AIB Project Preparation Special Fund
Condensed Statement of Comprehensive Income
For the six months ended June 30, 2018**

<i>In thousands of US Dollars</i>	Note	For the six months ended June 30, 2018 (unaudited)	For the six months ended June 30, 2017 (unaudited)
Interest income	C3	622	170
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Disbursements	C2	(200)	-
General and administrative expenses	C1	(35)	(35)
Net profit and total comprehensive income for the period		387	135
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Attributable to:			
Contributors		387	135
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The accompanying notes are an integral part of these financial statements.

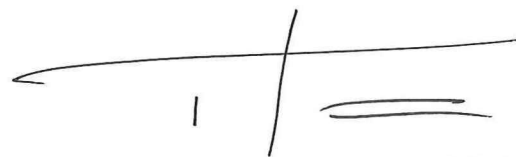
**AIIB Project Preparation Special Fund
Condensed Statement of Financial Position
As at June 30, 2018**

<i>In thousands of US Dollars</i>	Note	June 30, 2018 (unaudited)	Dec. 31, 2017 (audited)
Assets			
Cash and cash equivalents	C3	70,672	38,075
Other assets	C6	500	210
Total assets		71,172	38,285
Liabilities			
Other liabilities		26	26
Total liabilities		26	26
Contributors' resources			
Contributions	C4	70,500	38,000
Accumulated gains		646	259
Total contributors' resources		71,146	38,259
Total liabilities and contributors' resources		71,172	38,285

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

**AIB Project Preparation Special Fund
Condensed Statement of Changes in Contributors' Resources
For the six months ended June 30, 2018**

<i>In thousands of US Dollars</i>	Note	Contributions	Accumulated gains/(losses)	Total
Jan. 1, 2017 (unaudited)		10,000	(126)	9,874
Contributions		20,000	-	20,000
Net profit for the period		-	135	135
June 30, 2017 (unaudited)		30,000	9	30,009
Jan. 1, 2018 (unaudited)		38,000	259	38,259
Contributions	C4	32,500	-	32,500
Net profit for the period		-	387	387
June 30, 2018 (unaudited)		70,500	646	71,146

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

**AIB Project Preparation Special Fund
Condensed Statement of Cash Flows
For the six months ended June 30, 2018**

<i>In thousands of US Dollars</i>	Note	For the six months ended June 30, 2018 (unaudited)	For the six months ended June 30, 2017 (unaudited)
Cash flows from operating activities			
Net profit for the period		387	135
Adjustments for:			
Interest income from term deposits		-	(18)
Increase in other assets		(290)	(165)
Decrease in other liabilities		-	(26)
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Net cash from/(used in) operating activities		97	(74)
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Cash flows from investing activities			
Increase in term deposits, net of interest received		-	(12,000)
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Net cash used in investing activities		-	(12,000)
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Cash flows from financing activities			
Contributions received	C4	32,500	20,000
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Net cash from financing activities		32,500	20,000
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Net increase in cash and cash equivalents		32,597	7,926
Cash and cash equivalents at the beginning of the period		38,075	9,900
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Cash and cash equivalents at the end of the period		70,672	17,826

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

AIIB Project Preparation Special Fund
Notes to the Condensed Financial Statements
For the six months ended June 30, 2018
(All amounts in thousands of US Dollars unless otherwise stated)

A General Information

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

The Special Fund is established as a multi-donor fund, which is open to contributions by all Bank members and others (the “Contributors”). The purpose of the Special Fund is to support and facilitate the preparation of projects to be financed by the Bank. The resources from the Contributors are accepted, held, managed, administered, used, committed, expended or otherwise disposed of by the Bank in accordance with the AOA, the Rules and Regulations of the Special Fund and the Contribution Agreements.

The People’s Republic of China, the Republic of Korea and the United Kingdom of Great Britain and Northern Ireland through Contribution Agreements with the Bank, concluded on June 25, 2016, Dec. 22, 2016 and Dec. 16, 2017, have committed contributions in the amount of USD50 million, USD8 million and USD50 million, respectively.

As at June 30, 2018, the Bank has received a total of USD70.5 million as payments to the Special Fund: USD50 million from the People’s Republic of China, USD8 million from the Republic of Korea and USD12.5 million from the United Kingdom of Great Britain and Northern Ireland.

These financial statements were signed by the President and the Vice President and Chief Financial Officer of the Bank on Sep. 27, 2018.

B Accounting Policies

B1 Basis of preparation

These condensed interim financial statements for the six months ended June 30, 2018 have been prepared in accordance with International Financial Reporting Standard (IFRS): 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 Special Fund’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 accounting policies. The area involving a higher degree of judgment or complexity is the determination of the recognition period for AIIB administration fee. The financial statements have been prepared on a going concern basis.

AIB Project Preparation Special Fund
Notes to the Condensed Financial Statements
For the six months ended June 30, 2018
(All amounts in thousands of US Dollars unless otherwise stated)

B Accounting Policies

B2 New accounting pronouncements

The new accounting pronouncements, amendments and interpretations issued during the six months ended June 30, 2018 do not have any significant impact on the operating results, financial position and comprehensive income of the Special Fund.

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 Contributors' Resources is from Jan. 1, 2017 to June 30, 2017.

AIIB Project Preparation Special Fund
Notes to the Condensed Financial Statements
For the six months ended June 30, 2018
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C1 General and administrative expenses

	Six months ended June 30, 2018	Six months ended June 30, 2017
AIIB administration fee (Note C6)	35	35
Total general and administrative expenses	35	35

C2 Disbursements

As of June 30, 2018, USD0.2 million has been disbursed by the Special Fund to Sri Lanka for a solid waste management project.

C3 Cash and cash equivalents

	June 30, 2018	Dec. 31, 2017
Demand deposits	600	98
Term deposits with original maturity of three months or less	70,072	37,977
Total cash and cash equivalents	70,672	38,075

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

C4 Contributions

	Six months ended June 30, 2018	Year ended Dec. 31, 2017
As at Jan. 1, 2018/2017	38,000	10,000
Contributions received from:		
People's Republic of China	20,000	20,000
Republic of Korea	-	8,000
United Kingdom of Great Britain and Northern Ireland	12,500	-
As at June 30, 2018/ Dec. 31, 2017	70,500	38,000

AIB Project Preparation Special Fund
Notes to the Condensed Financial Statements
For the six months ended June 30, 2018
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C5 Fair value of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities presented on the Statement of Financial Position approximate their fair values, due to the short-term in nature.

C6 Related parties

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

The Bank is entitled to charge the Special Fund an administration fee of an amount equal to one percent of contributions received. An administration fee of USD0.035 million (for the six months ended June 30, 2017: USD0.035 million) was charged for the current period. The administration fee paid but not yet charged to the Statement of Comprehensive Income as at June 30, 2018 amounted to USD0.50 million (Dec. 31, 2017: USD0.21 million).

The contributions received from Contributors are outlined in Note C4.

C7 Approved projects

For the six months ended June 30, 2018, the Special Funds Committee of the Bank has approved three projects, which include USD1 million grant to Nepal for Power Distribution System Upgrade and Expansion Project, USD0.995 million grant to Lao PDR for National Road 13 Improvement and Maintenance Project and USD0.7 million to Pakistan for Lahore Water and Wastewater Management Project. The grant agreements of the first two projects have been signed between the Bank and the governments of the beneficiary countries.

C8 Events after the end of the reporting period

The preparation on Solid Waste Management Project in Sri Lanka has been discontinued due to the cancellation of the underlying project by the lead financier. Following the decisions of the Special Funds Committee on Sep. 4, 2018, the Bank has started the cancellation and refunding process of the undisbursed amount of USD0.50 million and the disbursed but unused amount of USD0.13 million.

On Sep. 3, 2018, the Republic of Korea has signed a Contribution Agreement with the Bank, with a commitment to contribute an additional USD10 million to the Special Fund.

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

D Financial Risk Management

D1 Overview

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

As the primary purpose of the Special Fund is to finance, on a grant basis, technical assistance for project preparation of members of the Bank that are classified as recipients of financing from the International Development Association, including Blend countries, rather than to generate a return on its assets, for the six months ended June 30, 2018, the Special Fund was not exposed to most financial risks, with the exception of credit risk associated with the financial institutions with which it deposits its cash resources.

D2 Credit risk

Credit risk management

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

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

The carrying amount of cash and cash equivalents presented on the Statement of Financial Position represents the Special Fund's maximum exposure to credit risk as at June 30, 2018.