Asian Infrastructure Investment Bank

Auditor's Review Report
Condensed Financial Statements (Unaudited)
for the Three Months Ended March 31, 2019

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Asian Infrastructure Investment Bank (the "Bank") as of March 31, 2019 and the related condensed statements of comprehensive income, changes in equity and cash flows for the three-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.

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, May 13, 2019

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Asian Infrastructure Investment Bank
Condensed Statement of Comprehensive Income
For the three months ended March 31, 2019

In thousands of US Dollars	Note	For the three months ended March 31, 2019 (unaudited)	For the three months ended March 31, 2018 (unaudited)
Interest income	C1	90,151	45,087
Interest expense		-	-
Net interest income		**90,151**	**45,087**
Net fee and commission income/(expense)	C2	2,508	(169)
Net gain on investments at fair value through profit or loss	C3	22,718	1,410
Impairment provision	C7	(2,714)	(1,470)
General and administrative expenses	C4	(25,010)	(15,478)
Net foreign exchange gain/(loss)		110	(64)
Operating profit for the period		**87,763**	**29,316**
Accretion of paid-in capital receivables		15,042	25,665
Net profit for the period		**102,805**	**54,981**
Other comprehensive income		-	-
Total comprehensive income		**102,805**	**54,981**
Attributable to:			
Equity holders of the Bank		**102,805**	**54,981**

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

Asian Infrastructure Investment Bank
Condensed Statement of Financial Position
As at March 31, 2019

In thousands of US Dollars	Note	March 31, 2019 (unaudited)	Dec. 31, 2018 (audited)
Assets			
Cash and cash equivalents	C5	3,379,632	2,252,741
Term deposits	C5	10,494,939	8,223,299
Investments at fair value through profit or loss	C6	35,164	3,325,484
Funds deposited for cofinancing arrangements		10,322	5,992
Loan investments, at amortized cost	C7	1,559,705	1,365,187
Paid-in capital receivables	C8	4,193,118	4,386,984
Intangible assets		777	906
Other assets	C9	3,326	1,676
Total assets		**19,676,983**	**19,562,269**
Liabilities			
Prepaid paid-in capital		-	2,560
Other liabilities	C10	49,612	47,291
Total liabilities		**49,612**	**49,851**
Members' equity			
Paid-in capital	C11	19,280,800	19,268,000
Reserve for accretion of paid-in capital receivables		(56,091)	(70,481)
Retained earnings		402,662	314,899
Total members' equity		**19,627,371**	**19,512,418**
Total liabilities and members' equity		**19,676,983**	**19,562,269**

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 three months ended March 31, 2019

In thousands of US Dollars	Note	Subscribed capital	Less: callable capital	Paid-in capital	Reserve for accretion of paid-in capital receivables	Retained earnings	Total members' equity
Jan. 1, 2018		**95,001,100**	**(76,000,800)**	**19,000,300**	**(160,444)**	**119,163**	**18,959,019**
Capital subscription and contribution		995,900	(796,700)	199,200	-	-	199,200
Net profit for the period		-	-	-	-	54,981	54,981
Paid-in capital receivables - accretion effect		-	-	-	(10,211)	-	(10,211)
Transfer of accretion		-	-	-	25,665	(25,665)	-
March 31, 2018 (unaudited)		**95,997,000**	**(76,797,500)**	**19,199,500**	**(144,990)**	**148,479**	**19,202,989**
Jan. 1, 2019		**96,339,700**	**(77,071,700)**	**19,268,000**	**(70,481)**	**314,899**	**19,512,418**
Capital subscription and contribution		64,100	(51,300)	12,800	-	-	12,800
Net profit for the period		-	-	-	-	102,805	102,805
Paid-in capital receivables - accretion effect		-	-	-	(652)	-	(652)
Transfer of accretion		-	-	-	15,042	(15,042)	-
March 31, 2019 (unaudited)	C11	**96,403,800**	**(77,123,000)**	**19,280,800**	**(56,091)**	**402,662**	**19,627,371**

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

Asian Infrastructure Investment Bank
Condensed Statement of Cash Flows
For the three months ended March 31, 2019

In thousands of US Dollars	**Note**	**For the three months ended March 31, 2019 (unaudited)**	**For the three months ended March 31, 2018 (unaudited)**
Cash flows from operating activities			
Net profit for the period		102,805	54,981
Adjustments for:			
Interest income from term deposits		(73,323)	(35,016)
Accrued interest on funds deposited for cofinancing arrangements		(16)	(13)
Accretion of paid-in capital receivables		(15,042)	(25,665)
Net gain on investments at fair value through profit or loss	C3	(2,892)	(1,410)
Impairment provision	C7	2,714	1,470
Depreciation and amortization		166	200
Increase in loan investments	C7	(195,332)	(102,194)
Increase in funds deposited for cofinancing arrangements		(4,314)	(4,196)
(Increase)/Decrease in other assets		(1,438)	316
Increase in other liabilities		422	1,084
Net cash used in operating activities		(186,250)	(110,443)
Cash flows from investing activities			
Investment purchases, net	C6	(1,955)	(1,573)
Termination of Trust Fund	C6	3,295,167	-
Increase in term deposits		(2,252,566)	(572,000)
Interest received from term deposits		54,249	63,480
Intangible assets		(175)	(650)
Property improvements		(75)	(187)
Net cash from/(used in) investing activities		1,094,645	(510,930)
Cash flows from financing activities			
Capital contributions received		218,496	382,442
Net cash from financing activities		218,496	382,442
Net increase/(decrease) in cash and cash equivalents		1,126,891	(238,931)
Cash and cash equivalents at beginning of period		2,252,741	1,104,866
Cash and cash equivalents at end of period	**C5**	**3,379,632**	**865,935**

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

A General Information

The Asian Infrastructure Investment Bank (the "Bank" or "AIIB") is a multilateral development bank. By the end of year 2015, representatives from 57 countries signed the Articles of Agreement (AOA) which entered into force on Dec. 25, 2015. The Bank commenced operations on Jan. 16, 2016. AIIB's principal office is in Beijing, the People's Republic of China (PRC).

As of March 31, 2019, the Bank's total approved membership is 93, of which 70 have completed the membership process and have become members of the Bank in accordance with the AOA.

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

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

These financial statements were signed by the President and the Vice President and Chief Financial Officer on May 13, 2019.

B Accounting Policies

B1 Basis of preparation

These condensed interim financial statements for the three months ended March 31, 2019 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, 2018.

The accounting policies adopted are consistent with those used in the Bank's annual financial statements for the year ended Dec. 31, 2018.

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.

B Accounting Policies

B2 New accounting pronouncements

The new accounting pronouncements, amendments and interpretations issued during the three months ended March 31, 2019 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, 2018, 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, 2018 to March 31, 2018.

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

C Disclosure Notes

C1 Interest income and expense

	For the three months ended March 31, 2019	For the three months ended March 31, 2018
Interest income		
Loan investments [1]	15,464	6,209
Cash and deposits	74,687	38,878
Total interest income	**90,151**	**45,087**
Interest expense	-	-
Total interest expense	-	-
Net interest income	**90,151**	**45,087**

[1] Interest income for loan investments includes amortization of front-end 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 income/(expense)

	For the three months ended March 31, 2019	For the three months ended March 31, 2018
Loan commitment fee and service fee	2,709	20
Special Fund administration fee (Note C14)	17	17
Total fee and commission income	**2,726**	**37**
Cofinancing service fee	(218)	(206)
Total fee and commission expense	**(218)**	**(206)**
Net fee and commission income/(expense)	**2,508**	**(169)**

C3 Net gain on investments at fair value through profit or loss

	For the three months ended March 31, 2019	For the three months ended March 31, 2018
Money Market Funds (Note C5)	19,826	-
Trust Fund, LP Fund, and others (Note C6)	2,892	1,410
Total	**22,718**	**1,410**

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

C Disclosure Notes

C4 General and administrative expenses

	For the three months ended March 31, 2019	For the three months ended March 31, 2018
Staff costs	11,750	8,870
IT services	3,638	284
Professional service expenses	3,569	2,797
Travel expenses	2,208	1,587
Facilities and administration expenses	2,110	1,464
Others	1,735	476
Total general and administrative expenses	**25,010**	**15,478**

Refer to Note C15 for details of key management remuneration.

C5 Cash, cash equivalents, and deposits with banks

	March 31, 2019	Dec. 31, 2018
Cash	-	-
Deposits with banks		
- Demand deposits	173,228	533,731
- Term deposits with maturity of less than three months	-	245,602
Money Market Funds (1)	3,206,404	1,473,408
Total cash and cash equivalents	**3,379,632**	**2,252,741**
Add: term deposits with maturity more than three months (2)	10,494,939	8,223,299
Total cash, cash equivalents, and deposits with banks	**13,874,571**	**10,476,040**

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

C Disclosure Notes

C5 Cash, cash equivalents, and deposits with banks (Continued)

(1) Money Market Funds

	For the three months ended March 31, 2019	For the year ended Dec. 31, 2018
As at beginning of year/period	1,473,408	-
Additions	3,873,760	1,477,411
Disposals	(2,160,590)	(4,003)
Fair value gain	19,826	-
Money Market Funds	**3,206,404**	**1,473,408**

Money Market Funds ("MMFs") are rated triple-A equivalent and invest in a diversified portfolio of short-term high quality assets. The objective of the investment is only to meet short-term cash commitments. The MMFs are subject to an insignificant risk of changes in value, with daily liquidity and an investment return comparable to normal USD denominated money market interest rates. The MMFs are exposed to credit, market and liquidity risks, and are measured at fair value.

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

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

C Disclosure Notes

C6 Investments at fair value through profit or loss

	For the three months ended March 31, 2019	For the year ended Dec. 31, 2018
As at beginning of year/period	3,325,484	3,255,140
Additions	6,947	15,364
Termination of Trust Fund	(3,295,167)	-
Return of capital contributions from LP Fund	-	(1,642)
Disposals	(4,992)	-
Fair value gain, net	2,892	56,622
Total investments at fair value through profit or loss	**35,164**	**3,325,484**

Analysis of investments at fair value through profit or loss:

		March 31, 2019	Dec. 31, 2018
Trust Fund	(a)	-	3,292,628
LP Fund	(b)	33,573	32,360
Others		1,591	496
Total investments at fair value through profit or loss		**35,164**	**3,325,484**

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.

The Trust Fund has been terminated in Jan. 2019 and funds have been returned to the general treasury portfolio.

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

C Disclosure Notes

C6 Investments at fair value through profit or loss (Continued)

(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.

C7 Loan investments, loan commitments and related ECL allowance

Loan investments	**March 31, 2019**	**Dec. 31, 2018**
Gross carrying amount	1,576,714	1,381,382
ECL allowance	(17,009)	(16,195)
Net carrying amount	**1,559,705**	**1,365,187**

Loan investments are carried at amortized cost. At initial recognition, loan investments are measured at fair value using the assumptions market participants of either sovereign-backed or nonsovereign-backed projects would use when pricing the loan assets. The market that the Bank normally enters into such transactions is considered to be the principal market.

As at March 31, 2019, USD5.32 million of the total carrying amount is maturing within 12 months from the reporting date (Dec. 31, 2018: USD1.88 million).

The following table sets out overall information about the credit quality of loan investments and loan commitments issued for effective contracts as at March 31, 2019. The gross amounts of loans include the transaction costs and fees that are capitalized through the effective interest method, or EIR method.

	March 31, 2019	**Dec. 31, 2018**
Loan investments, gross carrying amount	1,576,714	1,381,382
Loan commitments	3,384,770	3,328,105
	4,961,484	4,709,487
Total ECL allowance (a)	(51,687)	(48,973)
	4,909,797	4,660,514

C Disclosure Notes

C7 Loan investments, loan commitments and related ECL allowance (Continued)

During the three months ended March 31, 2019, new loan investments and loan commitments with amount of USD248 million (including sovereign-backed loans rating ranged from 3 to 10) became effective and were included in the assessment of ECL at March 31, 2019.

(a) As at March 31, 2019, the total ECL related to loan commitments was USD34.68 million (Dec. 31, 2018: USD32.78 million), presented as a provision in Note C10.

C8 Paid-in capital receivables

According to the AOA, payments for paid-in capital (refer to Note C11) are due in five installments, with the exception of members designated as less developed countries, who may pay in ten installments. Paid-in capital receivables represent amounts due from members in respect of paid-in capital. These amounts are initially recognized at fair value and subsequently measured at amortized costs. The fair value discount is accreted through income using the effective interest method. For the three months ended March 31, 2019, a total discount of USD0.65 million (for the three months ended March 31, 2018: USD10.21 million) was debited to the Reserve (Note C13). An amount of USD15.04 million (for the three months ended March 31, 2018: USD25.67 million) has been accreted through income in the current period.

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

C Disclosure Notes

C8 Paid-in capital receivables (Continued)

Members	Paid-in capital receivables at amortized cost as at March 31, 2019	Dec. 31, 2018
Afghanistan	13,542	13,496
Australia	146,121	145,618
Austria	19,834	19,765
Azerbaijan	10,080	10,053
Bahrain	15,697	15,587
Bangladesh	75,385	75,093
Belarus	9,631	-
Brunei Darussalam	2,078	2,071
Cambodia	7,149	7,122
Canada	113,280	152,082
China	1,179,370	1,175,447
Cyprus	3,048	3,027
Denmark	14,658	14,618
Egypt	25,768	25,684
Ethiopia	5,413	5,390
Fiji	1,446	1,439
Finland	12,303	24,671
France	133,871	133,491
Georgia	2,139	2,131
Germany	177,514	176,903
Hong Kong, China	89,958	89,592
Hungary	11,760	11,712
Iceland	694	692
India	331,620	330,600
Indonesia	133,256	132,871
Iran	125,640	125,392
Ireland	15,320	15,249
Israel	29,753	29,671
Italy	101,988	101,693
Jordan	4,711	4,695
Kazakhstan	30,708	58,010
Korea	148,001	147,492
Kyrgyz Republic	3,100	3,089
Lao PDR	4,910	4,891
Luxembourg	2,750	5,517

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

C Disclosure Notes

C8 Paid-in capital receivables (Continued)

Members	Paid-in capital receivables at amortized cost as at March 31, 2019	Dec. 31, 2018
Madagascar	762	757
Malaysia	4,324	4,306
Maldives	791	788
Malta	535	533
Mongolia	1,624	1,618
Myanmar	29,914	29,777
Nepal	9,228	10,809
Netherlands	40,835	40,695
New Zealand	18,270	18,207
Norway	21,793	43,713
Oman	10,264	10,232
Pakistan	50,475	82,106
Philippines	38,748	38,611
Poland	33,000	32,908
Portugal	2,569	2,555
Qatar	23,989	23,926
Romania	23,095	22,945
Russia	258,819	257,659
Samoa	307	305
Saudi Arabia	101,030	100,781
Singapore	9,897	9,863
Spain	69,414	68,952
Sri Lanka	10,658	10,624
Sudan	8,815	8,750
Sweden	24,961	50,055
Switzerland	27,997	56,141
Tajikistan	3,540	4,146
Thailand	56,576	56,403
Timor-Leste	1,858	1,848
Turkey	103,539	103,254
United Arab Emirates	47,029	46,899
United Kingdom	120,927	120,508
Uzbekistan	8,713	8,685
Vanuatu	-	-
Vietnam	26,326	52,771
Total paid-in capital receivables	**4,193,118**	**4,386,984**

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

C Disclosure Notes

C8 Paid-in capital receivables (Continued)

As at March 31, 2019, the contractual undiscounted paid-in capital receivables overdue amounting to USD78.02 million (Dec. 31, 2018: USD256.69 million) (Note C11) are not considered as impaired. Of this amount, USD11.15 million was collected by the date of signing of the financial statements for the three months ended March 31, 2019.

As at March 31, 2019, USD3,866 million (Dec. 31, 2018: USD4,029 million) of the above balance is due within 12 months from the reporting date.

C9 Other assets

	March 31, 2019	Dec. 31, 2018
Prepayments	2,717	766
Property improvements	224	341
Computer hardware	140	160
Others	245	409
Total other assets	**3,326**	**1,676**

C10 Other liabilities

	March 31, 2019	Dec. 31, 2018
Provision – ECL allowance (Note C7)	34,678	32,778
Accrued expenses	13,048	12,847
Staff costs payable	1,067	948
Deferred administration fee (Note C15)	773	690
Others	46	28
Total other liabilities	**49,612**	47,291

C11 Share capital

	March 31, 2019	Dec. 31, 2018
Authorized capital	100,000,000	100,000,000
– Allocated		
- Subscribed	96,403,800	96,339,700
- Unsubscribed	2,102,200	2,166,300
– Unallocated	1,494,000	1,494,000
Total authorized capital	100,000,000	100,000,000

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

C Disclosure Notes

C11 Share capital (Continued)

	March 31, 2019	Dec. 31, 2018
Subscribed capital	96,403,800	96,339,700
Less: callable capital	(77,123,000)	(77,071,700)
Paid-in capital	19,280,800	19,268,000
Paid-in capital comprises:		
– amounts received	15,031,591	14,810,535
– amounts due but not yet received	78,019	256,695
– amounts not yet due	4,171,190	4,200,770
Total paid-in capital	**19,280,800**	**19,268,000**

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	590,560	147,640
Austria	5,008	500,800	400,600	100,200	80,160	20,040
Azerbaijan	2,541	254,100	203,300	50,800	40,640	10,160
Bahrain	1,036	103,600	82,900	20,700	4,140	16,560
Bangladesh	6,605	660,500	528,400	132,100	52,840	79,260
Belarus	641	64,100	51,300	12,800	2,560	10,240
Brunei Darussalam	524	52,400	41,900	10,500	8,400	2,100

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

C11 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	5,000	7,500
Canada	9,954	995,400	796,300	199,100	79,640	119,460
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	104,080	26,020
Ethiopia	458	45,800	36,600	9,200	3,680	5,520
Fiji	125	12,500	10,000	2,500	1,000	1,500
Finland	3,103	310,300	248,200	62,100	49,680	12,420
France	33,756	3,375,600	2,700,500	675,100	540,080	135,020
Georgia	539	53,900	43,100	10,800	8,640	2,160
Germany	44,842	4,484,200	3,587,400	896,800	717,440	179,360
Hong Kong, China	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	2,800	700
India	83,673	8,367,300	6,693,800	1,673,500	1,338,800	334,700
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	10,520	15,780
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	19,040	4,760
Kazakhstan	7,293	729,300	583,400	145,900	114,948	30,952
Korea	37,387	3,738,700	2,991,000	747,700	598,160	149,540
Kyrgyz Republic	268	26,800	21,400	5,400	2,160	3,240
Lao PDR	430	43,000	34,400	8,600	3,440	5,160
Luxembourg	697	69,700	55,800	13,900	11,120	2,780
Madagascar	50	5,000	4,000	1,000	200	800
Malaysia	1,095	109,500	87,600	21,900	17,520	4,380
Maldives	72	7,200	5,800	1,400	560	840
Malta	136	13,600	10,900	2,700	2,160	540
Mongolia	411	41,100	32,900	8,200	6,560	1,640
Myanmar	2,645	264,500	211,600	52,900	21,160	31,740
Nepal	809	80,900	64,700	16,200	6,480	9,720
Netherlands	10,313	1,031,300	825,000	206,300	165,040	41,260
New Zealand	4,615	461,500	369,200	92,300	73,840	18,460
Norway	5,506	550,600	440,500	110,100	88,080	22,020
Oman	2,592	259,200	207,400	51,800	41,440	10,360
Pakistan	10,341	1,034,100	827,300	206,800	155,888	50,912
Philippines	9,791	979,100	783,300	195,800	156,640	39,160
Poland	8,318	831,800	665,400	166,400	133,120	33,280

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

C Disclosure Notes

C11 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	10,400	2,600
Qatar	6,044	604,400	483,500	120,900	96,720	24,180
Romania	1,530	153,000	122,400	30,600	6,120	24,480
Russia	65,362	6,536,200	5,229,000	1,307,200	1,045,760	261,440
Samoa	21	2,100	1,700	400	80	320
Saudi Arabia	25,446	2,544,600	2,035,700	508,900	407,120	101,780
Singapore	2,500	250,000	200,000	50,000	40,000	10,000
Spain	17,615	1,761,500	1,409,200	352,300	281,840	70,460
Sri Lanka	2,690	269,000	215,200	53,800	43,040	10,760
Sudan	590	59,000	47,200	11,800	2,450	9,350
Sweden	6,300	630,000	504,000	126,000	100,800	25,200
Switzerland	7,064	706,400	565,100	141,300	113,040	28,260
Tajikistan	309	30,900	24,700	6,200	2,480	3,720
Thailand	14,275	1,427,500	1,142,000	285,500	228,400	57,100
Timor-Leste	160	16,000	12,800	3,200	1,280	1,920
Turkey	26,099	2,609,900	2,087,900	522,000	417,600	104,400
United Arab Emirates	11,857	1,185,700	948,600	237,100	189,680	47,420
United Kingdom	30,547	3,054,700	2,443,800	610,900	488,720	122,180
Uzbekistan	2,198	219,800	175,800	44,000	35,200	8,800
Vanuatu	5	500	400	100	100	-
Vietnam	6,633	663,300	530,600	132,700	106,160	26,540
Total	**964,038**	**96,403,800**	**77,123,000**	**19,280,800**	**15,031,591**	**4,249,209**

C12 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 three months ended March 31, 2019.

C13 Distribution

Retained earnings as at March 31, 2019 were USD402.66 million (Dec. 31, 2018: USD314.90 million). As at March 31, 2019, USD15.04 million (for the three months ended March 31, 2018: USD25.67 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

C14 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 March 31, 2019, the Special Fund had aggregate contributions received amounting to USD103 million (Dec. 31, 2018: USD93 million). The Bank, acting as administrator of the Special Fund, receives administration fees. For the three months ended March 31, 2019, fees recognized as income amounted to USD0.017 million (for the three months ended March 31, 2018: USD0.017 million) (Note C2).

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

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

C Disclosure Notes

C15 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:

	March 31, 2019		**Dec. 31, 2018**	
	Key management personnel	Other related parties	Key management personnel	Other related parties
Loan investments	-	47,893	-	47,007
Staff loan	12	-	24	-
Other liabilities (Note C10)	-	773	-	690

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

	For the three months ended March 31, 2019		**For the three months ended March 31, 2018**	
	Key management personnel	Other related parties	Key management personnel	Other related parties
Income from loan investments	-	906	-	74
Income from Special Fund	-	17	-	17
Expense	-	-	-	-

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 as of March 31, 2019, the President, Vice Presidents, the General Counsel and the Chief Risk Officer.

C Disclosure Notes

C15 Related party transactions (Continued)

Key management personnel (Continued)

During the three months ended March 31, 2019 and the year ended Dec. 31, 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 USD0.92 million (for the three months ended March 31, 2018: USD0.84 million) and defined contribution plans of USD0.17 million (for the three months ended March 31, 2018: USD0.14 million).

Loan Investments

As at March 31, 2019, the Bank has approved a USD250 million term loan facility to a nonsovereign borrower that is ultimately controlled by a state-owned enterprise of China. The Bank entered into the agreement with the borrower in the ordinary course of business under normal commercial terms and at market rates. This loan facility has been guaranteed by a commercial bank.

Other liabilities relates to the Special Fund administration fee (Note C14).

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.

C16 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, compliance 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

Consistent with its Risk Limits Policy, the Bank has established its Risk Appetite Statement (the "RAS") in line with its risk management objectives and strategies, and its Risk Management Framework (the "RMF"). Within this RMF, the Risk Management Department is responsible for monitoring financial risks with the oversight of the Risk Committee.

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

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 proposed project prepared by Investment Operation staff in compliance 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 delegates the authority to approve all projects of the Bank to the President, unless such projects fall within the exceptions set out in the Regulation on the Accountability Framework.

Responsibilities of various departments throughout the project lifecycle 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 cash and deposits with banks, and MMFs.

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

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.

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

D Financial Risk Management

D3 Credit risk (Continued)

Credit risk management (Continued)

(i) Credit risk in the investment operations portfolio

- Sovereign-backed loans

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

AIIB's Internal Rating	S&P Rating
1	A or better
2	A-
3	BBB+
4	BBB & BBB-
5	BB+
6	BB
7	BB-
8	B+
9	B
10	B-
11	CCC+ or worse
12	Default

As at March 31, 2019 and Dec. 31, 2018, the rating of sovereign-backed loans ranged from 3 to 10 and the related range of annualized probability of default ("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 March 31, 2019, the rating of nonsovereign-backed loans ranged from 1 to 9 and the related annualized PD was 0.03%-4.58%.

- LP Fund investment

As at March 31, 2019, the investment operations portfolio includes a LP Fund investment described in Note C6. The LP Fund investment is measured at fair value through profit or loss. The fair value related information is described in Note E.

(ii) Credit risk in the treasury portfolio

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

As at March 31, 2019, the treasury portfolio includes cash and deposits with banks and MMFs. The credit risk of the treasury portfolio is mainly from the term deposits and MMFs. Given the high credit quality, no significant loss provisions were made for the investments in the treasury portfolio for the three months ended March 31, 2019.

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

D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis

Except for loan investments, other financial assets are paid-in capital receivables, deposits with banks and MMFs, 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.

	March 31, 2019		Dec. 31, 2018	
	Loans and loan commitments	ECL	Loans and loan commitments	ECL
Sovereign-backed loans	4,374,986	(49,253)	4,123,810	(46,375)
Nonsovereign-backed loans	586,498	(2,434)	585,677	(2,598)
Total	**4,961,484**	**(51,687)**	**4,709,487**	**(48,973)**

(i) Concentration of credit risk

The geographical distribution of the Bank's loan investments (gross carrying amount of loans and exposure of loan commitments) is as follows:

	March 31, 2019			Dec. 31, 2018		
Region [1]	**Stage 1**	**Stage 2**	**Total**	**Stage 1**	**Stage 2**	**Total**
Sovereign-backed loans						
Central Asia	87,768	-	87,768	87,692	-	87,692
Eastern Asia	-	-	-	-	-	-
South-eastern Asia	1,147,356	-	1,147,356	899,853	-	899,853
Southern Asia	954,530	400,290	1,354,820	956,798	400,600	1,357,398
Western Asia	920,955	864,087	1,785,042	914,711	864,156	1,778,867
Asia	3,110,609	1,264,377	4,374,986	2,859,054	1,264,756	4,123,810
Non-Asia	-	-	-	-	-	-
Subtotal	**3,110,609**	**1,264,377**	**4,374,986**	**2,859,054**	**1,264,756**	**4,123,810**

[1] Regional distribution aligns with the definition of geographic regions used by the United Nations Statistics Division.

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

D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

	March 31, 2019			Dec. 31, 2018		
Region	**Stage 1**	**Stage 2**	**Total**	**Stage 1**	**Stage 2**	**Total**
Nonsovereign-backed loans						
Central Asia	-	-	-	-	-	-
Eastern Asia	247,893	-	247,893	247,007	-	247,007
South-eastern Asia	19,739	-	19,739	19,461	-	19,461
Southern Asia	48,493	-	48,493	48,643	-	48,643
Western Asia	124,087	-	124,087	124,063	-	124,063
Asia	440,212	-	440,212	439,174	-	439,174
Non-Asia	146,286	-	146,286	146,503	-	146,503
Subtotal	**586,498**	**-**	**586,498**	**585,677**	**-**	**585,677**
Total	**3,697,107**	**1,264,377**	**4,961,484**	**3,444,731**	**1,264,756**	**4,709,487**

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.

	March 31, 2019			Dec. 31, 2018		
Internal credit rating	**Stage 1**	**Stage 2**	**Total**	**Stage 1**	**Stage 2**	**Total**
Sovereign-backed loans						
Investment grade	1,876,524	-	1,876,524	1,630,685	-	1,630,685
Noninvestment grade (a)	1,234,085	1,264,377	2,498,462	1,228,369	1,264,756	2,493,125
Subtotal	**3,110,609**	**1,264,377**	**4,374,986**	**2,859,054**	**1,264,756**	**4,123,810**
Nonsovereign-backed loans						
Investment grade	247,893	-	247,893	247,007	-	247,007
Noninvestment grade (b)	338,605	-	338,605	338,670	-	338,670
Subtotal	**586,498**	**-**	**586,498**	**585,677**	**-**	**585,677**
Total	**3,697,107**	**1,264,377**	**4,961,484**	**3,444,731**	**1,264,756**	**4,709,487**

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

D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

(a) For the noninvestment grade sovereign-backed loan exposures as at March 31, 2019, balances of USD2,010 million have internal ratings ranging from 5 to 7 (Dec. 31, 2018: USD2,005 million), and balances of USD488 million have internal ratings ranging from 8 to 12 (Dec. 31, 2018: USD488 million).

(b) For the noninvestment grade nonsovereign-backed loan exposures as at March 31, 2019, balances of USD173 million have internal ratings ranging from 5 to 7 (Dec. 31, 2018: USD173 million), and balances of USD166 million have internal ratings ranging from 8 to 12 (Dec. 31, 2018: USD166 million).

(ii) Credit enhancement

As at March 31 2019, 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 March 31, 2019 is USD3,385 million (Dec. 31, 2018: USD3,328 million).

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

	March 31, 2019	Dec. 31, 2018
Guaranteed by sovereign members	2,018,774	1,764,711
Guaranteed by nonsovereign entities	267,632	266,469
Unguaranteed (a)	2,675,078	2,678,307
Total	**4,961,484**	**4,709,487**

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

The Bank mitigates the counterparty credit risk from its investments through the credit approval process, the use of collateral agreements, and risk limits. As at March 31, 2019, the Bank holds project assets and certain securities as collateral for certain nonsovereign-backed loans. There was no other credit enhancement held as at March 31, 2019 and Dec. 31, 2018.

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

D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

(iii) Reconciliation of loan gross carrying amount of loans and exposure of loan commitments 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, 2019	2,859,054	1,264,756	4,123,810
New loans and commitments originated	248,400	-	248,400
Movement in net transaction costs, fees, and related income through EIR method	3,155	(379)	2,776
Transfer to stage 1	-	-	-
Transfer to stage 2	-	-	-
As at March 31, 2019	**3,110,609**	**1,264,377**	**4,374,986**

	Stage 1	Stage 2	Total
ECL allowance as at Jan. 1, 2019	2,007	44,368	46,375
Additions	5	-	5
Change in risk parameters (1)	(481)	3,354	2,873
Change from lifetime (stage 2) to 12-month (stage 1) ECL	-	-	-
Change from 12-month (stage 1) to lifetime (stage 2) ECL	-	-	-
As at March 31, 2019	**1,531**	**47,722**	**49,253**

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

D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

Nonsovereign-backed loans

	Stage 1	Stage 2	Total
Gross carrying amount of loans and exposure of loan commitments as at Jan. 1, 2019	585,677	-	585,677
New loans and commitments originated	-	-	-
Movement in net transaction costs, fees, and related income through EIR method	821	-	821
As at March 31, 2019	**586,498**	**-**	**586,498**

	Stage 1	Stage 2	Total
ECL allowance as at Jan. 1, 2019	2,598	-	2,598
Additions	-	-	-
Change in risk parameters (1)	(164)	-	(164)
As at March 31, 2019	**2,434**	**-**	**2,434**

	Stage 1	Stage 2	Total
Total gross carrying amount of loans and exposure of loan commitments as at March 31, 2019	**3,697,107**	**1,264,377**	**4,961,484**
Total ECL allowance as at March 31, 2019	**3,965**	**47,722**	**51,687**

(1) The change in the loss allowance is due to change in the PD and exposure at default (EAD) 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 methodology. The methodology used to rate these individual loans depends on the type of loan. For sovereign loans, an internal credit rating methodology is used. The methodology uses the same factors considered by the major international credit rating agencies ("ICRA"s) such as S&P, Moody's and Fitch. If the sovereign borrower is not rated by any of the three ICRAs, 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 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.

- Overlays

Temporary adjustments ("overlays") could be employed to the staging output from the ECL model, albeit only in very limited case. The ultimate motivation is to allow AIIB to use experienced credit judgement essential to ECL assessment, especially in the robust consideration of reasonable and supportable forward-looking information that drives the credit risk of an instrument. Overlays should only be used for cases where a forward-looking factor that has been identified as relevant is not yet incorporated into the assessment. Any overlay adjustment shall be reviewed and approved by the Risk Committee.

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 (v)) 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)

4. The above calculation is performed for three different scenarios. The weights (w_s) of the 3 scenarios are 46.6%, 26.7%, and 26.7% respectively for the Baseline, Good and Bad scenarios. The estimation of the weights is based on joint likelihood that the forecasted macroeconomic variables used fall within the range of each scenario.

   The management has adopted an improved approach of assigning scenario weightings since Jan. 1, 2019. As at Dec. 31, 2018, the weights of the 3 scenarios are 50%, 25%, and 25% respectively for Baseline, Good and Bad scenarios. The impact of changing weights is not material to ECL as at March 31, 2019.

- Estimation of lifetime ECL

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

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

  1) ECL_t is the ECL calculated for each year t until its final maturity n using the formula: $ECL_t = \sum_{s=baseline,good,bad} w_s \times PIT\ PD_t \times LGD_t \times EAD_t)$, where w_s is the weight of each scenario – 46.6%% for Baseline, 26.7% for both Good and Bad scenarios.
  2) PIT PD (conditioned)

     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.
  3) LGD is the same as 12-month ECL calculation.
  4) EAD for any given year t is based on loan balance at the previous period t-1 plus the disbursement at the current period and minus the repayment at the current period.
  5) Lifetime is equal to contractual remaining lifetime.
  6) Discount rate is equal to calculated effective interest rate, which is based on USD LIBOR swap curve plus the contracted spread of each loan.

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.

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

D Financial Risk Management

D4 Market risk (Continued)

Currency risk

The Bank currently offers loans only in US Dollars. This will continue to be the case until the Bank is prepared to hedge nondollar lending through swaps or other hedging mechanisms. As at March 31, 2019, the currency risk is not material for the Bank. A currency table for the main financial assets is set out below:

As at March 31, 2019	USD	Other currencies USD equivalent	Total
Financial assets			
Cash and cash equivalents	3,374,048	5,584	3,379,632
Term deposits	10,494,939	-	10,494,939
Investments at fair value through profit or loss	33,573	1,591	35,164
Funds deposited for cofinancing arrangements	10,322	-	10,322
Loan investments, at amortized cost	1,559,705	-	1,559,705
Paid-in capital receivables	4,193,118	-	4,193,118
	19,665,705	**7,175**	**19,672,880**

As at Dec. 31, 2018	USD	Other currencies USD equivalent	Total
Financial assets			
Cash and cash equivalents	2,246,730	6,011	2,252,741
Term deposits	8,223,299	-	8,223,299
Investments at fair value through profit or loss	3,324,988	496	3,325,484
Funds deposited for cofinancing arrangements	5,992	-	5,992
Loan investments, at amortized cost	1,365,187	-	1,365,187
Paid-in capital receivables	4,386,984	-	4,386,984
	19,553,180	**6,507**	**19,559,687**

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 March 31, 2019, the Bank does not have any significant financial liabilities.

D6 Operational risk

The Bank defines Operational Risk as the risk of loss, or detriment, resulting from inadequate or failed processes or systems, through human error, or from the occurrence of external events. The Bank's definition of Operational Risk is consistent with the Basel Committee Banking Industry Standards but has been extended to include Reputational Risk. 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.

D7 Capital management

The Bank collectively manages the paid-in capital plus reserves and retained earnings as available capital. To ensure that the Bank has the highest possible credit rating 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 on commitment basis 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 and treasury operations (as well as its operational risks) for both the actual and the three-year projected balance sheet, and under both base-case and stressed scenario bases.

D Financial Risk Management

D7 Capital management

Disclosure for Fund and Other Equity Investments

The Bank's investments in Limited Partnership funds and other fund investments that are with limited lives are classified as FVPL. They are classified as debt or equity instruments in the financial statements under the requirement of IFRS 9. Refer to Note C6 for details of those investments.

From the Bank's risk management perspective, the Bank treats the fund investments in its banking portfolio, such as LP funds and other fund investments as described above, with equity nature of participation in the same way as equity investments when they have both following features:

(1) The investments entitle the Bank to the funds' distribution according to the pre-determined arrangements during their lives and upon liquidation; Such distribution arrangements are set in the Limited Partnership Agreement or Contribution Agreement (or any similar agreement);
(2) The funds do not promise a particular return to the holders. The ultimate amount of distributions depends on the performance of the underlying portfolio.

As at March 31, 2019, such investments in Limited Partnership funds and other fund investments, amounting to USD33.57 million and USD1.59 million respectively, are therefore managed as equity-like investments for capital risk management and risk monitoring purposes.

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 three months ended March 31, 2019.

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.

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

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 instruments not measured in the Statement of Financial Position at their fair value:

	March 31, 2019		Dec. 31, 2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial instruments				
Term deposits	10,494,939	10,496,617	8,223,299	8,221,432
Loan investments, at amortized cost	1,559,705	1,571,717	1,365,187	1,379,138
Paid-in capital receivables	4,193,118	4,156,359	4,386,984	4,341,828

As at March 31, 2019, other than those disclosed above, the Bank's balances of financial instruments not measured at fair value but with short-term maturity approximate their fair values.

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

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

E Fair Value Disclosures

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

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 March 31, 2019

	Level 1	Level 2	Level 3	Total
Investments at fair value through profit or loss				
- LP Fund	-	-	33,573	33,573
- Others	-	-	1,591	1,591
Money Market Funds	-	3,206,404	-	3,206,404
Total	**-**	**3,206,404**	**35,164**	**3,241,568**

As at Dec. 31, 2018

	Level 1	Level 2	Level 3	Total
Investments at fair value through profit or loss				
- Trust Fund	-	3,292,628	-	3,292,628
- LP Fund	-	-	32,360	32,360
- Others	-	-	496	496
Money Market Funds	-	1,473,408	-	1,473,408
Total	**-**	**4,766,036**	**32,856**	**4,798,892**

The Trust Fund's notionally allocated share in the Pool and the MMFs' shares are not traded in any market. The fair value of the Trust Fund and the MMFs is derived from that of the notionally allocated assets, or net assets value, respectively. 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 year ended Dec. 31, 2018: same).