

**AIIB Project Preparation Special Fund**

**Auditor's Report and Financial Statements  
for the Year Ended Dec. 31, 2019**



## 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 "Special Fund") set out on pages 1 to 13, which comprise:

- the statement of comprehensive income for the year ended December 31, 2019;
- the statement of financial position as at December 31, 2019;
- the statement of changes in contributors' resources for the year ended December 31, 2019;
- the statement of cash flows for the year ended December 31, 2019; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### *Our opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Special Fund as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We are independent of the Special Fund in accordance with the International 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 Special Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Special Fund or to cease operations, or has no realistic alternative but to do so.

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Special Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Special Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Special Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads "PricewaterhouseCoopers" in a cursive script.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, China, April 3, 2020

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**AIB Project Preparation Special Fund  
Statement of Comprehensive Income  
For the year ended Dec. 31, 2019**

<i>In thousands of US Dollars</i>	<b>Note</b>	<b>For the year ended Dec. 31, 2019</b>	<b>For the year ended Dec. 31, 2018</b>
Interest income	C3	2,512	1,544
Disbursements	C1	(1,657)	(223)
General and administrative expenses	C2	(101)	(99)
<b>Net profit and total comprehensive income for the year</b>		<b>754</b>	<b>1,222</b>
<b>Attributable to:</b>			
Contributors		<b>754</b>	<b>1,222</b>


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

**AIIB Project Preparation Special Fund  
Statement of Financial Position  
As at Dec. 31, 2019**

<i>In thousands of US Dollars</i>	<b>Note</b>	<b>Dec. 31, 2019</b>	<b>Dec. 31, 2018</b>
<b>Assets</b>			
Cash and cash equivalents	C3	41,725	93,820
Term deposits	C3	75,196	-
Other assets	C7	845	690
<b>Total assets</b>		<b>117,766</b>	<b>94,510</b>
<b>Liabilities</b>			
Other liabilities	C4	31	29
<b>Total liabilities</b>		<b>31</b>	<b>29</b>
<b>Contributors' resources</b>			
Contributions	C5	115,500	93,000
Accumulated gains		2,235	1,481
<b>Total contributors' resources</b>		<b>117,735</b>	<b>94,481</b>
<b>Total liabilities and contributors' resources</b>		<b>117,766</b>	<b>94,510</b>

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

  
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 Mr. Jin Lidan  
 President of the Bank

  
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 Mr. Andrew Cross  
 Chief Financial Officer of the Bank

  
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 Ms. Hui Fong Lee  
 Controller of the Bank

**AIB Project Preparation Special Fund  
Statement of Changes in Contributors' Resources  
For the year ended Dec. 31, 2019**

<i>In thousands of US Dollars</i>	Note	Contributions	Accumulated gains	Total
<b>Jan. 1, 2018</b>		<b>38,000</b>	<b>259</b>	<b>38,259</b>
Contributions	C5	55,000	-	55,000
Net profit for the year		-	1,222	1,222
<b>Dec. 31, 2018</b>		<b>93,000</b>	<b>1,481</b>	<b>94,481</b>
<b>Jan. 1, 2019</b>		<b>93,000</b>	<b>1,481</b>	<b>94,481</b>
Contributions	C5	22,500	-	22,500
Net profit for the year		-	754	754
<b>Dec. 31, 2019</b>		<b>115,500</b>	<b>2,235</b>	<b>117,735</b>

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



**AIIB Project Preparation Special Fund**  
**Statement of Cash Flows**  
**For the year ended Dec. 31, 2019**

<i>In thousands of US Dollars</i>	<b>Note</b>	<b>For the year ended Dec. 31 2019</b>	<b>For the year ended Dec. 31, 2018</b>
<b>Cash flows from operating activities</b>			
Net profit for the year		754	1,222
Adjustments for:			
Interest income from term deposits		(196)	-
Increase in other assets		(155)	(480)
Increase in other liabilities		2	3
<b>Net cash from operating activities</b>		<b>405</b>	<b>745</b>
<b>Cash flows from investing activities</b>			
Increase in term deposits		(75,000)	-
<b>Net cash used in investing activities</b>		<b>(75,000)</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Contributions received	C5	22,500	55,000
<b>Net cash from financing activities</b>		<b>22,500</b>	<b>55,000</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(52,095)</b>	<b>55,745</b>
Cash and cash equivalents at the beginning of the year		93,820	38,075
<b>Cash and cash equivalents at the end of the year</b>		<b>41,725</b>	<b>93,820</b>

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, 2019**  
*(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 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 the Special Fund and the Contribution Agreements.

The following table sets out the total commitments and paid contributions as at Dec. 31, 2019.

<b>Contributors</b>	<b>Commitments</b>	<b>Paid Contributions</b>
People’s Republic of China	50,000	50,000
United Kingdom of Great Britain and Northern Ireland	50,000	37,500
Republic of Korea	18,000	18,000
Hong Kong, China	10,000	10,000
<b>Total</b>	<b>128,000</b>	<b>115,500</b>

These financial statements were signed by the President, the Chief Financial Officer, and the Controller of the Bank on April 3, 2020.

**B Accounting Policies**

**B1 Basis of preparation**

These financial statements for the Special Fund have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). According to the By-Laws of the AIIB, the financial year of the Bank begins on Jan. 1 and ends on Dec. 31 of each year. The Special Fund follows the same financial year end as the Bank.

The Special Fund follows the Bank’s accounting policies and has adopted all of the IFRS standards and interpretations effective for annual periods beginning on Jan. 1, 2019. In addition, the Special Fund has adopted IFRS 16 *Leases* (mandatorily effective on Jan. 1, 2019) from the commencement of operations.

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

**AIIB Project Preparation Special Fund**  
**Notes to the Financial Statements**  
**For the year ended Dec. 31, 2019**  
*(All amounts in thousands of US Dollars unless otherwise stated)*

**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 AIIB administration fee. The financial statements have been prepared on a going concern basis.

**B2 New accounting pronouncements**

The new accounting pronouncements, amendments and interpretations issued in 2019 do not have any significant impact on the operating results, financial position and comprehensive income of the Special Fund.

**B3 Summary of significant accounting policies**

**B3.1 Functional currency and foreign currency transactions**

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

There have been no foreign currency transactions for the year ended Dec. 31, 2019.

**B3.2 Financial instruments**

**B3.2.1 Financial assets**

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

- (a) Amortized cost,
- (b) Fair value through other comprehensive income (FVOCI), or
- (c) Fair value through profit or loss (FVPL).

The basis of classification depends on the relevant business model and the contractual cash flow characteristics of the underlying financial asset.

**(a) Classification of financial assets at amortized cost**

The Special Fund classifies its financial assets at amortized cost only if both of the following criteria are met:

- (i) The financial asset is held within a business model having the objective of collecting the contractual cash flows, and
- (ii) The contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

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

**B Accounting Policies**

**B3.2 Financial instruments (Continued)**

**B3.2.1 Financial assets (Continued)**

**(b) Classification of financial assets at FVOCI**

Financial assets at FVOCI comprise:

- (i) Financial assets having contractual cash flows which reflect solely payments of principal and interest on outstanding principal, and for which the objective of the related business model is achieved both by collecting contractual cash flows and selling financial assets, and
- (ii) Investments in equity instruments which are neither held for trading nor contingent consideration, and for which the Special Fund has made an irrevocable election at initial recognition to recognize changes in fair value through other comprehensive income (OCI) rather than profit or loss.

For (i) above, interest is calculated using the effective interest method and recognized in profit or loss. Except for gains or losses from impairment and foreign exchange, the financial asset is measured at FVOCI. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified to profit or loss.

For (ii) above, the accumulated fair value changes in OCI will not be reclassified to profit or loss in the future. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

**(c) Classification of financial assets at FVPL**

The Special Fund classifies the following financial assets at FVPL:

- (i) Financial assets that do not qualify for measurement at either amortized cost or FVOCI,
- (ii) Financial assets that are designated at initial recognition as FVPL irrevocably, when such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise,
- (iii) Investment in equity instruments that are held for trading, and
- (iv) Investment in equity instruments for which the Special Fund has not elected to recognize fair value gains or losses through OCI.

**B3.2.2 Financial liabilities**

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

**AIIB Project Preparation Special Fund**  
**Notes to the Financial Statements**  
**For the year ended Dec. 31, 2019**  
*(All amounts in thousands of US Dollars unless otherwise stated)*

**B Accounting Policies**

**B3.2 Financial Instruments (Continued)**

**B3.2.3 Contributors' resources**

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

**B3.2.4 Recognition and derecognition**

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

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

At initial recognition, the Special Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability.

Before evaluating whether, and to what extent, derecognition is appropriate, the Special Fund determines whether the derecognition analysis should be applied to a part of a financial asset or a financial asset in its entirety. The Special Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Special Fund neither transfers nor retains substantially all the risks and rewards of ownership and has not retained control of the transferred financial asset, the Special Fund derecognizes the financial asset and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer.

**B3.2.5 Impairment of financial instruments**

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

**B3.2.6 Determination of fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

**B Accounting Policies**

**B3.2.6 Determination of fair value (Continued)**

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

**B3.3 Cash and cash equivalents**

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

**B3.4 Interest income**

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

**B3.5 Administration fees and expenses**

In accordance with the provisions of Section 4.05 of the Rules and Regulations of the Special Fund, the Bank shall receive an administration fee equal to one percent of the amount of contributions. A proportionate amount of such administration fee shall be debited from each installment of the contribution paid in by the contributors and credited to the Bank's ordinary resources.

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

**B3.6 Current and noncurrent presentation**

All assets and liabilities in the Statement of Financial Position are classified as current as at Dec. 31, 2019.

**AIIB Project Preparation Special Fund**  
**Notes to the Financial Statements**  
**For the year ended Dec. 31, 2019**  
*(All amounts in thousands of US Dollars unless otherwise stated)*

**C Disclosure Notes**

**C1 Disbursements**

	<b>Commitments approved</b>	<b>Disbursements</b>	<b>Undrawn commitments</b>
<b>Total projects</b>			
At Dec. 31, 2017	1,700	-	1,700
Movement in the year 2018 <sup>(1)</sup>	4,841	223	4,618
At Dec. 31, 2018	6,541	223	6,318
Movement in the year 2019	4,134	1,657	2,477
<b>At Dec. 31, 2019</b>	<b>10,675</b>	<b>1,880</b>	<b>8,795</b>

<sup>(1)</sup> Approved commitments amount in the year of 2018 is net off the discontinued "Solid Waste Management Project, Sri Lanka".

**C2 General and administrative expenses**

	<b>Year ended Dec. 31, 2019</b>	<b>Year ended Dec. 31, 2018</b>
AIIB administration fee (Note C7)	70	70
Annual audit fee	31	29
<b>Total general and administrative expenses</b>	<b>101</b>	<b>99</b>

**C3 Cash, cash equivalents, and deposits with banks**

	<b>Dec. 31, 2019</b>	<b>Dec. 31, 2018</b>
Cash	-	-
Deposits with banks		
- Demand deposits	5,629	326
- Term deposits with initial maturity of less than three months	36,096	93,494
<b>Total cash and cash equivalents</b>	<b>41,725</b>	<b>93,820</b>
Add: term deposits with initial maturity more than three months <sup>(1)</sup>	75,196	-
<b>Total cash, cash equivalents, and deposits with banks</b>	<b>116,921</b>	<b>93,820</b>

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

<sup>(1)</sup> Term deposits with initial maturity more than three months have maturities up to 12 months.

**C4 Other liabilities**

	<b>Dec. 31, 2019</b>	<b>Dec. 31, 2018</b>
Auditor's fee payable	31	29
<b>Total other liabilities</b>	<b>31</b>	<b>29</b>

**AIIB Project Preparation Special Fund**  
**Notes to the Financial Statements**  
**For the year ended Dec. 31, 2019**  
*(All amounts in thousands of US Dollars unless otherwise stated)*

**C Disclosure Notes**

**C5 Contributions**

	Year ended Dec. 31, 2019	Year ended Dec. 31, 2018
<b>As at Jan. 1, 2019/2018</b>	<b>93,000</b>	<b>38,000</b>
Contributions received from:		
People's Republic of China	-	20,000
Republic of Korea	-	10,000
United Kingdom of Great Britain and Northern Ireland	12,500	25,000
Hong Kong, China	10,000	-
<b>As at Dec. 31, 2019/2018</b>	<b>115,500</b>	<b>93,000</b>

**C6 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.

**C7 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 USD0.07 million (2018: USD0.07 million) has been charged for the current year. The administration fee paid but not yet charged to the Statement of Comprehensive Income as at Dec. 31, 2019 amounts to USD0.85 million, presented as other assets in Statement of Financial Position (Dec. 31, 2018: USD0.69 million).

The contributions received from Contributors are outlined in Note C5.

**C8 Events after the end of the reporting period**

On Feb. 24, 2020, the Bank approved USD7.99 million grants for preparation of two new projects under Special Fund.

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



**AIB Project Preparation Special Fund**  
**Notes to the Financial Statements**  
**For the year ended Dec. 31, 2019**  
*(All amounts in thousands of US Dollars unless otherwise stated)*

**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 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 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 asset and liability to minimize the volatility of equity value and to maintain sufficient liquidity.

The primary purpose of the Special Fund 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, 2019, the Special Fund 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***

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, AIB 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 Dec. 31, 2019.