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Filed Pursuant to Rule 424(b)(1
Registration Statement No. 333-22861

ASIAN INFRASTRUCTURE INVESTMENT BANK

$2,500,000,000

2.250% NOTES DUE 2024

The Asian Infrastructure Investment Bank ("AIIB" or the "Bank") will pay interest on the notes (the "Notes") on May 16 and November 16 of each year. Interest will accrue on the Notes from and including May 16, 2019, and the first interest payment date will be November 16, 2019. AIIB may not redeem the Notes prior to their maturity on May 16, 2024. There is no sinking fund for these Notes.

AIIB will apply to the Financial Conduct Authority in its capacity as competent listing authority pursuant to Part VI of the Financial Services and Markets Act 2000, as amended (the "UK Listing Authority") for the Notes to be listed on the Official List of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "Regulated Market"). No assurance can be given by AIIB that such applications will be approved. The London Stock Exchange's Regulated Market is a regulated market for the purposes of Directive 2014/65/EU.

This prospectus (the "Prospectus") comprises neither a prospectus for the purposes of Part VI of the Financial Services and Markets Act 2000, as amended (the "FSMA") nor listing particulars given in compliance with the listing rules (the "Listing Rules") made under Part VI of the FSMA by the UK Listing Authority.

PRICE 99.718% AND ACCRUED INTEREST

	Price to Public(1)	Underwriting Discounts and Commissions(2)	Proceeds to AIIB(1)(3)
Per Note	99.718%	0.125%	99.593%
Total	$2,492,950,000	$ 3,125,000	$2,489,825,000

(1) Plus accrued interest, if any, from May 16, 2019.
(2) AIIB has agreed to indemnify the Underwriters (as defined herein) against certain liabilities, including liabilities under the Securities Act of 1933, as amended.
(3) Before deducting expenses payable by AIIB estimated at US$2,145,500.

Neither the Securities and Exchange Commission (the "SEC"), any state securities commission, the London Stock Exchange nor any foreign governmental agency has approved or disapproved of these securities or determined whether this Prospectus is accurate and complete. Any representation to the contrary is a criminal offense.

The Underwriters below expect to deliver the Notes to purchasers in book-entry form only through The Depository Trust Company ("DTC") on May 16, 2019.

Goldman Sachs International **Bank of China** **Barclays** **Crédit Agricole CIB** **TD Securities**

BofA Merrill Lynch **BNP PARIBAS** **Citi** **Deutsche Bank** **HSBC**
ICBC International **J.P. Morgan** **Morgan Stanley** **NatWest Markets** **Nomura**
RBC Capital Markets **Standard Chartered Bank**

The date of this Prospectus is May 9, 2019

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ADDITIONAL INFORMATION

AIIB has filed with the SEC a registration statement (which term shall include any amendments thereto) under Schedule B of the Securities Act of 1933, as amended (the "Securities Act"), with respect to the securities offered hereby. This Prospectus does not contain all the information set forth in the registration statement, certain parts of which are omitted in accordance with the rules and regulations of the SEC and to which reference is hereby made. Statements made in this Prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete. With respect to each such contract, agreement or other document filed as an exhibit to the registration statement, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference.

FORWARD-LOOKING INFORMATION

This Prospectus may contain forward-looking statements. Statements that are not historical facts are statements about our beliefs and expectations and may include forward-looking statements. These statements are identified by words such as "believe," "expect," "anticipate," "should" and words of similar meaning. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual financial and other results may differ materially from the results discussed in the forward-looking statements. Therefore, you should not place undue reliance on them. Factors that might cause such a difference include, but are not limited to, those discussed in this Prospectus, such as the effects of losses from the Bank's financing or investment activities.

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PROSPECTUS SUMMARY

Asian Infrastructure Investment Bank

AIIB is a multilateral development bank (an "MDB") with a mission 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 Bank commenced operations on January 16, 2016 to help its members meet a substantial financing gap between the demand for infrastructure in Asia and available financial resources. The Bank aims to work with public and private sector partners to channel its own public resources, together with private and institutional funds, into sustainable infrastructure investment.

The Bank has identified three thematic priorities:

- Sustainable Infrastructure: Promoting green infrastructure and supporting countries to meet their environmental and development goals.
- Cross-border Connectivity: Prioritizing cross-border infrastructure, ranging from roads and rail, to ports, energy pipelines and telecoms across Central Asia, and the maritime routes in Southeast Asia, South Asia, the Middle East and beyond.
- Private Capital Mobilization: Devising innovative solutions that catalyze private capital, in partnership with other MDBs, governments, private financiers and other partners.

Issuer
Asian Infrastructure Investment Bank

Securities Offered
US$2,500,000,000 principal amount of 2.250% Notes due 2024

Maturity Date
May 16, 2024

Interest Payment Dates
May 16 and November 16 of each year, commencing November 16, 2019

Interest Rate
2.250% per annum

Redemption
The Notes are not subject to redemption prior to maturity.

Listing
Application will be made to the UK Listing Authority for the Notes to be listed on the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the Regulated Market. No assurance can be given by AIIB that such applications will be approved.

Form, Registration and Settlement
The Notes will be represented by one or more global note certificates (the "Global Note") registered in the name of Cede & Co. as nominee for DTC. The Global Note will be deposited with a custodian for DTC. Except as described in this Prospectus, beneficial interests in the Global Note will be represented through accounts of financial institutions acting on behalf of the beneficial owners as direct and indirect

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participants in DTC. Investors may elect to hold interests in the Global Note through DTC, if they are participants in DTC, or indirectly through organizations that are participants in DTC. Owners of beneficial interests in the Global Note will not be entitled to have Notes registered in their names and will not receive or be entitled to receive physical delivery of definitive Notes (except in certain circumstances). Initial settlement for the Notes will be made in immediately available funds in dollars. See "Global Clearance and Settlement."

Withholding Tax, No Additional Amounts
Pursuant to its Articles of Agreement, payments of principal and interest on the Notes may be made by AIIB without withholding or deduction for any withholding taxes imposed by any member of AIIB. AIIB will not pay additional amounts to holders of Notes in respect of any withholding tax. For further details, see "Description of the Notes – No Payment of Additional Amounts" in this Prospectus.

Arbitration
Actions related to the Notes will be subject to arbitration by the Hong Kong International Arbitration Centre (the "HKIAC"). AIIB has not consented to the jurisdiction of any courts, including courts in the United States.

Economic Sanctions
Although AIIB believes that it is in compliance with all applicable sanctions and embargo laws and regulations, and intends to maintain such compliance, the scope of certain laws may be unclear, may be subject to changing interpretations or may be strengthened or otherwise amended. A violation of sanctions or engagement in sanctionable conduct could result in, among other things, AIIB becoming subject to sanctions. AIIB cannot predict the impact that the imposition of sanctions would have on the trading market for the Notes or whether such sanctions would make it more difficult to sell and trade the Notes in certain jurisdictions, including in the U.S. market. For further details, see "Operations of AIIB – Economic Sanctions" in this Prospectus.

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ASIAN INFRASTRUCTURE INVESTMENT BANK

Overview

AIIB is an MDB with a mission 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 Bank commenced operations on January 16, 2016 to help its members meet a substantial financing gap between the demand for infrastructure in Asia and available financial resources. The Bank aims to work with public and private sector partners to channel its own public resources, together with private and institutional funds, into sustainable infrastructure investment. The Bank maintains its principal office in Beijing, People's Republic of China ("China").

The Bank has identified three thematic priorities:

- Sustainable Infrastructure: Promoting green infrastructure and supporting countries to meet their environmental and development goals.
- Cross-border Connectivity: Prioritizing cross-border infrastructure, ranging from roads and rail, to ports, energy pipelines and telecoms across Central Asia, and the maritime routes in Southeast Asia, South Asia, the Middle East and beyond.

- Private Capital Mobilization: Devising innovative solutions that catalyze private capital, in partnership with other MDBs, governments, private financiers and other partners.

Legal Status

AIIB was established and operates under the Articles of Agreement (the "Articles of Agreement"), an international agreement to which governments are parties and which was open for signature on June 29, 2015 and entered into force on December 25, 2015. The Bank is not a private institution and does not have private shareholders.

The Articles of Agreement provide that all the powers of AIIB shall be vested in the Board of Governors of AIIB (the "Board of Governors"). The Board of Governors has delegated a broad range of operational oversight functions to the non-resident Board of Directors of AIIB (the "Board of Directors"). See "Governance and Administration." On January 16, 2016, the Board of Governors convened its inaugural meeting in Beijing and declared the Bank open for business.

The Articles of Agreement endow AIIB with full juridical personality and, in particular, the full legal capacity (i) to contract, (ii) to acquire, and dispose of, immovable and movable property, (iii) to institute and respond to legal proceedings and (iv) to take such other action as may be necessary or useful for its purpose and activities. The Articles of Agreement provide that the Bank enjoys, in the territory of each of its members, the following immunities, exemptions and privileges:

- The Bank enjoys immunity from every form of legal process, except in cases arising out of or in connection with the exercise of its power to raise funds, to guarantee obligations, or to buy and sell securities, in which case actions may be brought in a court of competent jurisdiction in the territory in which the Bank has an office, has appointed an agent for service of process or has issued or guaranteed securities. Moreover, no action may be brought against the Bank by a member or an instrumentality of such member; instead they have recourse to special procedures for settlement of disputes as described in the Articles of Agreement, in the by-laws and regulations of the Bank, or in contracts entered with the Bank.

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- The property and other assets of the Bank are immune from all forms of seizure, attachment or execution before delivery of a final judgment against the Bank, and from search, requisition, confiscation, expropriation or any other forceful taking by executive or legislative action. The archives of the Bank and all documents belonging to it or held by it are inviolable, regardless of location or who holds them.
- All Governors, Directors, Alternates, the President, Vice-president(s) and other officers and employees of the Bank are immune from legal process with respect to acts performed by them in their official capacity, except when the Bank waives this immunity.
- The Bank, its assets, property, income and its operations and transactions are immune from all taxes and customs duties, and the Bank is immune from any obligation relating to the payment, withholding or collection of any tax or duty.
- All of the property and assets of the Bank are free from restrictions, regulations, controls and moratoria of any nature (subject to the Articles of Agreement).
- The salaries, emoluments and expenses which the Bank pays to its Directors, Alternate Directors, President, Vice-President(s) and other officers and employees of the Bank are exempt from taxation, save to the extent that a member has explicitly reserved its right to tax such payments to its nationals or citizens.

Membership, Capital Structure and Reserves

Membership

Membership in AIIB is open to members of the International Bank for Reconstruction and Development ("IBRD" or the "World Bank") or the Asian Development Bank ("ADB"). In the case of an applicant that is not a sovereign or not responsible for the conduct of its international relations (*e.g.*, a political subdivision such as a semi-autonomous territory), application for membership in the Bank must be presented or agreed by the member of the Bank responsible for its international relations.

In October 2014, 22 countries signed a Memorandum of Understanding to establish the Bank. By the end of March 2015, 57 countries committed to being part of the process to design and establish the Bank. Negotiations on the Articles of Agreement concluded on May 22, 2015 and by the end of 2015, 57 prospective members signed the Articles of Agreement. Signatories to the Articles of Agreement were required to ratify, accept or approve the Articles of Agreement no later than December 31, 2016, or such later date as determined by the Board of Governors by an affirmative vote of a majority of the total number of Governors, representing not less than a majority of the total voting power of AIIB's members (a "Special Majority Vote"). For those signatories that did not ratify, accept or approve the Articles of Agreement by December 31, 2016, the deadline for such ratification, acceptance or approval was extended; the current deadline is

December 31, 2019.

Members of IBRD or ADB which were not signatories to the Articles of Agreement may be admitted by a Special Majority Vote of the Board of Governors. In respect of membership for non-signatories to the Articles of Agreement, the Bank has established procedures for membership. These procedures include initial informal discussions with the Corporate Secretary of the Bank followed by a firm written expression of interest in membership addressed to the Corporate Secretary and signed by an applicant's duly authorized person with the rank of minister or above. If the applicant receives an informal consensus for admission from the Board of Directors, the Bank would then determine the indicative terms and conditions of membership of the applicant consistent with the Articles of Agreement. At this point, a formal application would then be made by the applicant, which would be signed by the applicant's competent authority, such as Head of Government, Head of State or Foreign Minister. Upon receipt of the membership application, the terms and conditions of

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membership (including the maximum number of shares of the Bank to which the applicant may subscribe) would be recommended by the Board of Directors to the Board of Governors for its approval. Following approval by a Special Majority Vote of the Board of Governors, the applicant would prepare the necessary domestic authorization and legislation to become a member, and take other steps required for membership, including making payment of a first installment for subscribed paid-in shares, appointing a Governor and Alternate Governor and assigning votes to a Director.

There are 57 signatories to the Articles of Agreement, three of which, as of the date hereof, have not yet ratified, approved or accepted the Articles of Agreement. Consequently, the Bank currently has 54 founding members. As of the date hereof, the Bank has 70 members (44 regional and 26 non-regional). See "Table 1: Membership and Capital Allocation" below. The Bank also has 27 prospective members (six regional and 21 non-regional). Prospective members denote those jurisdictions whose membership applications have already been approved by the Board of Governors, but that have not become members yet. The Bank's prospective regional members are: Armenia, Cook Islands, Kuwait, Lebanon, Papua New Guinea and Tonga. The Bank's prospective non-regional members are: Algeria, Argentina, Belgium, Bolivia, Brazil, Chile, Côte d'Ivoire, Ecuador, Ghana, Greece, Guinea, Kenya, Libya, Morocco, Peru, Serbia, South Africa, Togo, Tunisia, Uruguay and Venezuela.

If a member fails to fulfill any of its obligations to the Bank, the Board of Governors may suspend such member by an affirmative vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of AIIB's members (a "Super Majority Vote"). A suspended member automatically ceases to be a member one year from the date of its suspension, unless the Board of Governors decides by a Super Majority Vote to restore the member to good standing. Other than the right of withdrawal, a suspended member is not allowed to exercise any rights under the Articles of Agreement, but remains subject to all the Articles of Agreement's obligations.

Capital Structure

The authorized capital of the Bank consists of US$100,000,000,000 divided into paid-in shares having an aggregate par value of US$20,000,000,000 and callable shares having an aggregate par value of US$80,000,000,000. As of March 31, 2019, the members had subscribed an aggregate of US$96,403,800,000 of the Bank's share capital, of which US$19,280,800,000 was paid-in and US$77,123,000,000 was callable.

Payment of subscribed, paid-in capital is due in five installments, except for members designated as less developed countries, which may pay in up to ten installments. As of March 31, 2019, US$15,031,590,905 had been received from members, all in convertible currency, and US$4,171,190,369 was not yet due. Capital subscriptions may be paid in United States dollars or in other convertible currency. However, to the extent that a member is a less developed country, the member may pay a portion of up to 50% of each installment in the currency of the member, with the Bank having discretion as to what amount is equivalent to the full value in terms of U.S. dollars and the member maintaining the value of all such currency held by the Bank should the member's currency depreciate in the Bank's opinion.

The authorized capital stock of the Bank may be increased only by a Super Majority Vote.

Total voting power of each member consists of the sum of its basic votes, share votes and, in the case of a founding member, its founding member votes. A member's basic votes equal 12% of the aggregate sum of basic votes, share votes and founding member votes of all the members, divided by the number of members. Share votes consist of the number of shares of the capital stock of the Bank subscribed to by that member. All rights, including voting rights, acquired in respect of paid-in and

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associated callable shares for which payments are due but have not been received are suspended until full payment is received by the Bank. Each founding member is allocated 600 founding member votes.

Table 1: Membership and Capital Allocation(1)

Member	Year of Accession	Total Subscriptions: Amount (million USD)	Total Subscriptions: Percent of Total	Voting Power: Share Votes	Voting Power: Founding Member Votes	Voting Power: Basic Votes	Voting Power: Total Votes	Voting Power: Percent of Total
Regional								
Afghanistan	2017	86.6	**0.0898%**	693	—	1,934	2,627	**0.2328%**
Australia	2015	3,691.2	**3.8289%**	36,912	600	1,934	39,446	**3.4958%**
Azerbaijan	2016	254.1	**0.2636%**	2,541	600	1,934	5,075	**0.4498%**
Bahrain	2018	103.6	**0.1075%**	1,036	—	1,934	2,970	**0.2632%**
Bangladesh	2016	660.5	**0.6851%**	6,605	600	1,934	9,139	**0.8099%**
Brunei Darussalam	2015	52.4	**0.0544%**	524	600	1,934	3,058	**0.2710%**
Cambodia	2016	62.3	**0.0646%**	623	600	1,934	3,157	**0.2798%**
China	2015	29,780.4	**30.8913%**	297,804	600	1,934	300,338	**26.6167%**
Cyprus	2018	20.0	**0.0207%**	200	—	1,934	2,134	**0.1891%**
Fiji	2017	12.5	**0.0130%**	125	—	1,934	2,059	**0.1825%**
Georgia	2015	53.9	**0.0559%**	539	600	1,934	3,073	**0.2723%**
Hong Kong, China	2017	765.1	**0.7936%**	7,651	—	1,934	9,585	**0.8494%**
India	2016	8,367.3	**8.6794%**	83,673	600	1,934	86,207	**7.6399%**
Indonesia	2016	3,360.7	**3.4861%**	33,607	600	1,934	36,141	**3.2029%**
Iran	2017	1,580.8	**1.6398%**	12,646	600	1,934	15,180	**1.3453%**
Israel	2016	749.9	**0.7779%**	7,499	600	1,934	10,033	**0.8891%**
Jordan	2015	119.2	**0.1236%**	1,192	600	1,934	3,726	**0.3302%**
Kazakhstan	2016	729.3	**0.7565%**	7,205	600	1,934	9,739	**0.8631%**
Korea	2015	3,738.7	**3.8782%**	37,387	600	1,934	39,921	**3.5379%**
Kyrgyz Republic	2016	26.8	**0.0278%**	268	600	1,934	2,802	**0.2483%**
Lao PDR	2016	43.0	**0.0446%**	430	600	1,934	2,964	**0.2627%**
Malaysia	2017	109.5	**0.1136%**	1,095	600	1,934	3,629	**0.3216%**
Maldives	2016	7.2	**0.0075%**	72	600	1,934	2,606	**0.2310%**
Mongolia	2015	41.1	**0.0426%**	411	600	1,934	2,945	**0.2610%**
Myanmar	2015	264.5	**0.2744%**	2,645	600	1,934	5,179	**0.4590%**
Nepal	2016	80.9	**0.0839%**	809	600	1,934	3,343	**0.2963%**
New Zealand	2015	461.5	**0.4787%**	4,615	600	1,934	7,149	**0.6336%**
Oman	2016	259.2	**0.2689%**	2,592	600	1,934	5,126	**0.4543%**
Pakistan	2015	1,034.1	**1.0727%**	10,332	600	1,934	12,866	**1.1402%**
Philippines	2016	979.1	**1.0156%**	9,791	600	1,934	12,325	**1.0923%**
Qatar	2016	604.4	**0.6269%**	6,044	600	1,934	8,578	**0.7602%**
Russia	2015	6,536.2	**6.7800%**	65,362	600	1,934	67,896	**6.0171%**
Samoa	2018	2.1	**0.0022%**	17	—	1,934	1,951	**0.1729%**
Saudi Arabia	2016	2,544.6	**2.6395%**	25,446	600	1,934	27,980	**2.4797%**
Singapore	2015	250.0	**0.2593%**	2,500	600	1,934	5,034	**0.4461%**
Sri Lanka	2016	269.0	**0.2790%**	2,690	600	1,934	5,224	**0.4630%**
Tajikistan	2016	30.9	**0.0321%**	309	600	1,934	2,843	**0.2520%**
Thailand	2016	1,427.5	**1.4808%**	14,275	600	1,934	16,809	**1.4897%**
Timor-Leste	2017	16.0	**0.0166%**	160	—	1,934	2,094	**0.1856%**
Turkey	2016	2,609.9	**2.7073%**	26,099	600	1,934	28,633	**2.5375%**
United Arab Emirates	2016	1,185.7	**1.2299%**	11,857	600	1,934	14,391	**1.2754%**
Uzbekistan	2016	219.8	**0.2280%**	2,198	600	1,934	4,732	**0.4194%**

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Total Subscriptions **Voting Power**

Member	Year of Accession	Amount (million USD)	Percent of Total	Share Votes	Founding Member Votes	Basic Votes	Total Votes	Percent of Total
Vanuatu	2018	0.5	**0.0005%**	5	—	1,934	1,939	**0.1718%**
Vietnam	2016	663.3	**0.6880%**	6,633	600	1,934	9,167	**0.8124%**
Total Regional		**73,855.3**	**76.6104%**	**735,116**	**21,600**	**85,096**	**841,812**	**74.6035%**
Non-Regional								
Austria	2015	500.8	**0.5195%**	5,008	600	1,934	7,542	**0.6684%**
Belarus	2019	64.1	**0.0665%**	641	—	1,934	2,575	**0.2282%**
Canada	2018	995.4	**1.0325%**	9,954	—	1,934	11,888	**1.0535%**
Denmark	2016	369.5	**0.3833%**	3,695	600	1,934	6,229	**0.5520%**
Egypt	2016	650.5	**0.6748%**	6,505	600	1,934	9,039	**0.8011%**
Ethiopia	2017	45.8	**0.0475%**	458	—	1,934	2,392	**0.2120%**
Finland	2016	310.3	**0.3219%**	3,103	600	1,934	5,637	**0.4996%**
France	2016	3,375.6	**3.5015%**	33,756	600	1,934	36,290	**3.2161%**
Germany	2015	4,484.2	**4.6515%**	44,842	600	1,934	47,376	**4.1986%**
Hungary	2017	100.0	**0.1037%**	1,000	—	1,934	2,934	**0.2600%**
Iceland	2016	17.6	**0.0183%**	176	600	1,934	2,710	**0.2402%**
Ireland	2017	131.3	**0.1362%**	1,313	—	1,934	3,247	**0.2878%**
Italy	2016	2,571.8	**2.6677%**	25,718	600	1,934	28,252	**2.5038%**
Luxembourg	2015	69.7	**0.0723%**	697	600	1,934	3,231	**0.2863%**
Madagascar	2018	5.0	**0.0052%**	50	—	1,934	1,984	**0.1758%**
Malta	2016	13.6	**0.0141%**	136	600	1,934	2,670	**0.2366%**
Netherlands	2015	1,031.3	**1.0698%**	10,313	600	1,934	12,847	**1.1385%**
Norway	2015	550.6	**0.5711%**	5,506	600	1,934	8,040	**0.7125%**
Poland	2016	831.8	**0.8628%**	8,318	600	1,934	10,852	**0.9617%**
Portugal	2017	65.0	**0.0674%**	650	600	1,934	3,184	**0.2822%**
Romania	2018	153.0	**0.1587%**	1,530	—	1,934	3,464	**0.3070%**
Spain	2017	1,761.5	**1.8272%**	17,615	600	1,934	20,149	**1.7857%**
Sudan	2018	59.0	**0.0612%**	590	—	1,934	2,524	**0.2237%**
Sweden	2016	630.0	**0.6535%**	6,300	600	1,934	8,834	**0.7829%**
Switzerland	2016	706.4	**0.7328%**	7,064	600	1,934	9,598	**0.8506%**
United Kingdom	2015	3,054.7	**3.1687%**	30,547	600	1,934	33,081	**2.9317%**
Total Non-Regional		**22,548.5**	**23.3896%**	**225,485**	**10,800**	**50,284**	**286,569**	**25.3965%**
Grand Total		**96,403.8**	**100.0000%**	**960,601**	**32,400**	**135,380**	**1,128,381**	**100.0000%**

Note:

(1) Subscription and voting figures are as of May 6, 2019.

As shown in the table above, China holds the largest percentage of voting power, with 26.6167% of the total as of the date of this Prospectus. Because Super Majority Votes require in part the affirmative vote of Governors representing not less than three-fourths of the total voting power of AIIB's members, any member with over 25% of AIIB's total voting power could effectively prevent actions requiring a Super Majority Vote from occurring. See "Governance and Administration – Board of Governors" for further information on the types of measures that require a Super Majority Vote.

Withdrawal and Suspension

Pursuant to Article 37 of the Articles of Agreement, any member may withdraw from the Bank at any time by delivering a notice to the Bank, and such withdrawal will become effective (and the withdrawing member's membership will cease) on the date specified in the notice but no sooner than

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six months after the date that notice is received by the Bank. At any time before the withdrawal becomes effective, the member may cancel its notice of intention to withdraw. A withdrawing member remains liable for all direct and contingent obligations to the Bank to which it was subject as of the date of delivery of the withdrawal notice. At the time membership ceases, the Bank shall arrange for the repurchase of the withdrawing member's shares by the Bank as a part of the settlement of accounts with such member.

Pursuant to Article 38 of the Article of Agreement, if a member fails to fulfill any of its obligations to the Bank, the Board of Governors may suspend such member by a Super Majority Vote. See “Governance and Administration – Board of Governors”. A suspended member shall automatically cease to be a member one year from the date of its suspension, unless the Board of Governors decides by a Super Majority Vote to restore the member to good standing. While under suspension, a member shall not be entitled to exercise any rights under the Articles of Agreement, except the right of withdrawal, but shall remain subject to all its obligations.

Reserves

Pursuant to Article 18(1) of the Articles of Agreement, the Board of Governors shall determine at least annually what part of the net income of AIIB 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.

Relationship with Other International Financial Institutions

In the interest of partnership and cooperation, the Bank signed Memoranda of Understanding with several international financial institutions, including ADB, the African Development Bank (“AfDB”), the African Development Fund, the European Bank for Reconstruction and Development (“EBRD”), the European Investment Bank, the Inter-American Development Bank, the Inter-American Investment Corporation, the International Development Association (“IDA”), the International Finance Corporation (“IFC”), the Islamic Development Bank Group, the Multilateral Investment Guarantee Agency, the New Development Bank (“NDB”) and the World Bank. The Bank has also entered into a Co-Financing Framework Agreement with IBRD and IDA, an International Swaps and Derivatives Association Master Agreement with IFC, and a Joint Declaration with the International Solar Alliance for the Promotion of Solar Energy Globally.

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USE OF PROCEEDS

The net proceeds from the sale of the Notes will be used in the general operations of AIIB, which are to foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors. Such investments, which may consist of loans, guarantees, equity investments or other types of financing, are subject to AIIB’s operational and financial policies, including policies addressing environmental and social sustainability, as documented in AIIB’s Environmental and Social Framework (the “ESF Framework”). Pending their application to such investments, the net proceeds from the sale of the Notes will be invested as part of AIIB’s liquid assets portfolio.

CAPITALIZATION

The following table sets forth AIIB’s capitalization as of December 31, 2018 and does not give effect to any transaction since December 31, 2018. There have been no material changes to the capitalization of the Bank since December 31, 2018. As of the date of this Prospectus, the Bank has no significant long-term indebtedness.

	As of December 31, 2018
	(audited)
	(*in thousands of US$*)
Members’ equity	
Paid-in capital	19,268,000
Reserve for accretion of paid-in capital receivables	(70,481
Retained earnings	314,899
Total members’ equity	19,512,418

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SELECTED FINANCIAL INFORMATION

The financial information included herein as of and for the years ended December 31, 2018, December 31, 2017 and December 31, 2016 (beginning on January 16, 2016, the date of commencement of AIIB’s operations) is derived from AIIB’s audited financial statements for the year ended December 31, 2018, including the notes thereto (the “2018 Audited Financial Statements”), which were audited by

AIIB's independent auditor PricewaterhouseCoopers, and AIIB's audited financial statements for the year ended December 31, 2017, including the notes thereto (the "2017 Audited Financial Statements," and together with the 2018 Audited Financial Statements, the "Financial Statements"), which were also audited by PricewaterhouseCoopers. The 2018 Audited Financial Statements, and the independent auditor's report issued by PricewaterhouseCoopers in respect thereof, have been included herein beginning on page F-2 of this Prospectus. The 2017 Audited Financial Statements, and the independent auditor's report issued by PricewaterhouseCoopers in respect thereof, have been included herein beginning on page F-50 of this Prospectus. The Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). The 2018 Audited Financial Statements and the 2017 Audited Financial Statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2018 and December 31, 2017, respectively, and its results of operations and its cash flows for the years ended December 31, 2018 and December 31, 2017, respectively, in accordance with IFRS.

The Bank is currently implementing internal controls over financial reporting based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and will provide an attestation report issued by its external auditors on the Bank's internal control over financial reporting beginning with its audited financial statements for the year ended December 31, 2019.

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The selected financial information should be read in conjunction with the Financial Statements and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Prospectus.

	Year ended December 31,		
	2018	2017	2016 (beginning on January 16, 2016, the date of commencement of AIIB's operations)
	(in thousands of US$)		
Selected Profit and Loss Information			
Interest income	250,761	124,193	23,455
Interest expense	—	—	—
Net interest income	250,761	124,193	23,455
Net fee and commission income (expense)	12,654	(866)	(70)
Net gain on investment at fair value through profit or loss	56,622	53,783	14,873
Impairment provision	(39,608)	(9,088)	(277)
General and administrative expenses	(84,737)	(56,098)	(30,658)
Net foreign exchange gain (loss)	44	(58)	(26)
Operating profit for the period	195,736	111,866	7,297
Accretion of paid-in capital receivables	103,780	140,442	160,063
Net profit for the period	299,516	252,308	167,360
Other comprehensive income	—	—	—
Total comprehensive income	299,516	252,308	167,360

	As of December 31,		
	2018	2017	2016
	(in thousands of US$)		
Selected Balance Sheet Information			
Total assets	19,562,269	18,972,606	17,795,367
Total liabilities	49,851	13,587	5,538
Total members' equity	19,512,418	18,959,019	17,789,829
Total liabilities and members' equity	19,562,269	18,972,606	17,795,367

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Financial Statements beginning on page F-2 of this Prospectus.

Overview

AIIB is an MDB with a mission 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 Bank commenced operations on January 16, 2016 to help its members meet a substantial financing gap between the demand for infrastructure in Asia and available financial resources. The Bank aims to work with public and private sector partners to channel its own public resources, together with private and institutional funds, into sustainable infrastructure investment. The Bank maintains its principal office in Beijing, China.

The Bank has identified three thematic priorities:

- Sustainable Infrastructure: Promoting green infrastructure and supporting countries to meet their environmental and development goals.
- Cross-border Connectivity: Prioritizing cross-border infrastructure, ranging from roads and rail, to ports, energy pipelines and telecoms across Central Asia, and the maritime routes in Southeast Asia, South Asia, the Middle East and beyond.
- Private Capital Mobilization: Devising innovative solutions that catalyze private capital, in partnership with other MDBs, governments, private financiers and other partners.

Critical Accounting Policies

AIIB's financial statements are prepared in accordance with IFRS. The financial year of the Bank begins on January 1 and ends on December 31 of each year. For 2016, the financial year began on January 16, 2016, the date the Bank commenced operations, and ended on December 31, 2016.

The Bank has adopted all of the IFRS standards and interpretations effective for annual periods beginning with the financial year commencing on January 16, 2016, the date the Bank commenced operations. In addition, the Bank has adopted IFRS 9 Financial Instruments (full version issued in July 2014 and mandatorily effective on January 1, 2018), IFRS 15 Revenue from Contracts with Customers (mandatorily effective on January 1, 2018) and IFRS 16 Leases (mandatorily effective on January 1, 2019) from the commencement of AIIB's operations. AIIB's financial statements are prepared under the historical cost convention, except for those financial assets measured at fair value. The financial statements are prepared on a going concern basis. AIIB's functional and presentation currency is the U.S. dollar.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in its process of applying the Bank's policies. The areas involving a higher degree of judgement or complexity, or areas where judgements or estimates are significant to the Financial Statements are disclosed in Note B to the 2018 Audited Financial Statements.

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Income Statement

Interest Income

Interest income mainly consists of (i) interest earned on term deposits (and, beginning in the year ended December 31, 2018, interest earned on investments in money market funds) and (ii) interest earned on loan investments, including the amortization of front-end fees and other costs related to loan origination.

Years Ended December 31, 2018, 2017 and 2016. AIIB's interest income increased to US$250.8 million for the year ended December 31, 2018 from US$124.2 million for the year ended December 31, 2017 due to an increase in both term deposit and money market fund balances and loan investments. Interest income from cash and deposits increased to US$213.4 million for the year ended December 31, 2018 from US$112.4 million for the year ended December 31, 2017. Interest income from loan investments increased to US$37.4 million for the year ended December 31, 2018 from US$11.8 million for the year ended December 31, 2017.

AIIB's interest income increased to US$124.2 million for the year ended December 31, 2017 from US$23.5 million for the year ended December 31, 2016 (beginning on January 16, 2016) mainly due to an increase in term deposit balances. Interest income from cash and deposits increased to US$112.4 million for the year ended December 31, 2017 from US$23.4 million for the year ended December 31, 2016 (beginning on January 16, 2016). Interest income from loan investments increased to US$11.8 million for the year ended December 31, 2017 from less than US$0.1 million for the year ended December 31, 2016 (beginning on January 16, 2016).

Interest Expense

Years Ended December 31, 2018, 2017 and 2016. AIIB's interest expense was nil for the years ended December 31, 2018, 2017 and 2016 (beginning on January 16, 2016).

Net Interest Income

Net interest income is interest income less interest expense.

Years Ended December 31, 2018, 2017 and 2016. For the reasons set forth above, AIIB's net interest income increased to US$250.8 million for the year ended December 31, 2018 from US$124.2 million for the year ended December 31, 2017 and US$23.5 million for the year ended December 31, 2016 (beginning on January 16, 2016).

Net Fee and Commission Income (Expense)

Net fee and commission income (expense) consists of (i) loan service (i.e., supervision) fees charged to borrowers (and, beginning in the year ended December 31, 2018, loan commitment fees) and (ii) fees earned from administering the Special Fund, less (iii) co-financin service fees paid in respect of co-financing arrangements. See "Asian Infrastructure Investment Bank – Relationship with Other International Financial Institutions."

Years Ended December 31, 2018, 2017 and 2016. AIIB generated a net fee and commission income of US$12.7 million for the year ended December 31, 2018, compared to a net fee and commission expense of US$0.9 million for the year ended December 31, 2017. This change was mainly due to the recognition of loan commitment fees as fee and commission income beginning in the year ended December 31, 2018 (such fees having been in prior periods accounted for using the amortization method) and to an increase in committe loans, resulting in an increase of loan service

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and commitment fees to US$13.8 million for the year ended December 31, 2018 from loan service fees of less than US$0.1 million for the year ended December 31, 2017. This increase was partially offset by an increase in co-financing service fees to US$1.2 million for the year ended December 31, 2018 from US$1.0 million for the year ended December 31, 2017, resulting from an increase in loan commitments made pursuant to co-financing arrangements with other international financial institutions.

AIIB's net fee and commission expense increased to US$0.9 million for the year ended December 31, 2017 from US$0.1 million for the year ended December 31, 2016 (beginning on January 16, 2016) mainly due to an increase in co-financing service fees to US$1.0 million from US$0.2 million. This increase in co-financing service fees was the result of an increase in loan commitments made pursuant to co-financing arrangements with other international financial institutions.

Net Gain on Investments at Fair Value through Profit or Loss

Net gain on investments at fair value through profit or loss is the fair value gain of AIIB's investments in a trust fund with the World Bank (the "Trust Fund"), the IFC Emerging Asia Fund, a private equity limited partnership fund in which AIIB invests as a limited partner (the "LLP Fund"), and the India Infrastructure Fund. The Trust Fund was closed upon expiration of its contractual term and all outstanding balances (approximately US$3,295.2 million) were returned to the Bank as of the end of January 2019. See "– Balance Sheet – Assets."

Years Ended December 31, 2018, 2017 and 2016. AIIB's net gain on investments at fair value through profit or loss increased to US$56.6 million for the year ended December 31, 2018 from US$53.8 million for the year ended December 31, 2017 mainly due to the fa value gain of AIIB's investments in the Trust Fund.

AIIB's net gain on investments at fair value through profit or loss increased to US$53.8 million for the year ended December 31, 2017 from US$14.9 million for the year ended December 31, 2016 (beginning on January 16, 2016) mainly due to the fair value gain of AIIB's investments in the Trust Fund.

Impairment Provision

As required by IFRS 9, AIIB uses an expected credit loss ("ECL") model to estimate credit loss on financial assets, such as loan disbursements, and on other instruments, such as undrawn loan commitments. AIIB recognizes an ECL allowance at each reporting date and recognizes as an impairment loss or the reversal of an impairment loss (i.e., an impairment provision) the change in ECL allowance between such reporting date and the previous reporting date. See "Operations of AIIB – Quality of Loan Portfolio," "Risk Management – Risk Types – Financing Credit Risk" and Notes B.3.3.4, B4.1 and D3 to the 2018 Audited Financial Statements for further discussion on the Bank's credit quality analysis.

Years Ended December 31, 2018, 2017 and 2016. AIIB's impairment provision increased to US$39.6 million for the year ended December 31, 2018 from US$9.1 million for the year ended December 31, 2017 mainly due to the downgrade in the internal ratings of certain sovereign borrowers and, to a lesser extent, the increase in loan commitments and disbursements. AIIB's impairment provision increased to US$9.1 million for the year ended December 31, 2017 from US$0.3 million for the year ended December 31, 2016 (beginning on January 16, 2016) mainly due to the increase in the Bank's loan commitments and disbursements. See "Operations of AIIB – Quality o Loan Portfolio."

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General and Administrative Expenses

General and administrative expenses mainly consist of (i) staff costs, such as short-term employee benefits, including salaries, locatio premiums and medical and life insurance, and costs related to AIIB's defined contribution (i.e., retirement) plan, (ii) professional service expenses, (iii) IT services, (iv) facilities and administration expenses, (v) traveling expenses and (vi) other expenses.

Years Ended December 31, 2018, 2017 and 2016. AIIB's general and administrative expenses increased to US$84.7 million for the year ended December 31, 2018 from US$56.1 million for the year ended December 31, 2017 mainly due to (i) an increase in staff costs t US$38.4 million for the year ended December 31, 2018 from US$25.2 million for the year ended December 31, 2017, (ii) an increase in professional service expenses to US$19.7 million for the year ended December 31, 2018 from US$12.6 million for the year ended December 31, 2017, (iii) an increase in traveling expenses to US$7.4 million for the year ended December 31, 2018 from US$4.2 million for the year ended December 31, 2017 and (iv) an increase in IT services to US$7.8 million for the year ended December 31, 2018 from US$5.7 million for the year ended December 31, 2017. Such increases were mainly due to the continuing ramp-up of AIIB's organizationa activities and operations, including an increase in employee headcount.

AIIB's general and administrative expenses increased to US$56.1 million for the year ended December 31, 2017 from US$30.7 million for the year ended December 31, 2016 (beginning on January 16, 2016) mainly due to (i) an increase in staff costs to US$25.2 million for the year ended December 31, 2017 from US$12.2 million for the year ended December 31, 2016 (beginning on January 16, 2016) and (ii) an increase in professional service expenses to US$12.6 million for the year ended December 31, 2017 from US$6.7 million for the year ended December 31, 2016 (beginning on January 16, 2016). The increases in staff costs and professional service expenses were mainly due to the ramp-up of AIIB's organizational activities and operations, including an increase in employee headcount.

Operating Profit

Years Ended December 31, 2018, 2017 and 2016. Mainly for the reasons set forth above, AIIB's operating profit increased to US$195.7 million for the year ended December 31, 2018 from US$111.9 million for the year ended December 31, 2017 and US$7.3 millio for the year ended December 31, 2016 (beginning on January 16, 2016).

Accretion of Paid-in Capital Receivables

Paid-in capital receivables represent amounts due from the Bank's members in respect of paid-in capital. See "Asian Infrastructure Investment Bank – Membership, Capital Structure and Reserves – Capital Structure." These amounts are initially recognized at fair value, which reflects the discounted present value of future paid-in capital inflows, and subsequently measured at amortized cost. The difference between amortized cost and fair value is accounted for as a reserve under members' equity and is accreted through the income statemen using the effective interest method.

Years Ended December 31, 2018, 2017 and 2016. AIIB's accretion of paid-in capital receivables equaled US$103.8 million for the yea ended December 31, 2018, US$140.4 million for the year ended December 31, 2017 and US$160.1 million for the year ended December 31, 2016 (beginning on January 16, 2016).

Total comprehensive income

Years Ended December 31, 2018, 2017 and 2016. Mainly for the reasons set forth above, AIIB's total comprehensive income increased to US$299.5 million for the year ended December 31, 2018

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from US$252.3 million for the year ended December 31, 2017 and US$167.4 million for the year ended December 31, 2016 (beginning on January 16, 2016).

Balance Sheet

Assets

Total assets mainly consist of (i) term deposits, (ii) paid-in capital receivables, (iii) investments at fair value through profit or loss, (iv) cash and cash equivalents and (v) loan investments at amortized cost.

During the periods under review, investments at fair value through profit or loss included the funds that the Bank had placed in the Trust Fund. These funds were, in turn, reinvested by the Trust Fund counterparty, the World Bank, in a larger collective pool of investments in accordance with the investment mandate for the entire pool. The counterparty made allocations within the investment pool subject to a framework agreement between the Bank and the counterparty to create a model portfolio exposure. Permitted holdings within the investment pool consisted of local currency sovereign instruments; foreign currency instruments of sovereign entities, agencies, other official entities and multilateral institutions rated at least AA-; corporate and ABS instruments rated AAA; and deposits with banks rated at least A-. As of December 31, 2018, the fair value of the Trust Fund was approximately US$3,292.6 million. The Trust Fund was closed upon expiration of its contractual term and all outstanding balances were returned to the Bank as of the end of January 2019.

Assets of the Bank include high-quality liquid assets, which are defined as cash or assets that can be converted into cash at little or no loss in value. See "Risk Management – Risk Types – Liquidity Risks" for further discussion on the Bank's liquidity.

As of December 31, 2018 and 2017. As of December 31, 2018, AIIB's total assets were US$19,562.3 million, compared to total assets of US$18,972.6 million as of December 31, 2017. This increase resulted mainly from an increase of US$2,337.4 million in term deposits with a maturity of more than 3 months, an increase of US$1,147.9 million in cash and cash equivalents (mainly due to investment in money market funds) and an increase of US$591.9 million in loan investments at amortized cost. This increase was partially offset by a decrease of US$3,561.9 million in paid-in capital receivables (reflecting the continuing payment of members' paid-in capital contributions).

Liabilities

Total liabilities mainly consist of accrued expenses, provisions related to ECL on loan commitments, staff costs payable and, for the year ended December 31, 2018, prepaid paid-in capital.

As of December 31, 2018 and 2017. As of December 31, 2018, AIIB's total liabilities were US$49.9 million, compared to total liabilities of US$13.6 million as of December 31, 2017. This increase resulted primarily from a provision of US$32.8 million that the Bank has taken in respect of an ECL allowance due mainly to the downgrade in the internal ratings of certain sovereign borrowers, an increase of US$4.8 million in accrued expenses and the prepayment of US$2.6 million in paid-in capital in 2018. See "Operations of AIIB – Quality of Loan Portfolio."

Members' Equity

Members' equity consists of (i) paid-in capital, (ii) reserves for accretion of paid-in capital receivables and (iii) retained earnings.

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As of *December 31, 2018 and 2017.* As of December 31, 2018, AIIB's total members' equity was US$19,512.4 million, compared to total members' equity of US$18,959.0 million as of December 31, 2017. This increase resulted from an increase of US$267.7 million in paid-in capital and an increase of US$195.7 million in retained earnings, partially offset by a decrease of US$90.0 million in reserves for accretion of paid-in capital receivables.

Asset Quality

As of December 31, 2018, no AIIB assets were categorized as overdue, restructured trouble debt, in non-accrual status or written off, except for overdue contractual undiscounted paid-in capital receivables of $256.7 million, which are not considered as impaired. Of this amount, $178.7 million was collected as of April 3, 2019, the date of the signing of the 2018 Audited Financial Statements. See "Operations of AIIB – Quality of Loan Portfolio," "Risk Management – Risk Types – Financing Credit Risk" and Note D to the 2018 Auditec Financial Statements for further discussion on the Bank's asset quality.

Debt Record

A non-interest bearing start-up budget loan facility of US$8.3 million to fund AIIB's initial organizational activities was provided to AIIB by the Ministry of Finance of China. All amounts owed under this facility were repaid on April 1, 2016. AIIB has never defaulted on the payment of principal of, or premium or interest on, any debt obligation.

External Auditor Work Papers

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes Oxley Act of 2002 against the mainland Chinese affiliates of the "big four" accounting firms, including the affiliate of the Bank's auditor. Th Rule 102(e) proceedings initiated by the SEC, which have since been stayed pursuant to an agreement between the accounting firms anc the SEC, related to the failure of these firms to produce documents, including audit work papers, in response to the request of the SEC pursuant to Section 106 of the Sarbanes-Oxley Act of 2002, as the auditors located in China are not in a position lawfully to produce documents directly to the SEC because of restrictions under Chinese law, including specific directives issued by the Chinese Securities Regulatory Commission. The issues raised by the proceedings are not specific to the Chinese affiliate of the Bank's auditor, but potentiall affect equally all Public Company Accounting Oversight Board-registered audit firms based in China and all businesses based in China (c with substantial operations in China) with securities registered with the SEC. In addition, auditors based outside of China are subject to similar restrictions under Chinese law in respect of audit work that is carried out in China which supports the audit opinions issued on financial statements of entities with substantial China operations.

To address the potential difficulties in obtaining audit work papers, the Bank has engaged with the authorities of China, its host country, and received assurances from the Ministry of Finance of China that the authorities of China would not prevent the release of the Bank's external auditor work papers pertaining to the Bank if the SEC were to request them during the course of an SEC investigation.

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.

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The Bank's related party transactions include the following. For additional information with respect to AIIB's related party transactions, see Note C14 to the 2018 Audited Financial Statements.

- In accordance with Article 5 of the Headquarters Agreement entered into between the government of China and the Bank on January 16, 2016, the government of China provides a permanent office building and temporary office accommodation to the Bank, free of charge.
- As of March 31, 2019, the Bank had one loan outstanding to a member of the Bank's senior management, Sir Danny Alexander, Vice President and Corporate Secretary, which had an amount outstanding of US$11,750.
- In December 2017, the Bank approved a US$250.0 million term loan facility to Beijing Gas Group Company Limited, a nonsovereign borrower that is ultimately controlled by a state-owned enterprise of China. See "Operations of AIIB – Approved Financings – Loans – China." The facility is guaranteed by a commercial bank and was entered into in the ordinary course of business under normal commercial terms and at market rates. As of December 31, 2018, the carrying amount of this facility was US$47.0 million.

Interim Period

The Bank expects that its financial condition and results of operations for the interim period as of and for the three months ended March 31, 2019 will generally reflect the trends discussed under " – Income Statement" and " – Balance Sheet" above, including, among other things, an increase in investments and loans outstanding compared with amounts during the comparable period in 2018 and the continuing ramp-up of AIIB's organizational activities and operations.

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OPERATIONS OF AIIB

AIIB's mission 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 Bank commenced operations on January 16, 2016 to help its members meet a substantial financing gap between the demand for infrastructure in Asia and available financial resources. The Bank aims to work with public and private sector partners to channel its own public resources, together with private and institutional funds, into sustainable infrastructure investment.

The Bank has identified three thematic priorities:

- Sustainable Infrastructure: Promoting green infrastructure and supporting countries to meet their environmental and development goals.
- Cross-border Connectivity: Prioritizing cross-border infrastructure, ranging from roads and rail, to ports, energy pipelines and telecoms across Central Asia, and the maritime routes in Southeast Asia, South Asia, the Middle East and beyond.
- Private Capital Mobilization: Devising innovative solutions that catalyze private capital, in partnership with other MDBs, governments, private financiers and other partners.

The Bank's policies are designed to ensure there is a direct link between the Bank's mission and thematic priorities and the projects it finances. Sustainable development is an integral part of the Bank's identification, preparation and implementation of projects. For example, the Bank has approved an ESF Framework, which, consistent with the United Nations' Sustainable Development Goals and the practices of peer MDBs, recognizes the need to address the three dimensions of sustainable development – economic, social and environmental – in a balanced and integrated manner. See "– Key Operational Policies, Strategies and Frameworks – Environmental and Social Framework."

Ordinary Resources and Special Fund Resources

Operations of the Bank consist of ordinary operations financed from ordinary resources ("Ordinary Resources") and special operations financed from special fund resources ("Special Fund Resources").

Ordinary Resources include (i) the authorized capital stock of the Bank, comprising paid-in and callable shares of its members, (ii) funds raised by the Bank through borrowing or other means, (iii) funds received in the repayment of loans and guarantees, as returns on equity investments or from other types of financing as may be determined by the Board of Governors, (iv) income derived from loans or guarantees made from the above-mentioned funds and (v) any other funds or income received from the Bank which are not Special Fund Resources.

Special Fund Resources are (i) funds accepted by the Bank for inclusion in any special fund (a "Special Fund"), (ii) funds received in respect of loans or guarantees and proceeds of any equity investments financed from the resources of a Special Fund, (iii) income derived from the investment of resources of a Special Fund and (iv) any other resources placed at the disposal of a Special Fund. Special Funds must serve the purpose and come within the functions of the Bank and may only be used under terms and conditions consistent with such. Ordinary Resources and Special Fund Resources may separately finance elements of the same project or program. The two types of resources, however, must be held, used, committed, invested or otherwise disposed of entirely separately from each other. In no circumstances may Ordinary Resources be charged with, or used to discharge, losses or liabilities arising out of Special Fund Resources. The Bank must adopt special rules and regulations for the establishment, administration and use of each Special Fund.

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To date, the Bank has established one Special Fund: the AIIB Project Preparation Special Fund. See "– AIIB Project Preparation Special Fund."

Financial Instruments

To implement the Bank's purpose, the Bank may provide or facilitate financing to any member, or any agency, instrumentality or political subdivision of a member, or any entity operating in the territory of a member, as well as to international or regional agencies or entities concerned with economic development of Asia. In limited circumstances, and subject to a Super Majority Vote (see "Governance and Administration – Board of Governors"), the Bank may also provide assistance to other recipients, provided such assistance (i) serves the purpose and comes within the functions of the Bank and is in the interest of the Bank's membership and (ii) is of a type of assistance that the Bank is permitted to provide pursuant to Article 11(2) of the Articles of Agreement.

The Bank may offer a range of financial products, including loans, equity investments and guarantees of loans for economic development (either as primary or secondary obligor). The Bank may also deploy Special Fund Resources (See "– Ordinary Resources and Special Fund Resources"), technical assistance and other types of financing as may be determined by the Board of Governors.

For the Bank to agree to provide financing, the project in question must meet a variety of conditions, including the following:

- it must have clearly defined development objectives consistent with the Bank's purpose that permit appropriate evaluation of th project's impact;
- it must provide for specific productive activities necessary to meet these development objectives;
- alternative sources of finance, in particular private capital, must be unavailable for the project on terms and conditions that the Bank considers reasonable; and
- it must be in compliance with all applicable Bank policies.

Sovereign-backed Financing

Sovereign-backed financing refers to the following:

- a loan to, or guaranteed by, a member of AIIB; or
- a guarantee that:

  (i) covers debt service defaults under a loan that are caused by a government's failure to meet a specific obligation in relation to a project or by a borrower's failure to make a payment under the loan; and

  (ii) is accompanied by a counter-guarantee and indemnity provided by the AIIB member in whose territory the relevant project is located, in connection with such guarantee.

Sovereign-backed financings are subject to terms and conditions that are uniform across all sovereign-backed borrowers.

For sovereign-backed loans, these terms and conditions include the following:

- all loans are currently denominated in U.S. dollars;
- pricing comprises the interest rate, front-end fee and commitment fee. For fixed-spread loans, the interest rate consists of a market-based reference rate and a fixed spread equal to a

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  contractual lending spread, the Bank's projected funding costs over the life of the loan and a market risk premium. For variable spread loans, the interest rate consists of a market-based reference rate and a variable spread equal to a contractual lending spread and an actual funding cost margin. For both types of loans, depending on the maturity of the loan, a maturity premium may also be charged;
- all loans must have a weighted average maturity of no more than 20 years and a final maturity of no more than 35 years; and
- each loan that is not made to a member of the Bank must be secured by a guarantee from the relevant member.

Sovereign-backed guarantees include the following terms and conditions:

- all guarantees are currently denominated in U.S. dollars;
- all guarantees must have a weighted average maturity of no more than 20 years and a final maturity of no more than 35 years (unless the Board of Directors determines otherwise);

- pricing consists of three fees: (i) a standby (i.e., commitment) fee, (ii) a guarantee fee equal to the contractual lending spread and, if applicable, a maturity premium and (iii) a front-end fee charged based on the maximum amount of the guarantee;
- the Bank may also charge a processing charge, as appropriate, to cover its internal and external processing costs; and
- the member in whose territory the project is located or for whose benefit the guarantee is made is required to indemnify the Bank for any payments the Bank makes under the guarantee and for all liabilities and expenses the Bank incurs in connection with the guarantee.

The Bank may make an advance (a "Preparation Advance") to finance preparatory activities for a project to be supported by a sovereign-backed financing. A Preparation Advance is made only when there is a strong probability that the financing for which it is granted will be extended. Granting a Preparation Advance does not obligate the Bank to finance or otherwise support the project in question. The maximum aggregate principal amount of all approved Preparation Advances for any given project may not exceed the lesse of: (i) 10% of the total estimated amount of financing for the project or (ii) US$10.0 million equivalent. The President decides whether to approve each Preparation Advance.

Non-sovereign-backed Financing

Non-sovereign-backed financing means any financing to, or for the benefit of, a private enterprise or a sub-sovereign entity (such as political or administrative sub-division of an AIIB member or a public sector entity) that is not backed by a guarantee or counter-guarantee and indemnity provided by a member to the Bank.

Non-sovereign-backed financings may take the form of loans, guarantees, credit lines to financial intermediaries, direct equity investments or indirect equity investments. The Bank may finance out of its own funds no more than 35% of the project's value (including interest during construction). On an exceptional basis, if co-financing is unavailable, the Board of Directors may decide to approve a highe level of financing for the project.

Non-sovereign-backed financings are subject to terms and conditions that are set in accordance with market-based principles. Pricing is based on several factors, including (i) the intrinsic and

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macroeconomic risks of the project, (ii) the cost of funds to the Bank and (iii) the need to earn an appropriate return on the Bank's capital, including on funds invested in direct and indirect equity of private entities.

The Bank may offer a range of options and features to meet the specific needs of the project.

Non-sovereign-backed Loans and Guarantees; Credit Lines to Financial Intermediaries

Non-sovereign-backed loans may be offered on a limited recourse basis, backed only by the existing and future cash flows and asset of the beneficiary of the project. The Bank may also extend non-sovereign-backed loans with the credit support of a third party; for example, the Bank may have recourse to designated assets or the balance sheet of the sponsor of the project or to a bank guarantee. Non-sovereign-backed loans are typically extended as senior loans and may require certain credit enhancements, such as guarantees or security arrangements. Subject to appropriate pricing, the Bank may also extend loans that are subordinated to the prior payment of other debt of the beneficiary of the project or subordinated in repayment in the event of the beneficiary's bankruptcy. The Bank may provide non-sovereign-backed loans in the form of loan participations or loan syndications. In a loan participation, while remaining the lender of record for the full amount of the loan, the Bank transfers full commercial and business risk with respect to a part of the amount to other lenders, allowing them to partially finance the loan. In a loan syndication, the Bank joins a syndicate of commercial banks, whereby the Bank and other members of the syndicate undertake to lend specified portions of the total loan amount. The Bank may also offer non-sovereign-backed guarantees against default regardless of the cause or against default arising from specified events.

Non-sovereign-backed loans and guarantees are denominated in U.S. dollars (although the Bank may in the future issue loans and guarantees in local currencies). The Bank charges front-end fees, commitment fees (or standby fees in respect of guarantees) and fees fo appraisal, prepayment, syndication or activities and services related to the financing (or guarantee fees in respect of guarantees), all typically at prevailing market rates. Unless the Board of Directors determines otherwise, the final maturity of a non-sovereign-backed loan must not exceed 18 years.

The Bank may also extend credit lines to financial intermediaries for on-lending in respect of projects that otherwise meet the Bank's eligibility requirements for direct financings. In these cases, the Bank's recourse is typically to the balance sheet of the financial intermediary, but the Bank may also require an assignment, by way of security, of the sub-loans granted by the financial intermediary.

Equity Investments

The Bank may make direct equity investments in private- or public-sector companies. It may invest either in a new enterprise or an existing enterprise. The investment may take a variety of forms, including subscriptions to ordinary shares or preference shares (or a combination of both).

The Bank's investment may generally not exceed 30% of the company's ownership holdings. In exceptional circumstances, the Board may decide to approve a higher, but not controlling, share or (if the Bank's investment is in jeopardy) the Bank may take control of the company in order to safeguard its investment.

The Bank may also selectively make equity investments through financial intermediaries, such as equity funds, choosing those managed by professional managers with relevant track records and remuneration arrangements in line with market practices.

In both direct and indirect equity investments, the Bank seeks credible exit strategies.

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Financing Portfolio

As of December 31, 2018, the Bank had 35 Board of Directors-approved financings (including 30 loans, three investments in funds, one equity financing and one investment in fixed-income securities).

As of December 31, 2018, the loans totaled US$3,328.1 million in committed amounts and US$1,381.4 million in disbursed amounts. Committed amounts are amounts the Bank has approved and committed to provide pursuant to legally-binding documentation, but has not yet disbursed. For sovereign-backed loans, these amounts are further limited to financings for which all conditions precedent required for disbursement have been satisfied. Disbursed amounts represent the gross carrying amount of the loans (i.e., including the transaction costs and fees that are capitalized through the effective interest method). Of all Board of Directors-approved loans as of December 31, 2018, 25 are sovereign-backed and 5 are non-sovereign-backed loans; 19 are co-financings and 11 are stand-alone financings. See " – Approved Financings – Loans."

As of December 31, 2018, two investments in funds had a total fair value of US$32.9 million, including US$32.4 million in respect of the LLP Fund and US$0.5 million in respect of the India Infrastructure Fund. The Board of Directors also approved the investment of US$100.0 million in a third fund, the National Investment and Infrastructure Fund (the "NIIF"), regarding which the Bank entered into legall binding documentation in March 2019. See " – Approved Financings – Investments in Funds."

As of December 31, 2018, the Board of Directors approved an equity financing of US$50.0 million. The committed amount of this investment is subject to the entry into legally-binding documentation. See " – Approved Financings – Equity."

As of December 31, 2018, the Board of Directors approved one investment in fixed-income securities with an approved amount of US$500.0 million. The committed amount of this investment is subject to the entry into legally-binding documentation. See " – Approved Financings – Investments in Fixed-Income Securities."

In 2019, the Board of Directors approved three loans totaling US$320.0 million and the President, pursuant to his delegated authority to approve certain projects, approved one loan totaling US$120.0 million. See " – Approved Financings – Loans" and " – Non-Sovereign-Backed Financings – Approval and Preparation of Documentation."

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Geographic Distribution of Loans

The following table sets forth AIIB's loan portfolio classified by geographic distribution:

	As of December 31, 2018		As of December 31, 2017		As of December 31, 2016	
	Amount (in millions of (1)	As a percentage of total loan	Amount (in millions of (1)	As a percentage of total loan	Amount (in millions of (1)	As a percentage of total loan

	US$)	portfolio	US$)	portfolio	US$)	portfolio
Committed Amounts						
Central Asia	71.2	2%	27.4	1%	27.4	8%
Eastern Asia	200.0	6%	—	0%	—	0%
South-Eastern Asia	820.7	25%	422.5	22%	216.5	65%
Southern Asia	992.4	30%	1,013.7	52%	90.4	27%
Western Asia	1,201.5	36%	336.9	17%	—	0%
Total Regional	3,285.8	99%	1,800.5	92%	334.3	100%
Total Non-Regional	42.3	1%	147.0	8%	—	0%
Total Committed	**3,328.1**	**100%**	**1,947.5**	**100%**	**334.3**	**100%**
Disbursed Amounts						
Central Asia	16.5	1%	0.1	0%	0.1	1%
Eastern Asia	47.0	3%	—	0%	—	0%
South-Eastern Asia	98.6	7%	38.5	5%	—	0%
Southern Asia	413.6	30%	98.6	13%	9.7	99%
Western Asia	701.4	51%	641.4	82%	—	0%
Total Regional	1,277.2	92%	778.5	100%	9.8	100%
Total Non-Regional	104.2	8%	0.0	0%	—	0%
Total Disbursed	**1,381.4**	**100%**	**778.5**	**100%**	**9.8**	**100%**

Note:

(1) The amounts indicated for a particular geographic location include both sovereign and non-sovereign-backed loans.

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Loans by Sector

The following table sets forth AIIB's loan portfolio by sector:

	As of December 31, 2018		As of December 31, 2017		As of December 31, 2016	
	Amount (in millions of US$)(1)	As a percentage of total loan portfolio	Amount (in millions of US$)(1)	As a percentage of total loan portfolio	Amount (in millions of US$)(1)	As a percentage of total loan portfolio
Committed Amounts						
Energy	1,562.1	47%	778.3	40%	—	0%
Finance	199.5	6%	—	0%	—	0%
ICT(2)/others	125.2	4%	—	0%	—	0%
Transport	620.6	18%	751.5	39%	117.8	35%
Urban	249.7	8%	296.3	15%	216.5	65%
Water	571.0	17%	121.4	6%	—	0%
Total Committed	**3,328.1**	**100%**	**1,947.5**	**100%**	**334.3**	**100%**
Disbursed Amounts						
Energy	945.0	68%	672.5	86%	—	0%
Finance	0.1	0%	—	0%	—	0%
ICT(2)/others	(1.1)	0%	—	0%	—	0%
Transport	358.3	26%	83.0	11%	9.8	100%
Urban	67.6	5%	19.7	3%	—	0%
Water	11.5	1%	3.4	0%	—	0%
Total Disbursed	**1,381.4**	**100%**	**778.5**	**100%**	**9.8**	**100%**

Notes:

(1) The amounts set forth in this table include both sovereign and non-sovereign-backed loans.
(2) ICT means the information, communication and technology sector.

Loan Maturity

As of December 31, 2018, based on final repayment date of the loans, none of AIIB's disbursed and committed loans is scheduled to mature through 2022, US$1,470.9 million is scheduled to mature in 2023-2033 and US$3,238.5 million is scheduled to mature from 2034 onwards.

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Ten Largest Borrowers

The following table sets forth the aggregate principal amount of loans (including both committed and disbursed amounts) to AIIB's 10 largest borrowers (including both sovereign-backed and non-sovereign-backed borrowers) as of December 31, 2018:

Borrower	Amount (in millions of US$)	As a percentage of total loan portfolio
Ministry of Finance of Indonesia	692.1	15%
Ministry of Finance of India	630.8	13%
Southern Gas Corridor Closed Joint Stock Company of Azerbaijan	601.0	13%
Boru Hatlari ile Petrol Tasima A.S. (BOTAS) of Turkey	598.8	13%
Ministry of Finance of Pakistan	400.6	9%
Special Economic Zone Authority of DUQM of Oman	265.3	6%
Beijing Gas Group Company Limited of China	247.0	5%
Ministry of Finance of Bangladesh	226.0	5%
Ministry of Finance of Philippines	207.8	4%
Oman Broadband Company SAOC of Oman	124.1	3%

Approved Financings

Set out below are descriptions of all the Bank's approved financings as of May 6, 2019:

Loans

Azerbaijan

- Trans-Anatolian Natural Gas Pipeline – The Board of Directors approved US$600.0 million of financing, with additional funds being provided by the World Bank (US$800.0 million), other international financial institutions (US$2.1 billion) and other financing sources (US$5.1 billion). The project is an 1,850 km pipeline system running across Turkey to transport 16 billion cubic meters per year of natural gas produced at the Shah Deniz 2 field in Azerbaijan for consumption in Turkey and the South Eastern European market. The financing for this project was approved by the Board of Directors on December 21, 2016.

Bangladesh

- Bhola Independent Power Producer – The Board of Directors approved US$60.0 million of financing. The project is to increase power generation capacity in Bangladesh by approximately 1,300 gigawatt hours annually. The financing for this project was approved by the Board of Directors on February 9, 2018.
- Distribution System Upgrade and Expansion – The Board of Directors approved US$165.0 million of financing, with a total project cost of US$262.3 million. The project is to upgrade two grid substations and convert 85 kilometers of overhead distribution lines into underground cables in north Dhaka. The financing for this project was approved by the Board of Directors on June 24, 2016.
- Natural Gas Infrastructure and Efficiency Improvement Project – The Board of Directors approved US$60.0 million of financing. The project is to improve efficiency in gas production in Titas Gas Field and expand gas transmission pipeline capacity between Chittagong and Bakhrabad. The financing for this project was approved by the Board of Directors on March 22, 2017.

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- Power System Upgrade and Expansion Project – The President approved US$120.0 million of financing. The project is to upgrade and expand the power transmission system in the Chittagong region to ensure an adequate and reliable power supply in the southeastern region of Bangladesh. The financing for this project was approved by the President on March 26, 2019.

China

- Beijing Air Quality Improvement and Coal Replacement Project – The Board of Directors approved US$250.0 million of financing. The project is for the construction of natural gas distribution networks in around 510 rural villages of Beijing, includin the installation of low-pressure village gas pipelines, household connections and household gas consumption meters. The financing for this project was approved by the Board of Directors on December 8, 2017.

Egypt

- Egypt Round II Solar PV Feed-in Tariffs Program – The Board of Directors approved US$210.0 million of financing, with additional funds to be provided by other lenders, including IFC and AfDB. Total project cost is expected to be up to a maximum of US$755.0 million. The project is to (i) increase Egypt's generation capacity by exploiting its vast renewable energy potential and help the country to meet its power demand and (ii) reduce the dependence on gas and fuel for electricity generation and move to a more balanced and environmentally sustainable energy mix. This project consists of 11 greenfield solar power plants with an aggregate capacity of 490 MWac. The financing for this project was approved by the Board of Directors on September 4, 2017.

- Sustainable Rural Sanitation Services Program – The Board of Directors approved US$300.0 million of financing, with additiona funds to be provided by the World Bank. The project is to strengthen institutions and policies to increase access and improve rural sanitation services in selected governorates in Egypt through the implementation of key sector and institutional reforms, together with the rehabilitation and construction of integrated infrastructure for collection, treatment and disposal of household sewage. The financing for this project was approved by the Board of Directors on September 28, 2018.

Georgia

- Batumi Bypass Road Project – The Board of Directors approved US$114.0 million of financing. The project is for the construction of a new two-lane 14.3-kilometer-long highway to provide a bypass to the Batumi port city (the second largest city in Georgia). The financing for this project was approved by the Board of Directors on June 15, 2017.

India

- Andhra Pradesh 24x7 – Power For All – The Board of Directors approved US$160.0 million of financing. The project is to increase the delivery of electricity to customers and to improve the operational efficiency and system reliability in distribution of electricity in selected areas in Andhra Pradesh through (i) power transmission system strengthening, (ii) smart grid developmen in urban areas, (iii) distribution system strengthening and (iv) technical assistance for institutional development and capacity building. The financing for this project was approved by the Board of Directors on May 2, 2017.

- Andhra Pradesh Rural Roads Project – The Board of Directors approved US$455.0 million of financing. The project is to improve road transport connectivity in previously unserved

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communities by providing all-weather rural roads in all 13 districts of the state of Andhra Pradesh. The financing for this projec was approved by the Board of Directors on September 28, 2018.

- Andhra Pradesh Urban Water Supply and Septage Management Improvement Project – The Board of Directors approved US$400.0 million of financing, with a total project cost of US$570.0 million. The project is to provide safe drinking water through piped water supply to 3.3 million people in the state of Andhra Pradesh. The financing for this project was approved by the Board of Directors on December 7, 2018.

- Bangalore Metro Rail Project – Line R6 – The Board of Directors approved US$335.0 million of financing. The project is to provide efficient and high-capacity north-south connectivity through the center of Bangalore by expanding the city's metro system through construction of elevated viaducts and stations, underground section tunnels and stations, a maintenance depot and a tunnel ventilation system and environment control system. The financing for this project was approved by the Board of Directors on December 8, 2017.

- Gujarat Rural Roads (MMGSY) Project – The Board of Directors approved US$329.0 million of financing for phase one of the project. The project consists of construction and upgrades to roads of second and third connectivity to rural villages and upgrades to roads that provide first connectivity to rural villages. The project will also provide technical assistance and the application of innovative technologies in construction, upgrades and maintenance of roads. The financing for this project was approved by the Board of Directors on July 4, 2017.
- Madhya Pradesh Rural Connectivity Project – The Board of Directors approved US$140.0 million of financing. The project is to improve rural accessibility through resilient infrastructure, to improve the livelihood of rural populations through a better farm-to-market road connection and to enhance capacity of the Madhya Pradesh Rural Road Development Authority to manage Madhya Pradesh's rural road network. The financing for this project was approved by the Board of Directors on April 11, 2018.
- Transmission System Strengthening Project – The Board of Directors approved US$100.0 million of financing. The project is to enhance electricity capacity in the southern region of India and re-balance the peak and off-peak energy sharing from the surplus areas of the northern and western regions of India to the deficit areas in the southern region of India. The financing for this project was approved by the Board of Directors on September 27, 2017.

Indonesia

- Dam Operational Improvement and Safety Project Phase II – The Board of Directors approved US$125.0 million of financing. The project is to increase the safety and functionality of existing dams in selected locations and strengthen the operation and management capacity for dam safety. The financing for this project was approved by the Board of Directors on March 22, 2017.
- Mandalika Urban and Tourism Infrastructure Project – The Board of Directors approved US$248.4 million of financing, with a total project cost of US$316.5 million. The project is to provide sustainable core infrastructure for the development of a new tourism destination in the Mandalika region of Lombok, Indonesia. The financing for this project was approved by the Board of Directors on December 7, 2018.
- National Slum Upgrading – The Board of Directors approved US$216.5 million of financing, with a total project cost of US$1.7 billion. The project is for improving the desperate living conditions of 9.7 million people who live in slums in 154 cities i central and eastern parts of Indonesia. The financing for this project was approved by the Board of Directors on June 24, 2016

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- Regional Infrastructure Development Fund Project – The Board of Directors approved US$100.0 million of financing to increase access to infrastructure finance at the subnational level through creation of a sustainable financial intermediary, a Regional Infrastructure Development Fund, that channels funds from AIIB, IBRD, and the Indonesian government to Indonesia's sub-national governments. The financing for this project was approved by the Board of Directors on March 22, 2017.
- Strategic Irrigation Modernization and Urgent Rehabilitation Project – The Board of Directors approved US$250.0 million of financing, with a total project cost of US$578.0 million. The project is to rehabilitate and modernize Indonesia's irrigation sector by increasing participatory development, improving service levels and upgrading infrastructure and sustainable management. The financing for this project was approved by the Board of Directors on June 24, 2018.

Lao PDR

- National Road 13 Improvement and Maintenance Project – The Board of Directors approved US$40.0 million of financing. The project is to improve the road condition and safety and climate resilience of critical sections of National Road 13 which is the backbone road network of Lao PDR. Its upgrade, rehabilitation and maintenance are expected to result in better connectivity fo the country and the region and serve the growing demand of road users. The financing for this project was approved by the Board of Directors on April 4, 2019.

Myanmar

- Myingyan Power Plant – The Board of Directors approved US$20.0 million of financing. The project is for the development, construction and operation of a greenfield 225-megawatt combined cycle gas turbine power plant in the Mandalay region of Myanmar, with a total project cost of US$312 million. The financing for this project was approved by the Board of Directors on September 27, 2016.

Oman

- Broadband Infrastructure Project – The Board of Directors approved US$239.2 million of financing, including an A loan of US$152.1 million and a B loan of US$87.1 million. The project is for the installation of fiber optic cables and associated passive infrastructure, such as points of presence, network access points and frame distribution hubs. The financing for this project was approved by the Board of Directors on December 8, 2017.
- Duqm Port Commercial Terminal and Operational Zone Development – The Board of Directors approved US$265.0 million of financing, with a total project cost of US$353.3 million. The project is for construction of infrastructure to operationalize Duqm Port. The financing for this project was approved by the Board of Directors on December 8, 2016.

Pakistan

- National Motorway M-4 (Shorkot-Khanewal Section) – The Board of Directors approved US$100.0 million of financing, with a total project cost of US$273.0 million. The project is to complete the final stage of a four-lane highway between Multan and Islamabad. The financing for this project was approved by the Board of Directors on June 24, 2016.
- Tarbela 5 Hydropower Extension – The Board of Directors approved US$300.0 million of financing, with a total project cost of US$823.5 million. The project is for the installation of a

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power house at the fifth tunnel of the Tarbela Dam and the construction of a transmission line to connect the power to the national grid. The financing for this project was approved by the Board of Directors on September 27, 2016.

Philippines

- Metro Manila Flood Management Project – The Board of Directors approved US$207.6 million of financing, with the World Bank providing an additional US$207.6 million and the borrower providing US$84.8 million. The project's objective is to improve and modernize flood management in selected areas of Metro Manila. The financing for this project was approved by the Board of Directors on September 27, 2017.

Sri Lanka

- Colombo Urban Regeneration Project – The Board of Directors approved US$200.0 million of financing. The project is to improve the housing conditions of low-income communities and increase land use efficiency in Colombo through investments in the construction of affordable housing and the redevelopment of land. The financing for this project was approved by the Board of Directors on April 4, 2019.
- Reduction of Landslide Vulnerability by Mitigation Measures Project – The Board of Directors approved US$80.0 million of financing. The project is to reduce risk and damage from landslides in Sri Lanka through the implementation of physical mitigation measures and the improvement of planning, regulation and instruments associated with landslide management. The financing for this project was approved by the Board of Directors on April 4, 2019.

Tajikistan

- Dushanbe-Uzbekistan Border Road Improvement – The Board of Directors approved US$27.5 million of financing, with a total project cost of US$105.9 million. The project is for rehabilitating the five-kilometer section of the road connecting Dushanbe to the border with Uzbekistan. The financing for this project was approved by the Board of Directors on June 24, 2016.
- Nurek Hydropower Rehabilitation Project, Phase I – The Board of Directors approved US$60.0 million of financing. The project is to rehabilitate, restore the generating capacity and improve the efficiency of the three power-generating units of Nurek Hydropower Plant and to strengthen the safety of the Nurek dam. The financing for this project was approved by the Board of Directors on June 15, 2017.

Turkey

- TSKB Sustainable Energy and Infrastructure On-lending Facility – The Board of Directors approved US$200.0 million of financing. The project is to support sustainable infrastructure development in Turkey by financing renewable energy projects (including solar, hydropower, wind, geothermal and biomass), energy efficiency projects and, to a smaller extent, other infrastructure fields, such as transport, water management and treatment, power transmission and telecommunications. The financing for this project was approved by the Board of Directors on September 28, 2018.

- Tuz Golu Gas Storage Expansion Project – The Board of Directors approved US$600.0 million of financing. The project is to improve energy security by increasing the reliability and stability of the gas supply through expanding gas storage capacity. The financing for this project was approved by the Board of Directors on June 24, 2018.

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Investments in Funds

Asia

- IFC Emerging Asia Fund – The Board of Directors approved US$150.0 million of financing to the LLP Fund. The LLP Fund is being formed to provide investors with the opportunity to invest in IFC's proprietary pipeline of investments in emerging markets of the Asia region. The LLP Fund has a target size of US$1 billion and intends to select equity and quasi-equity investments in companies, entities or other arrangements to build a diversified portfolio of investments across emerging markets of the Asia region. This financing was approved by the Board of Directors on September 27, 2017.

India

- India Infrastructure Fund – The Board of Directors approved US$150.0 million of financing to a fund whose investment strategy is to invest in infrastructure platforms and infrastructure services companies with high growth potential and revenues principally derived from India. This financing was approved by the Board of Directors on June 15, 2017.
- National Investment and Infrastructure Fund – The Board of Directors approved US$100.0 million of financing for the initial closing of the NIIF. The objective of the NIIF is to cause more private sector capital to be put into investments in infrastructure and to increase infrastructure investment in India. This financing was approved by the Board of Directors on June 24, 2018.

Equity

India

- Transport Sector – The Board of Directors approved US$50.0 million of equity financing in the transport sector. This financing was approved by the Board of Directors on August 16, 2018.

Investments in Fixed-Income Securities

Asia

- Asia Environmental, Social and Governance ("ESG") Enhanced Credit Managed Portfolio – The Board of Directors approved US$500 million of financing. The project is to establish a credit portfolio with a view to (i) developing infrastructure as an asset class and deepening the sustainable debt capital markets in Asia, (ii) catalyzing ESG investment principles in emerging markets in Asia by developing an AIIB ESG framework and launching an ESG markets initiative to build capacity among market participants and (iii) providing financing to infrastructure-related issuers via subscriptions to primary issuances. This financing was approved by the Board of Directors on December 18, 2018.

Proposed Financings

As of May 6, 2019, the Bank had 84 proposed financings in the pipeline for 2019-2021. The pipeline includes all proposed financings for the next 24 months (updated on a rolling basis) that have passed pre-concept review screening and have subsequently been included into the pipeline by the Executive Committee. See " – Non-Sovereign-Backed Financings – Pre-Concept Review Screening."

The proposed financings span a broad range of sectors, including energy, transport, urban development, water, ICT and finance and would fund projects in the following countries: Bangladesh, Cambodia, China, Egypt, Georgia, India, Indonesia, Kazakhstan, Maldives, Mongolia, Nepal, Oman, Pakistan, Russia, Sri Lanka, Tajikistan, Turkey, Uzbekistan and Vietnam.

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Financing Approval Process

The Bank's financing process is guided by its strategic goals and thematic priorities of sustainable infrastructure, cross-border connectivity and private capital mobilization. The Bank reviews financing proposals, seeking to achieve an appropriate balance among sectors, sovereign-backed and non-sovereign-backed financings and beneficiaries of such financings. The ESF Framework is integral to the decision-making process on all projects. See " – Key Operational Policies, Strategies and Frameworks – Environmental and Social Framework."

Non-Sovereign-Backed Financings

The approval process for non-sovereign-backed financings is as follows:

Pre-Concept Review Screening

The Bank receives financing ideas and proposals from a variety of entities, including project sponsors, commercial banks, governmen entities and development partners. Each proposed financing undergoes preliminary screening to determine if it aligns strategically with the Bank's purposes and priorities, broadly meets the Bank's operating principles and presents an opportunity that is sufficiently attractive for the Bank to dedicate significant resources. During this stage, the Bank performs an initial integrity check on the beneficiary and sponsors of the proposed financing and gathers information about key aspects of the proposed financing. The prospective beneficiary submits documentation pertaining to the proposed financing, which may include a project summary, information memorandum and/or feasibility report. If the proposed financing passes this initial screening, it is submitted to the Executive Committee for inclusion in the Bank's rolling financing program. See " – Proposed Financings."

Concept Review

The purposes of the concept review are to (i) confirm that the proposed financing broadly fits within the purposes, policies, strategies and priorities of the Bank, (ii) assess whether the project merits the Bank's investment of time and resources, (iii) assess and authorize the initial resource requirements for the proposed financing, (iv) discuss possible modifications to the proposed financing to enhance its contribution to the Bank's objectives and (v) agree on the key issues to be addressed and the approach to resolving them.

For the concept review, a concept review document is prepared and submitted to the Investment Committee. This concept review document includes, among other things, the following information: (i) a summary of key financing terms, (ii) a description of the underlying project, including use of proceeds of the proposed financing, (iii) brief information on the beneficiary and sponsors, including the results of the initial integrity check, (iv) rationale for the Bank's involvement in the proposed financing, (v) a risk assessment of the proposed financing (including an indicative risk rating, economic capital and risk-weighted return on capital of the proposed financing), (vi) preliminary analysis on the potential environmental and social impact of the proposed financing, (vii) summary of key project issues and (viii) timetable for next steps.

Comprehensive Financing Assessment

If the proposal passes concept review, the Bank's team in charge of the proposed financing conducts a comprehensive assessment that is designed to inform the Bank of the following: (i) the technical and financial aspects of the proposed financing, (ii) the creditworthiness of the beneficiary and the sponsors, (iii) the environmental and social risks and potential impact of the proposed

financing, (iv) any issues in connection with procurement, legal and reputational concerns and (v) other relevant characteristics of the proposed financing. As part of this assessment, the Bank carries out a detailed financial and risk analysis of the proposed financing, as well as continues its integrity due diligence. Integrity due diligence includes gathering information with respect to the beneficiary and the sponsors, such as their corporate governance structure, beneficial ownership, financial transparency and strength, compliance and integrity including in relation to tax matters, and any sanctions concerns.

If required (by the Investment Committee during its concept review or by the chair of the Investment Committee after concept review), an interim review document is submitted to the Investment Committee. Interim review is typically required when there are new significant developments with respect to the proposed financing or complex issues or other matters which require additional guidance from the Investment Committee.

After sufficient due diligence has been completed, the Bank begins work on a term sheet, which later forms the basis for drafting the financing agreements.

Final Review

The purposes of final review are for the Investment Committee to (i) assess, based on the final review document, whether to recommend approval of the proposed financing, and on what conditions and (ii) authorize documentation of the deal (if approval is recommended). The final review document contains, among other things, a discussion of new issues arising after the last review and changes to business terms and the financial model and negotiated term sheet.

Approval and Preparation of Documentation

If the proposed financing passes the final review, it undergoes a policy assurance review by the Bank's Policy & Strategy department. At the same time, the Bank seeks to confirm that there are no objections from the member in whose country the underlying project is to be carried out.

At this stage, an approval document is prepared and, upon the President's recommendation, submitted to the Board of Directors for approval of the proposed financing (subject to the President's delegated authority to approve certain projects, as discussed below). Effective January 1, 2019, the Board of Directors has delegated authority to the President of the Bank, in his capacity as head of Bank management, to approve certain financings. This delegation is subject to limits based on the precedent-setting nature of the financing, the existence of significant strategy or policy issues, established risk tolerance and the ability of any single Director to require review by the Board of Directors of the financing. The Board of Directors will also undertake an annual review of the President's use of his delegated authority.

Following such approval, the legal documentation for the financing is prepared, negotiated and signed. Effectiveness of the financing is subject to the satisfaction of all conditions precedent.

Project Implementation and Monitoring

The beneficiary is responsible for implementing the underlying project in a timely manner. If needed, the beneficiary may recruit consultants to provide specialized professional services in areas such as detailed design, procurement and capacity development.

The Bank's team in charge of the financing remains fully engaged during the implementation of the underlying project both through site visits and continuous dialogue with the beneficiary on a variety of issues, including any environmental and social concerns. As part of the monitoring process, the Bank

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evaluates not only implementation of the underlying project, but also any event that would change the risk profile of such project and the beneficiary's compliance with the covenants included in the financing agreements.

Project Completion and Evaluation

In addition to periodic reporting to the Board of Directors on material issues encountered during the implementation of the underlying project, the Bank prepares a completion report no later than six months after the full discharge of the beneficiary's financial obligations to the Bank in connection with the financing. The report assesses the results of the underlying project and the Bank's financing. Upon approval by the Investment Committee, the report is submitted to the Board of Directors for information.

Sovereign-Backed Financings

The approval process for sovereign-backed financings is broadly similar to that for non-sovereign-backed financings. However, since these financings are made to or guaranteed by a Bank member, financing proposals are normally received from the Bank member or development partners. The Bank's due diligence focuses on the impact of the proposed financing on the member's fiscal sustainability, as well as on the environmental, social, fiduciary (procurement, financial management and disbursement) and other implementation aspects of the proposed financing. In addition, the Investment Committee's final review includes a determination of whether to authorize negotiations of the sovereign-backed financing documentation, which must be substantially complete before the approval of the financing is solicited (in contrast to non-sovereign-backed financings, where negotiations do not need to be completed in order to seek approval of the financing).

Key Operational Policies, Strategies and Frameworks

The Bank has developed, and continues to develop, a wide range of operational policies, strategies and frameworks. The Bank has policies on prohibited practices, international relations and public information and strategies on financing operations in non-regional members, mobilizing private capital for infrastructure, sustainable cities and the transport sector. In addition, the Bank's operational policies, strategies and frameworks include the following:

Operational Policy on Financing

The Bank has adopted an Operational Policy on Financing setting out the Bank's policy on providing sovereign-backed financing and non-sovereign-backed financing for projects. It includes an overview of financing instruments, project assessments and the structure of financial and contractual terms.

Environmental and Social Framework

The Bank has established the ESF Framework, which is intended, among other things, to accomplish the following: (i) to ensure the environmental and social soundness and sustainability of projects financed (in whole or in part) by the Bank, (ii) to address environmental and social risks and impacts in Bank-financed projects, (iii) to provide a robust structure for managing operational and reputational risks o the Bank and its shareholders in relation to the environmental and social risks and impacts of Bank-financed projects, (iv) to provide a mechanism for addressing environmental and social risks and impacts in project identification, preparation and implementation and (v) to facilitate cooperation on environmental and social matters with development partners. Under the ESF Framework, the Bank has established an Environmental and Social Policy and three associated

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Environmental and Social Standards, which set forth mandatory environmental and social requirements for each project financed (in whole or in part) by the Bank. In addition, the Bank has developed an environmental and social exclusion list, which sets forth activities and othe items that the Bank will not knowingly finance.

Energy Sector Strategy: Sustainable Energy for Asia

The Bank's Sustainable Energy for Asia Strategy (the "Energy Sector Strategy") sets out a clear framework to invest in energy projec that will increase access to clean, safe and reliable electricity for millions of people in Asia. To implement the Energy Sector Strategy, the Bank will support its members to do their part, as expressed in the Paris Agreement, to "hold the increase in the global average temperature to well below 2 degrees Celsius above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5 degree Celsius." The Bank intends to achieve this by aligning its support with its members' national energy investment plans, including their nationally determined contributions (NDC) under the Paris Agreement. Initially, the Bank will focus on projects in renewable energy, energ efficiency, rehabilitation and upgrading of existing plants, and transmission and distribution networks. It will cooperate with other MDBs, bilateral agencies and the private sector operating in Asia. Over time, the Bank plans to engage with potential financial intermediaries in renewable energy and energy efficiency investments. The Energy Sector Strategy was developed through an iterative, consultative process, including two rounds of public consultations.

Economic Sanctions

The United Nations Security Council (the "UNSC"), the European Union and individual countries, including the United States, may impose economic sanctions and trade embargoes targeting certain countries, entities and individuals. Such economic sanctions and embargo laws and regulations vary in their application with regard to countries, entities and individuals, and the scope of activities that are subjected to sanctions. These sanctions and embargo laws and regulations may be strengthened, relaxed or otherwise modified over time Certain countries and territories (including the Crimea region, Cuba, Iran, North Korea, Sudan and Syria), entities and individuals are targeted by sanctions and embargoes imposed by the United States, and several of those targeted countries (currently North Korea, Iran, Sudan and Syria) have been identified as state sponsors of terrorism by the U.S. Department of State.

In the case of sanctions maintained by the United States, the President of the United States generally has broad discretion to impose or remove some sanctions pursuant to his authority under the International Emergency Economic Powers Act and the Trading with the Enemy Act. In addition, the United States may implement sanctions adopted by the UNSC in order to meet requirements imposed on member states of the United Nations. Other sanctions programs, such as certain measures related to Iran, Cuba and Russia, are specifically mandated under U.S. statutes, including the Iran Sanctions Act of 1996, the Comprehensive Iran Sanctions, Accountability and Divestment Act, the Iran Threat Reduction and Syria Human Rights Act of 2012, the Iran Freedom and Counter-Proliferation Act, the National Defense Authorization Act for Fiscal Year 2012, the Countering America's Adversaries Through Sanctions Act, the Cuban Democracy Act and the Cuban Liberty and Democratic Solidarity (Libertad) Act.

U.S. sanctions may be classified as "primary" sanctions or "secondary" sanctions. Primary sanctions make certain conduct by U.S. persons and persons subject to U.S. jurisdiction, and certain activities taking place in the United States, unlawful. Secondary sanctions generally target non-U.S. persons for conduct that occurs outside of the United States, subjecting those persons to sanction by the United States if they engage in specified conduct.

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The Bank complies with applicable UNSC sanctions imposed under Chapter VII of the UN Charter and is mindful of and gives due regard to the restrictions contained in the various economic sanctions programs and embargo laws administered by the United States, the European Union and other jurisdictions that limit the ability of persons from doing business or trading with targeted countries, territories, entities and individuals. Although the Bank is not a U.S. person and does not operate in or from the United States, the Bank transacts in the ordinary course with various commercial counterparties that are required to comply with U.S. sanctions, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury ("OFAC"). For example, such counterparties may serve as a correspondent bank for the Bank, or as another intermediary that is involved in funds flows in respect of the Bank's loan, investment or funding operations. Furthermore, U.S. persons who are required to comply with U.S. sanctions may be employees of the Bank, or may serve as advisors or service providers to the Bank. U.S. persons also may be purchasers of the Notes. In addition, secondary sanctions maintained by the United States may result in sanctions against the Bank if the Bank engages in targeted conduct, including facilitation of transactions and activities involving persons targeted by sanctions, including certain Iran-related persons.

The Bank seeks to avoid violations of sanctions and seeks to avoid engaging in sanctionable conduct, as violations or engagement in sanctionable conduct may restrict the Bank's ability to access the U.S. capital markets, including the Bank's ability to offer and sell the Notes in the United States, and may have a negative impact on the Bank's business, operations or assets. The Bank screens transaction by consulting relevant sanctions lists of sanctioning authorities for sanctioned individuals, entities and other targets. Iran and Sudan are members of the Bank, and the Bank's contacts with Iran and Sudan have concerned the same governance matters and processes common to all regional (in the case of Iran) and non-regional (in the case of Sudan) members, and no other particular contacts are currently contemplated. The Bank has not financed any projects in Iran or Sudan, nor are any such projects in the pipeline. Certain provisions of U.S. law (a) prohibit U.S. persons and persons subject to U.S. jurisdiction from investing in or facilitating an investment in Iran or in any entity owned or controlled by the government of Iran and (b) require imposition of secondary sanctions on any person who i determined to have knowingly purchased, subscribed to, or facilitated the issuance of sovereign debt of the government of Iran or debt of any entity owned or controlled by the government of Iran. Iran's shares represent less than two percent of the Bank's overall capital, and Iran's voting power is also under two percent. The Bank does not believe that Iran's membership in the Bank constitutes control of the Bank by Iran such that any general-purpose security issued by the Bank, including the securities offered hereby, would constitute an investment in sovereign debt of Iran or an entity owned or controlled by the government of Iran for purposes of these provisions.

In connection with the offering of the Notes, the Bank will agree with the Underwriters that the Bank will not, directly or indirectly, use the proceeds of the offering to fund, or make available any proceeds to any person or entity that, at the time of such funding, is (i) listed on, or owned or controlled by a person or organization listed on, the "Specially Designated Nationals and Blocked Persons" list maintaine by OFAC or any similar list maintained and made public by the United States (or any U.S. governmental institution) or the UNSC, or (ii) a government (or an entity directly or indirectly owned or controlled by such government) of any country, region or territory that is the subjec of territorial sanctions imposed by the United States (or any U.S. governmental institution) or the UNSC (a "Sanctioned Person"). The Ban will also agree that the Bank has not engaged and will not engage in any transaction with any Sanctioned Person in connection with the offering of the Notes.

It is possible that new, or changes to existing, sanctions-related legislation or agreements may impact the Bank's business. Moreover, although the Bank believes that it is in compliance with all applicable sanctions and embargo laws and regulations, and intends to maintai such compliance, the scope of certain laws may be unclear, may be subject to changing interpretations or may be strengthened or otherwise amended. Any violation of sanctions or engagement in sanctionable conduct

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could result in fines, sanctions or other penalties, and could result in some investors deciding, or being required, to divest their interest, or not to invest, in the Notes. The Bank cannot predict the impact that the imposition of secondary sanctions would have on the trading market for the Notes or whether such sanctions would make it more difficult to sell and trade the Notes in certain jurisdictions, including in the U.S. market.

AIIB Project Preparation Special Fund

In June 2016, in accordance with Article 17(1) of the Articles of Agreement, the Bank established the AIIB Project Preparation Specia Fund (the "Project Preparation Special Fund").

The Project Preparation Special Fund provides grants to support and facilitate through technical assistance the preparation of projects to be financed by AIIB in eligible members. Technical assistance eligible for financing includes consultancy services and reports, equipment needed to prepare or deliver such services and reports and related training. Projects eligible for support are those (i) which are being considered for financing by AIIB and (ii) which benefit one or more members of the Bank that are classified as recipients of financin from the IDA, including blend countries. Blend countries are those countries that are eligible to receive financing from the IDA on the basis of their per capita income levels and are also sufficiently creditworthy for some IBRD borrowing. Projects that benefit other members of the Bank may also be eligible for such technical assistance in exceptional circumstances, such as innovative and complex projects and regional or cross-border projects with significant regional impact (provided that the cumulative amount of funds allocated to all such projects does not exceed 20% of the aggregate amount of all contributions to the Project Preparation Special Fund). Resources of the Project Preparation Special Fund may also be used in compelling cases to support non-sovereign-backed financings (provided that the cumulative amount of funds allocated to all such financings does not exceed 10% of the aggregate amount of all contributions made to th Project Preparation Special Fund).

Any member of the Bank, any of its political or administrative sub-divisions, or any entity under the control of such member or such sub-divisions or any other country, entity or person approved by the President may contribute to the Project Preparation Special Fund ("Permitted Contributors"). Special Fund Resources consist of (i) amounts accepted from Permitted Contributors, (ii) any income derived from investment of the resources of the Project Preparation Special Fund and (iii) any funds reimbursed to the Project Preparation Specia Fund. The Bank is under no obligation to provide financial support to the Project Preparation Special Fund. The Bank, acting as manager of the Project Preparation Special Fund, receives administration fees and cost recovery fees. See "– Ordinary Resources and Special Fun Resources" for further information about Special Fund resources and requirements.

As of March 31, 2019, committed contributions to the Project Preparation Special Fund totaled US$128.0 million, consisting of US$50.0 million from each of China and the United Kingdom, US$18.0 million from the Republic of Korea and US$10.0 million from Hong Kong, China. As of March 31, 2019, total paid contributions to the Project Preparation Special Fund equaled US$103.0 million, consisting of US$50.0 million from China, US$25.0 million from the United Kingdom, US$18.0 million from the Republic of Korea and US$10.0 million from Hong Kong, China.

As of March 31, 2019, the Bank had seven approved projects under the Project Preparation Special Fund, representing funds of approximately US$7.4 million. These projects include a US$2.2 million grant to prepare for a bridge enhancement project in Bangladesh, a US$1.0 million grant to prepare for an urban infrastructure investment project in Nepal, a US$1.0 million grant to prepare for a road enhancement project in Lao PDR, a US$1.0 million grant to prepare for a power distribution system upgrade and expansion project in Nepal, a US$0.9 million grant to prepare for a hydroelectric project in Nepal, a US$0.8 million grant to prepare for a road upgrade project in

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Bangladesh and a US$0.5 million grant to prepare for a water waste management project in Pakistan. A previously approved project was discontinued in September 2018 due to the cancellation of the underlying project by the lead financier.

Quality of Loan Portfolio

When a borrower fails to make payment on any principal, interest or other charge due to the Bank, the Bank may suspend disbursements on loans to that borrower. With respect to sovereign loans, the Bank would cease approving new 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.

As required by IFRS 9, AIIB uses the ECL model to estimate credit loss on financial assets, such as loan disbursements, and on othe instruments, such as undrawn loan commitments. AIIB recognizes a provision to the extent the ECL of a financial instrument exceeds its gross carrying amount. See "Risk Management – Risk Types – Financing Credit Risk" and Notes B.3.3.4, B4.1 and D3 to the 2018 Audite Financial Statements for further discussion on the Bank's credit quality analysis.

As of December 31, 2018, no AIIB assets were categorized as overdue, restructured trouble debt, in non-accrual status or written off, except for overdue contractual undiscounted paid-in capital receivables of $256.7 million, which are not considered as impaired. Of this amount, $178.7 million was collected as of April 3, 2019, the date of the signing of the 2018 Audited Financial Statements.

As of December 31, 2018, ECL increased to US$49.0 million from US$9.4 million as of December 31, 2017 and US$0.3 million as of December 31, 2016. The increase between December 31, 2017 and December 31, 2018 was mainly attributable to a significant increase in credit risk ("SICR") in respect of one sovereign loan in Turkey and two sovereign loans in Pakistan, reflecting, in turn, a deterioration in the macroeconomic conditions of both countries. The increase in ECL between December 31, 2016 and December 31, 2017 was mainly due to the increase in the Bank's loan portfolio as it ramped up operations.

The following table shows AIIB's total gross carrying amount of loan disbursements and exposure of loan commitments for both sovereign- and non-sovereign-backed loans with their respective ECL allowance balances:

	As of December 31,					
	2018		2017		2016	
	(in thousands of US$)					
	Loans and loan commitments	ECL	Loans and loan commitments	ECL	Loans and loan commitments	ECL
Sovereign-backed loans	4,123,810	(46,375)	2,558,761	(5,050)	344,135	(277)
Non-sovereign-backed loans	585,677	(2,598)	167,278	(4,315)	—	—
Total	**4,709,487**	**(48,973)**	**2,726,039**	**(9,365)**	**344,135**	**(277)**

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RISK MANAGEMENT

AIIB has established a Financial and Risk Management Framework, which includes an outline of the Bank's approach to risk and forms the guiding reference framework for all policies and guidelines related to risks.

Risk Philosophy

The Bank's risk philosophy is the foundational pillar of the Bank's approach to risk management. According to the risk philosophy, the Bank's risk management function aims to accomplish the following three objectives:

- enable the Bank to fulfill its mandate to promote infrastructure and other productive sectors;
- ensure the stability and financial continuity of the Bank through efficient capital allocation and utilization, and comprehensively manage risks and reputational consequences; and
- foster strong risk culture by embedding risk accountability in the Bank.

Risk Appetite Statement

The Bank's Risk Appetite Statement (the "RAS"), *inter alia*, articulates the maximum aggregate level and types of risk that the Bank is willing to assume, within its Risk Capacity (as defined below), to achieve its strategic objectives and business plan (the "Risk Appetite").

The maximum level of risk that the Bank can assume given its current level of resources before breaching constraints is determined by (i) available capital and liquidity needs, (ii) the operational environment (e.g., technical infrastructure, risk management capabilities and expertise) and (iii) Bank obligations (the "Risk Capacity"). The Bank allocates its Risk Capacity between core and non-core risks: core risks are those directly linked to the Bank's investment operations mandate and non-core risks are those arising from activities, including treasury operations and other operational activities, supporting the Bank's investment operations mandate.

The RAS classifies each risk type according to one of three appetite levels – low, medium or high:

- Low appetite reflects risk events that have the potential to substantially damage the Bank, jeopardizing its ability to fulfill its mission.
- Medium appetite reflects risk events that, while significant, are not a threat in isolation to the Bank. These risks are typically incurred as part of the Bank's business, but not in the pursuit of the Bank's strategic goals.
- High appetite reflects risk events that are accepted, but closely managed, by the Bank. These risks are typically incurred in pursuit of the Bank's strategic goals.

The Bank has established a variety of key performance indicators, or KPIs, and key risk indicators, or KRIs, which are monitored regularly. The Risk Management Department also performs stress tests of the Bank's draft business plan to ensure compliance with the RAS. The Risk Committee informs the Board of Directors of the impact of the final business plan on the RAS and proposes remedial actions in the event the business plan causes the RAS to be breached. The RAS is submitted to the Board of Directors for its support both on an annual basis and in the event there is any material change to the RAS.

Risk Management Architecture

The risk management architecture comprises the Bank's policies, processes, organizational structure and control and assurance system that, collectively, are designed to help the Bank identify,

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measure, monitor and control risks. The risk management architecture enables the implementation of AIIB's risk philosophy and ensures accountability regarding risk management. The Board of Directors approves key risk policies and monitors core risk metrics and risk limits. The Audit and Risk Committee reviews risk-related policies and the Bank's Risk Appetite Statement (the "RAS"). The President recommends key risk policies for approval by the Board of Directors. The Risk Committee, which is chaired by the Chief Risk Officer (the "CRO") and whose members include the Chief Financial Officer (the "CFO"), the Vice President – Policy and Strategy, the Vice President and Chief Investment Officer and the General Counsel, exercises oversight on behalf of the President of the key risks of the Bank. The Risk Management Department, which is headed by the CRO, has overall responsibility for managing risks, including implementing risk management strategies, policies and procedures.

Key responsibilities of the Bank's Risk Management Department are the following:

- *Risk Management and Oversight*: Overall development and oversight of the Bank's risk framework and policy, and direct governance of AIIB's Risk Committee;
- *Guardian of Risk Appetite*: Articulation of the Bank's overall Risk Appetite and appropriate risk limits, and the embedding of the Risk Appetite into the Bank's processes and culture;
- *Risk Identification and Assessment*: Identification of all material risks, definition of key risk metrics and indicators and development of methodologies, indicators and models to measure risks;
- *Risk Monitoring and Reporting*: Regular monitoring of AIIB's risks and the development and maintenance of a concise upward risk reporting system;
- *Strategic Decision Making*: Align overall business and operational plans with appropriate risk management and ensure that strategic planning reflects the Bank's Risk Appetite;
- *Risk Optimization*: Risk optimization and active risk management by shaping the risk profile within the Bank's Risk Appetite limits, strategic capital allocation through risk-adjusted capital and development of risk-adjusted performance management; and
- *External Communication*: Facilitate the consistent and proportionate disclosure of all risks to external parties, including interaction with rating agencies.

Three Lines of Defense

AIIB's risk management activities are organized in line with the Three Lines of Defense Principle:

- The first line of defense consists of the Bank's business units where risks are taken, including investment operations and other client-facing functions and is designed to ensure that AIIB effectively identifies, assesses, manages and reports risk;
- The second line of defense is the Bank's risk management and compliance functions. The risk management function is primarily responsible for overseeing the Bank's risk-taking activities, undertaking risk assessments and reporting on risk-related work carried out by the first line of defense. The compliance function monitors compliance with laws, corporate governance rules and internal policies; and
- The third line of defense is the Bank's internal audit function, which is responsible, in part, for reviewing and providing assurance regarding the effectiveness of the Bank's risk management activities and governance.

Capital Adequacy

The Bank's capital supports its operations and acts as a cushion to absorb unexpected losses and/or a deterioration in the value of the Bank's assets. AIIB manages capital adequacy risk in accordance

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with several limits, including the following. First, as required by Article 12(1) of the Articles of Agreement, the Bank's total exposure from its investment operations must be less than the Bank's total unimpaired subscribed capital, reserves and retained earnings. 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. Second, the Bank's available capital (i.e., paid-in capital, plus reserves and accumulated retained earnings) must be greater than its economic capital, based on an actual and a three-year projected balance sheet composition, both on a base case and on a stressed scenario basis. The stress testing of the Bank's available capital serves several purposes, including to set a buffer over economic capital that protects the Bank's credit ratings in the event of a severe and protracted crisis scenario.

Risk Types

AIIB has developed both qualitative and quantitative methodologies for identifying, measuring and managing risks. Material risks that the Bank currently faces or expects to face in the future are listed below:

Financing Credit Risk

Credit risk is the risk that a borrower or other counterparty fails to discharge an obligation, thereby causing a loss on the part of the Bank. The Bank is exposed to credit risk in its financing activities.

Sovereign credit risk relates to whether the sovereign borrower or guarantor: (i) has the capacity and willingness to service external debt obligations in general and Bank debt in particular, (ii) has an existing debt burden that is sustainable and (iii) honors the preferred creditor status of the Bank and other MDBs. Bank evaluation of sovereign credit risk is based on quantitative and qualitative risk measurements, including internal rating models and a variety of external sources. The Bank performs its own sovereign credit analysis and assigns its own internal credit ratings, comprising 12 grades. Grades 1-4 are considered investment grade. As of December 31, 2018, the rating of sovereign-backed loans ranged from 3 to 10. The Bank also sets certain exposure limits in respect of sovereign borrowings. As an MDB, the Bank does not participate in country debt rescheduling or debt reduction exercises of sovereign-backed loans or guarantees.

Non-sovereign credit risk relates to the creditworthiness of a private borrower (including a publicly owned company that does not have the benefit of an explicit sovereign guarantee) and the ability and willingness of such private borrower to repay its debt obligations. The Bank deploys a variety of tools to manage this risk, including assigning its own internal credit rating for the borrower (taking into account specific project, sector, macroeconomic and country credit risks) and possibly requiring a full or partial sovereign guarantee. For non-sovereign projects, risk ratings are normally capped by the sovereign credit rating, except where the Bank has recourse to a guarantor from outside the country that has a better rating than the local sovereign credit rating. As of December 31, 2018, the rating of non-sovereign loans ranged from 1 to 9. The Bank also imposes certain exposure limits in respect of non-sovereign loans.

The Bank has adopted an ECL three-stage model for assessing credit risk: Stage 1 for those financial instruments that have not experienced a SICR since initial recognition; Stage 2 for those financial instruments that have experienced a SICR since initial recognition; and Stage 3 for those financial instruments deemed credit-impaired. To determine whether SICR has occurred, the Bank examines quantitative, qualitative and backstop criteria. Quantitative criteria include a two-grade downgrade for investment grade loans or a one-grade downgrade for non-investment grade loans pursuant to the Bank's internal credit rating system.

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Qualitative criteria include (i) adverse changes in business, financial or economic conditions, (ii) expected breach of contract that may lead to covenant waivers or amendments, (iii) transfer to watchlist/monitoring or (iv) change in payment behavior. As a backstop, SICR is deemed to have occurred if the payment under a financial instrument is past due by 30 or more days. To determine whether an asset is credit-impaired, the Bank assesses whether one or more events has occurred that will have a detrimental impact on the estimated cash flows of such asset. Evidence of credit impairment includes: (i) a significant financial difficulty of the borrower, (ii) a breach of contract, such as a default or past due event and (iii) an increasing likelihood that the borrower will enter bankruptcy or other financial reorganization.

The Bank measures ECL on both a 12-month and contractual lifetime basis. 12-month ECL is calculated in the following manner: Point-in-time probability of default * loss given default * exposure at default. Loss given default is currently set at 30% for sovereign loans and 70% (or on a case-by-case basis) for non-sovereign loans. Exposure at default is the loan balance at the period end, plus projected net disbursement in the next year. Lifetime ECL is the summation of the net present value of the ECL for each year. ECL calculations are performed for three different scenarios: baseline, good and bad. In respect of each loan, the Bank defines default to mean one or more of the following: (i) payment default (180 days past due for sovereign loans or 90 days past due for non-sovereign loans), (ii) breach of specific covenants that trigger a default clause, (iii) default under a guarantee or collateral or other support agreement, (iv) failure to pay a final judgment or court order and (v) bankruptcy, liquidation or the appointment of a receiver.

The Bank writes off the gross carrying amount of a financial asset when it has no reasonable expectations of recovering the contractual cash flows on such asset in its entirety or a portion thereof. See "Operations of AIIB – Quality of Loan Portfolio" and Notes B.3.3.4, B4.1 and D3 to the 2018 Audited Financial Statements for further information on ECL calculations and balances.

The table below sets forth the Bank's loans and commitments, classified by geographic distribution and ECL staging:

Region	As of December 31, 2018			As of December 31, 2017		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
	(in thousands of US$)					
Sovereign-backed loans						
Asia	2,859,054	1,264,756	4,123,810	2,194,438	364,323	2,558,761
Non-Asia	—	—	—	—	—	—
Total sovereign-backed loans	2,859,054	1,264,756	4,123,810	2,194,438	364,323	2,558,761
Non-sovereign-backed loans						
Asia	439,174	—	439,174	20,198	—	20,198
Non-Asia	146,503	—	146,503	147,080	—	147,080
Total non-sovereign-backed loans	585,677	—	585,677	167,278	—	167,278
Total	**3,444,731**	**1,264,756**	**4,709,487**	**2,361,716**	**364,323**	**2,726,039**

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 (as reflected on the Bank's balance sheet). The maximum exposure to credit risk from undrawn loan commitments was US$3,328.1 million as of December 31, 2018 and US$1,947.5 million as of December 31, 2017.

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The table below sets forth the Bank's credit enhancements for loans and commitments:

	As of December 31, 2018	As of December 31, 2017
	(in thousands US$)	
Guaranteed by sovereign members	1,764,711	864,303
Guaranteed by non-sovereign entities	266,469	20,199
Unguaranteed(1)	2,678,307	1,841,537
Total	**4,709,487**	**2,726,039**

Note:

(1) The unguaranteed loan investments mainly represent sovereign loans and loan commitments granted to members.

Equity Investment Risk

Equity investment risk is the risk of losing money from investments in equities. The Bank may deploy a variety of measures to manage this risk. For example, if the equity is listed, the investment risk can be marked-to-market, subject to liquidity discounts. For unlisted equities, the investment risk is measured by reference to fair value, with the aid of valuation models and external benchmarks. Risk limits on equity investments are designed both to capture the maximum loss to which the Bank is exposed and to ensure that AIIB's equity investments are well diversified and not concentrated.

The Bank treats its fund investments, such as the LLP Fund and other fund investments, in the same way as equity investments when they have the following features: (i) the investments entitle the Bank to distributions according to pre-determined arrangements during their lives and upon liquidation; and (ii) the investments do not promise a particular return to the holders. As of December 31, 2018, the fair value of investments in the LLP Fund and other fund investments amounted to US$32.4 million and US$0.5 million, respectively.

Liquidity Risk

Liquidity risk is the risk that current or future financial liabilities cannot be met or can only be met on the basis of altered conditions; that refinancing, to the extent needed, can only be achieved at higher interest rates; or that, for whatever reason, the Bank's assets need to be liquidated at a discount. AIIB manages liquidity risk in a variety of ways, including the setting of risk limits, the monitoring of liquidity risk ratios and early warning indicators, diversification, the deployment of liquidity buffers and the implementation of a liquidity contingency plan.

As of December 31, 2018, the Bank did not have any material financial liabilities.

Market Risk

Market risk is the risk of losing money due to the overall performance of the financial markets for all marketable instruments in the Bank's treasury and investment operations portfolio. The Bank is potentially exposed to two material market risks: currency and interest rate risk. The Bank employs a variety of methods to assess and mitigate market risks, such as monitoring the change in economic value o equity, the change in net interest income, the interest rate repricing gap and value-at-risk indicators, as well as the setting of limits.

Counterparty Credit Risk

Counterparty credit risk is the risk that a treasury counterparty to a transaction defaults before the final settlement of such transaction' cash flows. Transactions that give rise to counterparty credit risk include bank deposits, inter-bank lending transactions and derivatives.

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The Bank manages counterparty credit risk through a variety of ways, including the following: (i) assigning a credit rating for each such counterparty, which must be at or above a defined minimum for it to be considered an eligible counterparty, (ii) assigning a credit lim to each eligible counterparty before consummating any transaction with it, (iii) monitoring AIIB's exposure to each counterparty and (iv) monitoring each counterparty's credit quality, and using collateral agreements and limits adjustments to mitigate against deterioration i such credit quality.

As of December 31, 2018, the Bank's treasury portfolio mainly consisted of term deposits, money market funds and the investments i the Trust Fund. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Balance Sheet – Assets. The counterparty credit risk of the Bank mainly relates to term deposits. The Trust Fund was closed upon expiration of its contractual term and all outstanding balances were returned to the Bank as of the end of January 2019.

Asset Liability Risk

Asset liability risks arise from the mismatch of assets and liabilities in terms of currency, interest rates or maturities. Asset liability risk is managed through a variety of tools, including balance sheet projections and the setting of risk limits.

The Bank currently offers loans only in US dollars. The Bank may in the future offer loans in other currencies, provided it has the means to adequately operate in such other currencies and manage associated risks (including through the use of currency swaps or other hedging mechanisms).

Debt-funded financial assets, such as loans, that create market exposures are funded on a back-to-back basis, managed through the use of financial derivatives or otherwise passed through to the borrower. Debt-funded financial assets may be funded with liabilities of a shorter maturity or with mismatched timing of cash flows, subject to defined debt redemption limits that impose a ceiling on the amount of liabilities that may mature during any period. Such refinancing risk may also be mitigated by charging risk spreads and maturity premiums

Any financial derivative entered into by the Bank will be subject to limits and reporting requirements.

Model Risk

Model risk is the risk of adverse consequences arising from decisions based on incorrect or misused model outputs and reports. The Bank has established processes to ensure that the Bank's models have been adequately validated, capture material risks and are conceptually sound and suitably controlled.

Operational Risk

Operational risk is the risk of loss, or detriment, resulting from inadequate or failed processes or systems, through human error or fro 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.

Compliance Risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or reputational loss that AIIB may suffer as a result of its failure to comply with laws, regulations, internal rules and standards. The Bank deploys a variety of measures to mitigate this risk.

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Integrity Risk; Environmental & Social Risk

Integrity risk is the risk that the Bank or its clients will engage in activities that may have an adverse reputational impact on the Bank, whether due to the nature of those activities or due to the background and behavior of the entities with whom the Bank conducts those activities.

Environmental and social risk is the risk of breaching any applicable environmental and social rules and commitments, including those described in the Bank's ESF Framework.

The Bank deploys a variety of measures to mitigate these risks, including impact assessments, ongoing interaction with counterparties clients and other stakeholders and regular reporting and monitoring.

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GOVERNANCE AND ADMINISTRATION

Pursuant to the Articles of Agreement, the Bank is administered and managed by the Board of Governors, the Board of Directors, a President, one or more Vice-Presidents and other officers and staff.

Board of Governors

All of the powers of the Bank are vested in the Board of Governors, consisting of one Governor and one Alternate Governor appointed by each member. While the Articles of Agreement do not specify criteria for the appointment of a Governor by the member, the composition of the Board of Governors includes officials of ministerial (or equivalent) rank. Alternate Governors may only vote in the absence of their principal. A Chairman is elected at each annual meeting and such person holds the office until the election of the next Chairman.

The Board of Governors may delegate to the Board of Directors any or all its powers, except the power to (i) admit new members and determine the conditions of their admission, (ii) increase or decrease the authorized capital stock of the Bank, (iii) suspend members, (iv) decide appeals from interpretations or applications of the Articles of Agreement given by the Board of Directors, (v) elect the Directors of the Bank and determine expenses to be paid for Directors and Alternate Directors, as well as their remuneration, if any, (vi) elect, suspend or remove the President and determine his/her remuneration, (vii) approve the general balance sheet and statement of profit and loss of the Bank, (viii) determine the reserves and the allocation and distribution of net profits of the Bank, (ix) amend the Articles of Agreement, (x) decide to terminate the operations of the Bank and to distribute its assets and (xi) exercise such other powers as expressl assigned to the Board of Governors in the Articles of Agreement. The Board of Governors retains full power to exercise its authority over any delegated matter.

All matters before the Board of Governors are decided by a majority of the votes cast, other than matters that are designated as a Super Majority Vote or Special Majority Vote pursuant to the Articles of Agreement. A Super Majority Vote requires an affirmative vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of AIIB's members. Matters requiring a Super Majority Vote include, among others, matters relating to (i) suspension of membership, (ii) termination of the Bank's operations, (iii) distribution of assets, (iv) amendments to the Articles of Agreement, (v) increases in authorized capital, (vi) changing the subscription base so that regional members comprise less than 75% of total subscribed stock, (vii) increases to the subscription amount o a member, (viii) assistance to recipients beyond those authorized in the Articles of Agreement, (ix) allocation and distribution of net income otherwise than as provided by the Articles of Agreement, (x) electing, suspending or removing the President of the Bank and (xi) increasing or decreasing the size of the Board of Directors. A Special Majority Vote requires an affirmative vote of a majority of the total number of Governors, representing not less than a majority of the total voting power of AIIB's members. A Special Majority Vote is required for certain matters, including, among others, those relating to (i) the issue of shares other than at par value, (ii) establishing subsidiary entities and (iii) admitting members of IBRD or ADB under different terms than provided for in the Articles of Agreement. As noted above under "Asian Infrastructure Investment Bank – Membership, Capital Structure and Reserves – Capital Structure," voting rights acquired by a member in respect of paid-in and associated callable shares for which payments are due but have not been received are suspended until full payment is received by the Bank.

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As of May 6, 2019, the Board of Governors was composed of the following members and alternates:

Member	Governor and Current Position with Member	Alternate and Current Position with Member
Afghanistan	Mohammad Humayon Qayoumi, Acting Minister of Finance and Chief Advisor to the President	Zahid Hamdard, Deputy Minister of Finance
Australia	Josh Frydenberg, Treasurer	Stuart Robert, Assistant Treasurer
Austria	Hartwig Löger, Federal Minister of Finance	Christoph Pesau, Senior Representative for Asia
Azerbaijan	Shahin Mustafayev, Minister of Economy	Samir Sharifov, Minister of Finance
Bahrain	Shaikh Salman Khalifa Salman Alkhalifa, Minister of Finance	Yusuf Abdulla Humood, Financial Advisor
Bangladesh	A. H. M. Mustafa Kamal, Finance Minister	Monowar Ahmed, Secretary (in-charge) for Economic Relations Divisions
Belarus	Krutoy Dmitry Nikolaevich, Minister of Economy	Yermalovich Maxim Leonidovich, Minister of Finance
Brunei Darussalam	Amin Liew Abdullah, Minister of Finance II	Dato Ahmaddin Abdul Rahman, Deputy Minister of Finance
Cambodia	Aun Pornmoniroth, Senior Minister of Economy and Finance	Vongsey Vissoth, Secretary of the State Ministry of Economy and Finance
Canada	Bill Morneau, Minister of Finance	John Hannaford, Deputy Minister for International Trade
China	Liu Kun, Finance Minister	Zou Jiayi, Vice Minister
Cyprus	Kayriakos Kakouris, Head of Directorate of Administration and Finance	Costas Constantinides
Denmark	Anders Samuelsen, Minister for Foreign Affairs	Trine Rask Thygesen, State Secretary for Development Policy
Egypt	Mohamed Maait, Minister of Finance	Sahar Nasr, Minister of International Cooperation
Ethiopia	Abraham Tekeste Meskel, Minister of the Ministry of Finance and Economic Cooperation	Admasu Nebebe Gedamu, State Minister of the Ministry of Finance and Economic Cooperation
Fiji	Aiyaz Sayed-Khaiyum, Minister for Economy	Makereta Konrote, Permanent Secretary for Economy
Finland	Petteri Orpo, Minister of Finance	Tuomas Saarenheimo, Permanent Under-Secretary
France	Bruno Le Maire, Minister for Economy and Finance	Odile Renaud-Basso, Director General of the Treasury
Georgia	Ivane Matchavariani, Minister of Finance	Giorgi Kobulia, Minister of Economy and Sustainable Development
Germany	Olaf Scholz, Vice Chancellor and Federal Minister of Finance	Wolfgang Schmidt, State Secretary of the Federal Ministry of Finance
Hong Kong, China	Paul Chan Mo-po, Financial Secretary	James H. Lau Jr., Secretary for Financial Services and the Treasury

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Member	Governor and Current Position with Member	Alternate and Current Position with Member
Hungary	Mihály Varga, Deputy Prime Minister for Economic Policy, Minister of Finance	Gabor Gion, Minister of State for Financial Affairs of the Ministry of Finance
Iceland	Bjarni Benediktsson, Minister of Finance and Economic Affairs	Guðmundur Árnason, Permanent Secretary, Ministry of Finance and Economic Affairs
India	Arun Jaitley, Minister of Finance	Subhash Chandra Garg, Secretary of Department of Economic Affairs, Ministry of Finance
Indonesia	Sri Mulyani Indrawati, Minister of Finance	Bambang P. S. Brodjonegoro, Minister of National Development Planning
Iran	Farhad Dejpasand, Minister of Economic Affairs and Finance	Mohammad Khazaee Torshizi, Vice Minister and President of Organization for Investment, Economic and Technical Assistance
Ireland	Paschal Donohoe, Minister of Finance	Derek Moran, Secretary General of the Department of Finance
Israel	Moshe Kahlon, Minister of Finance	Matan Lev-Ari, Head of International Organizations Unit
Italy	Giovanni Tria, Minister of Economy and Finance	Gelsomina Vigliotti, Head of International Financial Relations, Treasury Department, Ministry of Economy and Finance
Jordan	Mary Kawar, Minister of Planning and International Cooperation	Zeina Toukan, Director of International Cooperation
Kazakhstan	Ruslan Erbolatovich Dalenov, Minister of National Economy of the Republic of Kazakhstan	Amaniyaz Kasimovich Yerzhanov, Vice-minister of Investments and Development of the Republic of Kazakhstan
Republic of Korea	Nam-ki Hong, Deputy Prime Minister and Minister for Economy and Finance	Juyeol Lee, Governor of the Bank of Korea
Kyrgyz Republic	Baktygul Jeenbaeva, Minister of Finance	Arzybek Kojoshev, Minister of Economy
Laos	Somdy Douangdy, Deputy Prime Minister and Minister of Finance	Thipphakone Chanthavongsa, Vice Minister of Finance
Luxembourg	Pierre Gramegna, Minister of Finance	Arsène Jacoby, Director of the Multilateral Affairs, Development and Compliance Department Ministry of Finance
Madagascar	Richard Randriamandrato, Minister of Economics and Finances	Andriamanga Herivelo, Director General of Public Treasury
Malaysia	Lim Guan Eng, Minister of Finance	Ahmad Badri Mohd Zahir, Secretary General of Treasury
Maldives	Ibrahim Ameer, Minister of Finance	Mohamed Aslam, Minister of National Planning and Infrastructure
Malta	Edward Scicluna, Minister for Finance	Mario Vella, Governor of the Central Bank of Malta
Mongolia	Khurelbaatar Chimed, Minister of Finance	Nyamaa Buyantogtokh, State Secretary Ministry of Finance
Myanmar	Soe Win, Union Minister for Planning and Finance	Maung Maung Win, Deputy Minister for Planning and Finance
Nepal	Yuba Raj Khatiwada, Finance Minister	Rajan Khanal, Finance Secretary

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Member	Governor and Current Position with Member	Alternate and Current Position with Member
Netherlands	Wopke Hoekstra, Finance Minister	Christiaan Rebergen, Treasurer General

New Zealand	Grant Robertson, Minister of Finance	Gabriel Makhlouf, Secretary to the Treasury
Norway	Dag-Inge Ulstein, Minister of International Development	Aksel Jakobsen, State Secretary, Ministry of Foreign Affairs
Oman	Darwish Ismail Al Balushi, Minister Responsible for Financial Affairs	Abdul Sallam Mohamed Al Murshidi, Executive President of the State General Reserve Fund
Pakistan	Miftah Ismail, Secretary, Economic Affairs Division	Noor Ahmed, Secretary, Economic Affairs Division
Philippines	Carlos G. Dominguez, Department of Finance Secretary	Maria Edita Z. Tan, Department of Finance Assistant Secretary
Poland	Teresa Czerwinska, Minister of Finance	Pawel Samecki, Member of the Management Board of Narodowy Bank Polsk
Portugal	Mário Centeno, Finance Minister	Eurico Brilhante Dias, Secretary of State of Internationalization
Qatar	Ali Shareef Al Emadi, Minister of Finance	Khalaf Ahmed Al Mannai, Undersecretary of the Ministry of Finance
Romania	Eugen Orlando Teodorovici, Minister of Public Finance	Attila Gyorgy, State Secretary in Charge of International Financial Institutions and Corporate Governance Relationship, Ministry of Public Finance
Russia	Maksim S. Oreshkin, Minister of Economic Development of the Russian Federation	Sergey Storchak, Deputy Minister of Finance of the Russian Federation
Samoa	Sili Epa Tuioti, Minister of Finance	Leasiosiofa' Asisina Galumalemana M. Oscar Malielegaoi, Chief Executive Officer, Ministry of Finance
Saudi Arabia	Mohammed Aljadaan, Minister of Finance	Khalid Sulaiman Alkhudairy, Vice-Chairman & Managing Director of Saudi Fund for Development
Singapore	Heng Swee Keat, Minister for Finance	Tan Ching Yee, Permanent Secretary (Finance) Ministry of Finance
Spain	Nadia Calviño, Minister of Economy and Business	Ana de la Cueva Fernandez, Secretary of State for Economic & Business Affairs, Ministry of Economy and Business
Sri Lanka	Mangala Samaraweera, Minister of Finance and Mass Media	R H S Samaratunga, Secretary to the Treasury
Sudan	Magdi Hassan Mohamed Yassin, Minister of Finance & Economic Planning	Husein Yahya Jangool, Governor of Central Bank of Sudan
Sweden	Magdalena Andersson, Minister for Finance	Karolina Ekholm, State Secretary Ministry of Finance
Switzerland	Guy Parmelin, Head of the Federal Department of Economic Affairs, Education and Research	Ignazio Cassis, Federal Councillor, Head of Federal Department of Foreign Affairs
Tajikistan	Solehzoda Ashurboy, Assistant to the President	Muminzod Abdulmajid, First Deputy Chairman of the State Committee on Investment and State Property Management
Thailand	Apisak Tantivorawong, Minister of Finance	Prasong Poontaneat, Permanent Secretary
Timor-Leste	(*vacant pending appointment*)	(*vacant pending appointment*)

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Member	Governor and Current Position with Member	Alternate and Current Position with Member
Turkey	Berat Albayrak, Minister of Treasury and Finance	Bülent Aksu, Deputy Minister of Treasury and Finance
United Arab Emirates	Sultan Ahmed Al Jaber, Minister of State	Mohammed Saif Al Suwaidi, Director General of Abu Dhabi Fund for Development
United Kingdom	Philip Hammond,	Mark Bowman,

	Chancellor of the Exchequer	Director-General International and EU, Her Majesty's Treasury
Uzbekistan	Sukhrob R. Kholmuradov, Deputy Prime Minister	Shukhrat Vafae, Deputy Chairman of the State Committee for Investments
Vanuatu	Gaetan Pikioune, Minister of Finance and Economic Management	Letlet August, Director General, Ministry of Finance and Economic Affairs
Vietnam	Le Minh Hung, Governor of State Bank of Viet Nam	Nguyen Thi Hong, Deputy Governor of State Bank of Viet Nam

Board of Directors

The Board of Directors is responsible for the direction of the Bank's general operations through the exercise of powers delegated to it by the Board of Governors, in addition to those expressly assigned to it by the Articles of Agreement. Matters before the Board of Directors are decided by a majority vote, except as otherwise provided in the Articles of Agreement.

In addition to any powers delegated by the Board of Governors, the Board of Directors shall (i) prepare the work of the Board of Governors, (ii) establish policies of the Bank and, with a majority representing not less than three-fourths of the total voting power of the members, take decisions on major operational and financial policies and on delegation of authority to the President under Bank policies, (iii) take decisions concerning operations of the Bank and, with a majority representing not less than three-fourths of the total voting power of the members, decide on the delegation of such authority to the President, (iv) supervise the management and operation of the Bank and establish an oversight mechanism for that purpose, (v) approve the strategy, annual plan and budget of the Bank, (vi) appoint committees and (vii) submit the annual audited accounts for approval of the Board of Governors.

The Board of Directors consists of 12 members who are not members of the Board of Governors. Nine are elected by the Governors representing regional members, and three are elected by the Governors representing non-regional members. Each Director is elected by the Governors of a particular constituency, which is a small group of members with a minimum aggregate voting power. The minimum aggregate voting power is 6% for constituencies electing regional Directors and 15% for constituencies electing non-regional Directors. Under this arrangement, each of India and China (including China and Hong Kong, China) has the ability to appoint one of the 12 members of the Board of Directors. Each Director appoints an Alternate Director (or two Alternate Directors in respect of those Directors casting votes for five or more members) who may participate in the meetings, but who only has the full power to act when the Director is not present. The Directors, who serve the Bank on a non-resident basis, hold office for two-year terms and may be re-elected. They also must be nationals of member jurisdictions and persons of recognized capacity and experience in economic and financial matters. The Articles of Agreement further specify that the nomination and voting by Governors for Directors and the appointment of Alternate Directors by Directors shall respect the principle that each founding member shall have the privilege to designate the Director or an Alternate Director in its constituency permanently or on a rotating basis.

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The Board of Directors is composed of the following members as of May 6, 2019:

Name	Alternates	Constituency Members[1]
Abdulaziz M. Alrasheed (Saudi Arabia)	Adel Al Hosani (UAE) Khaled Mohammed Al-Suwaidi (Qatar)	Bahrain Jordan Oman Qatar Saudi Arabia United Arab Emirates
Mehmet Alper Batur (Turkey)	Muhammad Aslam Chaudhary (Pakistan) Nikoloz Gagua (Georgia)	Azerbaijan Brunei Darussalam Georgia Kyrgyz Republic Pakistan Turkey
Veronika Baumgartner-Putz (Austria)	Nikolai Putscher (Germany)	Austria Cyprus Finland

	Philippe O'Quin (France)	France Germany Ireland Italy Luxembourg Malta Netherlands Portugal Spain
Grigory Butrin (Russia)	Nurlan Shokbabayev (Kazakhstan)	Iran Kazakhstan Russia Tajikistan
Wencai Zhang (China)	Zhengwei Zhang (China)	China Hong Kong, China
Chang Huh (Korea, Republic of)	Ofer Peleg (Israel) Sukhrob Kholmuradov (Uzbekistan)	Fiji Israel Korea, Republic of Mongolia Samoa Uzbekistan
Sameer Kumar Khare (India)	Prashant Goyal (India)	India
Christopher Legg (Australia)	Dasha Richards (New Zealand)	Australia New Zealand Singapore Vietnam
Emil Levendoglu (United Kingdom)	Paul Sverre Tharaldsen (Norway) Eva Haghanipour (Sweden)	Denmark Hungary Iceland Norway Poland

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Name	Alternates	Constituency Members[1]
		Romania Sweden Switzerland United Kingdom
Paul Samson (Canada)	Ahmed Kouchouk (Egypt)	Canada Madagascar Egypt Ethiopia
Andin Hadiyanto (Indonesia)	Si Si Pyone (Myanmar) Pen Thirong (Cambodia)	Afghanistan Cambodia Indonesia Lao People's Democratic Republic Myanmar Sri Lanka
Mark Dennis Y.C. Joven (Philippines)	Abdul Baki (Bangladesh)	Bangladesh Malaysia Maldives

Sukmeena Bhasavanich (Thailand)	Nepal Philippines Thailand

Note:

(1) Belarus, Sudan, Timor Leste and Vanuatu have not yet assigned their respective votes.

Biographical information for each Director is included below.

Mr. Abdulaziz M. Alrasheed – Director

Mr. Alrasheed has been a member of the Board of Directors since March 2019. Mr. Alrasheed currently holds the position of Assistan Minister for International Financial Affairs and Macro-Fiscal Policy at the Ministry of Finance of Saudi Arabia. Mr. Alrasheed has significan public sector experience, having held various positions with the national administration of Saudi Arabia. Previously, Mr. Alrasheed served as Deputy Minister for Economic Affairs (2017 to 2018), Assistant Deputy Minister for Economic Policies (2016 to 2017) and General Director of the Executive President Office (2014 to 2016).

Mr. Mehmet Alper Batur – Director

Mr. Batur has been a member of the Board of Directors since September 2017. Mr. Batur has significant public sector experience, particularly in the Ministry of Treasury and Finance of the Republic of Turkey. Since August 2017, he has served as the Deputy Director General, Foreign Economic Relations, at the Ministry of Treasury and Finance, where he is responsible for maintaining Turkey's relations with the G20 (Sous-Sherpa of Turkey), International Monetary Fund (the "IMF") and MDBs. From 2012 to 2017, Mr. Batur was the Head o Department and then Deputy Director General, Financial Sector Relations and Exchange, at the Ministry of Treasury and Finance, where he was responsible for a variety of financial-sector policies. Mr. Batur is currently an Executive Board Member at the Credit Guarantee Fund.

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Ms. Veronika Baumgartner-Putz – Director

Ms. Baumgartner-Putz has been a member of the Board of Directors since July 2018. Ms. Baumgartner-Putz has significant experience in both the public and private sectors, particularly in international development and public administration. She is currently the Financial Counsellor at the Austrian Embassy in Beijing. Prior to her current position, Ms. Baumgartner-Putz was a Senior Advisor with th Austrian Ministry of Finance, responsible for International Financial Institutions, where she also held other economic policy-related positions. From July 2015 to June 2016, she served as an Alternate Executive Director at ADB. Before joining the Austrian Ministry of Finance in 2010, Ms. Baumgartner-Putz held positions with the United Nations Development Program (the "UNDP") and the Austrian Development Agency, among others.

Mr. Grigory Butrin – Director

Mr. Butrin has been a member of the Board of Directors since November 2017. Mr. Butrin has substantial expertise in banking and finance, having held positions in both the public and private sectors. He currently serves as an Advisor to the First Deputy Prime Minister and Minister of Finance of the Russian Federation. Previously, Mr. Butrin evaluated various investment projects at the Russian Direct Investment Fund and Russia China Investment Fund and worked at the Russian state corporation Rostec.

Dr. Wencai Zhang – Director

Dr. Zhang has been a member of the Board of Directors since February 2019. Dr. Zhang has significant experience in the public sector, including with international financial institutions and the Ministry of Finance of China. He currently holds the position of Director General of the Department of International Economic and Financial Cooperation at China's Ministry of Finance and also represents China as Alternate Governor at the International Fund for Agricultural Development ("IFAD") and as Director at NDB. Dr. Zhang previously serve at the Ministry of Finance of China in various senior capacities, including as the Director General of the Department of External Economic Cooperation from 2012 to 2013, and as the Deputy Director General for the International Department from 2004 to 2012, where he worke on various multilateral initiatives, including the G-20, the ASEAN+3 and the Asia Pacific Economic Cooperation. In the field of internationa financial institutions, Dr. Zhang served as Vice President of ADB from 2013 to 2018 and as Director for China at ADB from 2007 to 2009. From 1993 to 1996, he was Advisor to the Executive Director for China at the World Bank.

Mr. Chang Huh – Director

Mr. Huh has been a member of the Board of Directors since August 2018. Mr. Huh has significant experience in the public sector, including with MDBs. He has held a number of positions with the Republic of Korea's Ministry of Economy and Finance, currently serving as the Director General, Development Finance Bureau. Mr. Huh has also served in the Office of the President of the Republic of Korea, first as Assistant Secretary, Office of Economic Policy Advisor (September 2004 to August 2005), and more recently as Assistant Secretary, Office of Economic Emergency Management (January 2009 to March 2010). Mr. Huh's experience with MDBs include serving as Minister, Permanent Delegation of the Republic of Korea to the OECD (June 2015 to June 2018) and as Advisor to the Executive Director, Korean Office of ADB (August 2005 to September 2009).

Mr. Sameer Kumar Khare – Director

Mr. Khare has been a member of the Board of Directors since June 2018. Mr. Khare has significant public sector experience, including in the Indian Administrative Service. He currently serves

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as the Additional Secretary in the Department of Economic Affairs of the government of India, where he is responsible for relations with certain MDBs, including the World Bank, ADB and AIIB, and as the department's Chief Vigilance Officer. Previously, Mr. Khare served in a variety of government capacities, including as Joint Secretary, Department of Economic Affairs, where he was responsible for relations with such organizations as the G-20, ASEAN and the UNDP. Mr. Khare has also held a number of directorships, including serving as the Indian government's nominee at the United Bank of India (currently), IFAD (2017) and the International Organization SAARC Development Fund (March 2016 to August 2017).

Mr. Christopher Legg – Director

Mr. Legg has been a member of the Board of Directors since January 2016, having previously served as Australia's Chief Negotiator for the establishment of AIIB from April to December 2015. Mr. Legg is a career Australian senior civil servant, having held a number of senior positions in the Australian Treasury relating to international economic relations, foreign investment and the Australian financial system. His most recent position was the Australian Treasury's Chief Advisor on Infrastructure and National Security Issues (from September 2013 until taking on his current role at the Bank). He has also recently co-chaired the G20 Infrastructure Working Group and, since October 2018, has been Acting Deputy Secretary of Treasury's Macroeconomic Group. From 2008 to 2012, Mr. Legg served on the Executive Board of the IMF, first as Alternate Director and then, from November 2010, as Executive Director for the Asia and Pacific Constituency. From 1995 to 1999, he was an Alternate Executive Director at the World Bank.

Mr. Emil Levendoglu – Director

Mr. Levendoglu has been a member of the Board of Directors since June 2017. Mr. Levendoglu is a career British senior civil servant with significant experience in both the public and private sectors. Since May 2017, he has served as Deputy Director, Prosperity and Multilateral Investment, HM Treasury. Prior to this, Mr. Levendoglu served in a variety of other capacities at HM Treasury, including as Deputy Director, Enterprise and Growth Unit (2015 to 2016), and as Deputy Director, Banking Reform and Financial Regulation (2007 to 2012). In addition to his government service, Mr. Levendoglu has worked as a consultant on financial services and development issues, with a focus on Africa.

Mr. Paul Samson – Director

Mr. Samson has been a member of the Board of Directors since July 2018. Mr. Samson's work covers a range of issues across international finance, international trade and international development. He currently is the Associate Assistant Deputy Minister, International Trade and Finance, Finance Canada, and serves as co-chair of the G20 Framework Working Group on the global economy and as Canada's Finance Deputy for Asia-Pacific Economic Cooperation. From 2006 to 2014, Mr. Samson held several senior executive positions at the former Canadian International Development Agency and Global Affairs, Canada, including at the Director General and Assistant Deputy Minister level. Mr. Samson is a member of the Board of Directors for the Centre for International Governance Innovation.

Dr. Andin Hadiyanto – Director

Dr. Hadiyanto has been a member of the Board of Directors since January 2019. Dr. Hadiyanto has significant public sector experience, particularly in the Ministry of Finance of the Republic of Indonesia. He currently serves as an Assistant Minister of Finance, a position he also held from 2013 to 2016. He has previously served in other senior positions at the Ministry of Finance, including as Director of the Center for International Policy and Cooperation, Executive Secretary of the Fiscal Policy Agency and Acting Chairman of the Fiscal

Policy Agency. Dr. Hadiyanto served as a Director of the Bank in 2016, as a member of the Advisory Panel of the ASEAN Macroeconomi Research Office from 2013 to 2015 and as an Executive Director at the World Bank from 2016 to 2018.

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Mr. Mark Dennis Y.C. Joven – Director

Mr. Joven has been a member of the Board of Directors since July 2018. Mr. Joven currently serves as the Undersecretary for the International Finance Group of the Philippine Department of Finance. In his previous role as Assistant Secretary of the Revenue Operations Group of the Department of Finance, Mr. Joven represented the Philippines in tax treaty negotiations and in various international tax fora. Prior to public service, Mr. Joven managed an active tax practice for 15 years. A lawyer and certified public accountant by training, Mr. Joven advised on matters related to estate planning, cross-border transactions and tax advocacy and served a a faculty member at the University of the Philippines College of Law and the University of the Philippines College of Business Administration, where he taught courses on wills & estates, tax and financial accounting.

Board Committees

Audit and Risk Committee

The role of the Audit and Risk Committee (the "A&R Committee") is to (i) review the Bank's financial statements and accounting, auditing and financial reporting practices, procedures and issues, (ii) review the selection procedures for and the qualification and performance of the external auditors and review the reports from the external auditors and ensure appropriate action be taken in respect o major improvement areas identified, (iii) review the scope of work and internal audit plan and the effectiveness of the internal audit function, (iv) review the effectiveness of internal control systems and (v) review the Bank's financial and risk-related policies, including the Bank's Financial and Risk Management Framework and RAS.

The A&R Committee is composed of three or four Directors and two external members (appointed by the President in consultation wit the Board of Directors). The current members of this committee are Jan Engström (external member), Andin Hadiyanto, Sameer Kumar Khare (vice chair), Emil Levendoglu (chair), Chaly Mah (external member) and Zhang Wencai.

Budget and Human Resources Committee

The role of the Budget and Human Resources Committee (the "BHR Committee") is to (i) review the proposed annual administrative budget, taking into account the Bank's annual business plan, and review the quarterly budget execution update and report thereon to the Board of Directors, (ii) review and assess the implementation of staffing strategies, compensation and benefits policies and related issues periodically and make recommendations to the Board of Directors as appropriate, (iii) review the human resources update report semi-annually, (iv) serve as the Bank's Ethics Committee, in which role it considers matters relating to the implementation, interpretation and application of the Code of Conduct for Board Officials (the "Code of Conduct"), including requests for guidance concerning conflicts of interest, annual financial disclosures or other ethical aspects of conduct, as well as allegations of misconduct under the Code of Conduct and (v) consider any other aspects of the annual administrative budget and the Bank's human resources as the Board of Directors may request and report thereon to the Board of Directors.

The BHR Committee is composed of up to six Directors. The current members of this committee are Abdulaziz M. Alrasheed, Mehmet Alper Batur (vice chair), Veronika Baumgartner-Putz (chair), Grigory Butrin, Andin Hadiyanto and Emil Levendoglu.

Policy and Strategy Committee

The role of the Policy and Strategy Committee (the "P&S Committee") is to (i) review the Bank's operational policies (other than financial and risk-related policies), including but not limited to

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environmental, social and procurement policies, and report thereon to the Board of Directors, (ii) advise on the development of the Bank's strategies and report thereon to the Board of Directors, (iii) review the proposed annual business plan, taking into account the annual administrative budget, and report thereon to the Board of Directors, and (iv) undertake any other activities consistent with its terms of reference as the Board of Directors may request and report thereon to the Board of Directors.

The P&S Committee is composed of up to six Directors. The current members of this committee are Chang Huh, Mark Dennis Y.C. Joven, Sameer Kumar Khare, Christopher Legg (chair), Paul Samson and Zhang Wencai (vice chair).

Senior Management

The President, who serves as the legal representative of the Bank, is elected by a Super Majority Vote. The President must be a national of a regional member jurisdiction and may not be a Governor, a Director or an alternate for either. The term of office of the President is five years with the possibility of one additional term. The term of the current President, Mr. Jin Liqun, his first term, is currently scheduled to expire in 2021. The President is the Chairman of the Board of Directors, but has no vote other than a tie-breaking vote. The President may also participate in the meeting of the Board of Governors, but has no vote. The President is supported by a team of senior management. The team currently includes five Vice Presidents who are responsible for Policy and Strategy, Investment Operations, Finance, Administration and the Corporate Secretariat. Vice Presidents are appointed by the Board of Directors upon the recommendation of the President. Senior management also includes the General Counsel, the Chief Risk Officer and the Senior Advisor to the President, Head of Client Relations and Programming Office/Chief Programming Officer.

The President has the authority to establish management committees. Such committees perform a variety of functions, and currently include the following: (i) the Executive Committee, (ii) the Investment Committee, (iii) the Special Fund Committee, (iv) the Human Resources Review Committee, (v) the Risk Committee, (vi) the Operational Procurement Committee and (vii) the Asset and Liability Management Committee.

The President, officers and staff of the Bank, in the discharge of their offices, are responsible solely to the Bank and may not recognize any other authority. The members are obligated to respect the international character of this obligation. Moreover, the Bank, its President, officers and staff may not interfere in the political affairs of any members nor be influenced in their decisions by the political character of any member. Senior management is currently composed of the following individuals:

Name	Title
Mr. Jin Liqun	President
Sir Danny Alexander	Vice President and Corporate Secretary
Mr. Thierry de Longuemar	Vice President and Chief Financial Officer
Dr. D.J. Pandian	Vice President and Chief Investment Officer
Mr. Luky Eko Wuryanto	Vice President and Chief Administration Officer
Dr. Joachim von Amsberg	Vice President – Policy and Strategy
Mr. Gerard Sanders	General Counsel
Mr. Martin Kimmig	Chief Risk Officer
Mr. Konstantin Limitovskiy	Senior Advisor to the President, Head of Client Relations and Programming Office/Chief Programming Officer

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Biographical information for each member of senior management is included below.

Mr. Jin Liqun – President

Mr. Jin Liqun is the inaugural President and Chairman of the Board of Directors. Before being elected as the Bank's first president, Mr. Jin served as Secretary-General of the Multilateral Interim Secretariat tasked with establishing the Bank. Mr. Jin has significant experience across the private and public sectors, as well as with MDBs. He served as Chairman of China International Capital Corporation Limited, China's first joint-venture investment bank, as Chairman of the Supervisory Board of China Investment Corporation and as Chairman of the International Forum of Sovereign Wealth Funds. Mr. Jin previously served as Vice President, and then Ranking Vice President, of ADB and as Alternate Executive Director for China at the World Bank and at the Global Environment Facility. He spent nearly two decades at the Chinese Ministry of Finance, reaching the rank of Vice Minister. Mr. Jin is a national of China.

Sir Danny Alexander – Vice President and Corporate Secretary

Sir Danny Alexander is responsible for the Bank's relations with its members, the Board of Governors, the Board of Directors and other aspects of governance, including the admission of new members. As Chief Secretary to the Treasury, Sir Danny was one of the leaders of the United Kingdom coalition government between 2010 and 2015. He was knighted in 2015 and is a national of the United Kingdom.

Mr. Thierry de Longuemar – Vice President and Chief Financial Officer

Mr. Thierry de Longuemar is responsible for the design and implementation of AIIB's financial strategies and policies, including oversight of the Controller and Treasury departments. He previously served as both the Treasurer and Vice President of Finance at ADB and AfDB. His career extends to the private sector where he worked in progressively more senior roles in banking and energy, including postings at ABN AMRO, Crédit Agricole, Compagnie Bancaire and TOTAL. He is a national of France.

Dr. D.J. Pandian – Vice President and Chief Investment Officer

Dr. D.J. Pandian leads the investment portfolio for the Bank, having oversight for all sovereign and non-sovereign lending. In this role he and his team of specialists are responsible for the end-to-end management of the Bank's project pipeline from identification to implementation. Before joining AIIB, Dr. Pandian had an extensive career spanning 30 years with the Indian Administrative Services, holding key positions at the state, national and international levels in the energy (oil and gas, power and renewables), infrastructure and finance sectors. During his career, he served in the government of Gujarat in various capacities including Chief Secretary, Additional Chief Secretary, Industries and Mines and Principal Secretary, Energy and Petrochemicals Department. Dr. Pandian is a national of India.

Mr. Luky Eko Wuryanto – Vice President and Chief Administration Officer

Mr. Luky Eko Wuryanto is responsible for overseeing human resources, information technology and facilities and administration services. Prior to this role, he served in senior positions in the Indonesian government for more than 20 years, most recently as the Deputy Coordinating Minister for Infrastructure Acceleration and Regional Development, Coordinating Ministry for Economic Affairs. Mr. Wuryanto is a national of Indonesia.

Dr. Joachim von Amsberg – Vice President, Policy and Strategy

Dr. Joachim von Amsberg drives the strategic direction for the Bank, including its sectoral and country priorities, its investment strategy and programming, its economic analysis and research and its

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operating budget. He oversees the Bank's environmental and social policies, other operational policies and their implementation. He previously served in a number of progressively more senior roles at the World Bank where he most recently held the position of Vice President, Development Finance, in which role he was responsible for the replenishment and stewardship of IDA, the World Bank's fund for the poorest countries, and for trust fund and partnership operations. Dr. von Amsberg is a national of Germany.

Mr. Gerard Sanders – General Counsel

Mr. Gerard Sanders advises the President and governance bodies of AIIB and is responsible for the legal aspects of the Bank's work. Prior to joining AIIB, he was General Counsel of IFAD, previously having worked at EBRD, most recently as Deputy General Counsel. Beforehand, he worked with law firms in Wellington, Washington, D.C. and Amsterdam and in a corporate role in London. Mr. Sanders is a national of New Zealand.

Dr. Martin Kimmig – Chief Risk Officer

Dr. Martin Kimmig heads AIIB's risk management. His main responsibilities are to ensure the stability and financial continuity of the Bank. He oversees capital allocation and utilization, manages financial and non-financial risks, including reputational consequences, as well as fosters a strong risk culture throughout the Bank. He joined AIIB from The Rock Creek Group where he served as Managing Director covering emerging market equities. Previously, he spent 24 years at the World Bank Group, primarily at IFC, where he held leadership positions in both investment operations and risk management. Dr. Kimmig is a national of Germany.

Mr. Konstantin Limitovskiy – Senior Advisor to the President, Head of Client Relations and Programming Office/Chief Programming Officer

Mr. Konstantin Limitovskiy advises the President and is responsible for client relationships and programming at AIIB. He has over 25 years of experience in banking, infrastructure and project finance, particularly in connection with structuring and arranging equity and debt financing for capital-intensive projects in the former Soviet Union and Central and Eastern Europe. Before joining AIIB, Mr. Limitovskiy served as the Deputy Chairman of the Eurasian Development Bank, where he was responsible for leading business activities in infrastructure. Prior to his time with the Eurasian Development Bank, among other roles, Mr. Limitovskiy managed international project finance at VTB Group in Russia, was responsible for leveraged and structured finance operations at Gazprombank and Alfa Bank and led banking activities in infrastructure finance at the Black Sea Trade and Development Bank, an MDB headquartered in Greece. Mr. Limitovskiy is a national of the Russian Federation.

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International Advisory Panel

The International Advisory Panel (the "IAP") provides management with support on the Bank's strategies and policies as well as on general operational issues. Members of the IAP, who are appointed to two-year terms, bring years of experience and a wide range of professional expertise in both the international and private sectors. The IAP meets in tandem with the annual meeting of the Board of Governors or as requested by the President. The IAP is currently composed of the following members:

Name	Biographical information
Mr. Shaukat Aziz	Former Prime Minister of Pakistan
Dr. Zeti Akhtar Aziz	Former Governor of Bank Negara Malaysia, Malaysia's Central Bank
Mr. Jose Isidro N. Camacho	Former Secretary of Finance and Former Secretary of Energy of the Philippines
Mr. Yukio Hatoyama	Former Prime Minister of Japan
Mr. Steve Howard	Secretary General of the Global Foundation
Dr. Myung Ja Kim	President of the Korean Federation of Science & Technology Societies and Former Minister of Environment of Korea
Dr. Ngozi Okonjo-Iweala	Senior Advisor, Lazard; former Finance Minister, Nigeria; former Managing Director, World Bank
Mr. Paul Speltz	Chairman and CEO of Global Strategic Associates; former U.S. Ambassador
Lord Nicholas Stern	Professor at the London School of Economics; former Chief Economist of the World Bank
Dame Meg Taylor	Secretary General to the Pacific Islands Forum; former Vice President, IFC
Prof. Ngaire Woods	Inaugural Dean of the Blavatnik School of Government and Professor of Global Economic Governance

Employees

As of March 31, 2019, the Bank's total professional staff was 193, representing 42 nationalities (67% regional and 33% non-regional)

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SELECTED DEMOGRAPHIC AND ECONOMIC DATA

Certain of the following information has been extracted from publicly available sources. The Bank has not independently verified this information.

The following table presents selected demographic and economic data for members of the Bank that have more than 3% voting powe or in which the Bank has approved financings as of May 6, 2019:

	Population (in millions)(1)		GDP (U.S.$ in millions)(1)		GDP per capita (U.S.$)(1)		Total reserves (excluding gold) (U.S.$ in millions) (1)(2)		Total external debt (U.S.$ in millions) (1)(3)		Consumer price index growth (annual% change)(1)	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Australia	24.6	24.2	1,323,421.1	1,208,039.0	53,793.5	49,937.7	63,561.3	50,872.1	N/A	N/A	1.9	1.
Azerbaijan	9.9	9.8	40,747.8	37,867.5	4,135.1	3,880.7	6,680.4	5,836.5	15,253.9	15,016.3	12.9	12.
Bangladesh	164.7	163.0	249,723.9	221,415.2	1,516.5	1,358.8	32,849.2	31,776.1	47,154.8	38,819.7	5.7	5.
China	1,386.4	1,378.7	12,237,700.5	11,190,992.6	8,827.0	8,117.3	3,158,876.9	3,029,775.3	1,710,235.1	1,415,801.1	1.6	2.
Egypt	97.6	95.7	235,369.1	332,927.8	2,412.7	3,479.3	33,213.9	20,858.2	82,885.9	67,640.7	29.5	13.

France	67.1	66.9	2,582,501.3	2,465,134.3	38,484.2	36,870.2	54,780.6	56,124.9	N/A	N/A	1.0	0.
Georgia	3.7	3.7	15,081.3	14,378.0	4,045.4	3,857.3	3,038.8	2,756.4	15,756.2	15,820.1	6.0	2.
Germany	82.7	82.3	3,693,204.3	3,495,162.9	44,665.5	42,443.5	59,356.9	59,582.0	N/A	N/A	1.5	0.
India	1,339.2	1,324.2	2,650,725.3	2,290,432.1	1,979.4	1,729.7	389,350.1	341,145.2	513,208.9	455,549.6	2.5	4.
Indonesia	264.0	261.1	1,015,420.6	931,877.4	3,846.4	3,568.8	126,857.4	113,493.4	354,351.9	320,966.0	3.8	3.
Korea	51.5	51.2	1,530,750.9	1,414,804.2	29,742.8	27,608.2	384,453.2	366,307.9	N/A	N/A	1.9	1.
Lao PDR	6.9	6.8	16,853.1	15,805.7	2,457.4	2,338.7	1,234.4	847.1	14,497.7	13,523.5	0.8	1.
Myanmar	53.4	52.9	67,068.7	63,256.2	1,256.7	1,196.1	4,911.0	4,618.6	16,138.7	14,434.2	4.6	7.
Oman	4.6	4.4	70,783.9	65,941.5	15,267.4	14,902.8	16,088.0	20,261.5	N/A	N/A	1.6	1.
Pakistan	197.0	193.2	304,951.8	278,654.6	1,547.9	1,442.3	15,764.8	19,650.4	84,522.8	72,157.1	4.1	3.
Philippines	104.9	103.3	313,595.2	304,889.1	2,989.0	2,950.9	73,228.5	73,432.7	73,079.7	73,014.1	2.9	1.
Russia	144.5	144.3	1,578,417.2	1,282,663.6	10,749.1	8,745.0	356,084.0	317,544.5	492,763.1	525,649.7	3.7	7.
Sri Lanka	21.4	21.2	87,357.2	81,787.4	4,073.7	3,857.4	7,030.6	5,188.6	50,142.0	46,649.6	7.7	4.
Tajikistan	8.9	8.7	7,146.4	6,952.7	801.1	796.0	641.8	107.3	5,881.4	5,301.4	N/A	6.
Turkey	80.7	79.5	851,549.3	863,721.7	10,546.2	10,862.7	84,115.1	92,054.5	454,725.0	409,015.8	11.1	7.

Notes:

(1) This information is extracted from the World Bank's World Development Indicators (the "WDI"). "N/A" indicates that the relevant figure is not available in the WDI as of the date of this Prospectus.

(2) The WDI defines total reserves (excluding gold) as special drawing rights, reserves of IMF members held by the IMF and holdings of foreign exchange under the control of monetary authorities.

(3) The WDI defines total external debt as debt owed to nonresidents repayable in currency, goods or services.

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DESCRIPTION OF THE NOTES

The following is a brief description of the terms and conditions of the Notes offered by AIIB and the fiscal agency agreement (the "Fiscal Agency Agreement") between AIIB and Citibank, N.A., as fiscal agent (the "Fiscal Agent"), with respect thereto. The description does not purport to be complete and is qualified in its entirety by reference to the form of Fiscal Agency Agreement (including the form of the Notes attached thereto) filed by AIIB with the SEC as an exhibit to the registration statement of which this Prospectus constitutes a part. For a complete description of the Notes, you should read the exhibit referred to above.

General

The Notes will be issued under the Fiscal Agency Agreement. The Notes constitute direct and unsecured obligations of AIIB.

THE NOTES ARE NOT OBLIGATIONS OF ANY GOVERNMENT.

Interest

Interest will be paid on the Notes at the rate set forth on the cover page of this Prospectus and will be payable on May 16 and November 16 of each year (each, an "Interest Payment Date"), subject to the Business Day Convention as defined below. The Notes will bear interest from May 16, 2019 and the initial interest payment will be made on November 16, 2019. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months unadjusted. The Notes will mature on May 16, 2024 (the "Maturity Date"). The Notes are not subject to any sinking fund.

If an Interest Payment Date or the Maturity Date is a day on which banking institutions are authorized or obligated by law to close in a place of payment, then payment of principal or interest need not be made on such Interest Payment Date or Maturity Date, as applicable. AIIB may make the required payment on the next succeeding day that is not a day on which banking institutions are authorized or obligated by law to close in the place of payment. The payment will be made with the same force and effect as if made on the Interest Payment Date or Maturity Date and no additional interest shall accrue for the period from the Interest Payment Date or Maturity Date to the date of actual payment. Such adjustments of the Interest Payment Date or Maturity Date are referred to as the "Business Day Convention."

Fiscal Agent

The duties of the Fiscal Agent will be governed by the Fiscal Agency Agreement. AIIB may replace the Fiscal Agent. AIIB may maintain deposit accounts and conduct other banking transactions in the ordinary course of business with the Fiscal Agent. The Fiscal Agent is the agent of AIIB, is not a trustee for the holders of the Notes and does not have the same responsibilities or duties to act for such holders as would a trustee.

The Fiscal Agent will be responsible for:

- maintaining a record of the aggregate holdings of Notes;
- ensuring that payments of principal and interest in respect of the Notes received by the Fiscal Agent from AIIB are duly credited to the holders of the Notes; and
- transmitting to AIIB any notices from the holders of the Notes, or, as described below under "—Notices," transmitting notices from AIIB to holders of the Notes.

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Citibank, N.A., London Branch will be acting in its capacity as Fiscal Agent through its office located at Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB, United Kingdom.

Payment of Principal and Interest

Interest will be payable to the persons in whose names the Notes are registered at the close of business on the date that is 15 calendar days prior to each Interest Payment Date (the "Record Date"). The principal of and interest on the Notes will be paid in such currency of the United States as of the time of payment is legal tender for the payment of public and private debts. AIIB may change or terminate the designation of paying agents from time to time. Payments of principal and interest at such agencies will be subject to applicable laws and regulations, including any applicable withholding or other taxes, and will be effected by wire transfer or by check mailed on the due date for such payment to the person entitled to such payment at the person's address appearing on the register of Notes maintained by the security registrar.

AIIB will redeem the Notes on the Maturity Date at 100% of the principal amount plus accrued but unpaid interest to date.

The Notes will be sold in denominations of US$1,000 and integral multiples thereof.

Any monies paid by AIIB to the Fiscal Agent or any paying agent for the payment of the principal of (or premium, if any) or interest on any Notes and remaining unclaimed at the end of two years after such principal (or premium) or interest (as applicable) shall have become due and payable (whether at maturity or otherwise) shall, together with any interest earned thereon, be repaid to AIIB upon its written request. Upon such repayment, all liability of the Fiscal Agent and any paying agent with respect thereto shall cease.

Redemption

The Notes shall not be redeemed prior to maturity.

No Payment of Additional Amounts

All payments of principal and interest on the Notes will be subject to any fiscal or other laws and regulations applicable thereto. AIIB has no obligation to pay, and will not pay, you any additional amounts in respect of the Notes as a result of possible withholding or deduction for taxes pursuant to any such law and/or regulations. Accordingly, the holder will, in the event of any such withholding or deduction, receive less than he or she would have received without such withholding or deduction.

Ranking

The Notes shall rank *pari passu* without any preference among themselves and equally with all other unsecured unsubordinated indebtedness of AIIB represented by notes or bonds.

Default, Acceleration of Maturity

Each of the following will constitute an event of default with respect to the Notes:

(i) default in the payment in full of any principal or interest due on the Notes on the due date and such default continues for a period of 90 days; or

(ii) AIIB fails to perform any of its other covenants under any of the Notes and such failure continues for the period of 90 days after written notice thereof shall have been given to AIIB and the Fiscal Agent at the office of the Fiscal Agent by the holders of not less than 25% in principal amount of all the Notes at the time outstanding; or

(iii) default, as defined in any instruments evidencing, securing or protecting any indebtedness for borrowed money of AIIB, outstanding at the date of the Fiscal Agency Agreement or thereafter and maturing more than one year from the date of its creation, with respect to more than US$60,000,000 in aggregate principal amount of such indebtedness, and the maturity of such indebtedness shall have been accelerated so that the same shall have become due and payable prior to the date on which the same would otherwise have become due and payable and such acceleration shall not have been rescinded or annulled.

If any event of default shall occur and continue in relation to the Notes, then the principal of the Notes then outstanding (if not already due) may be declared to be due and payable on the thirtieth day following written notice given to AIIB and the Fiscal Agent at the office of the Fiscal Agent by the holders of not less than a majority in principal amount of the Notes at the time outstanding, unless all events of default in respect of the Notes have been cured prior to the expiration of such 30 days' period. If, at any time after the principal of the Notes shall have been so declared due and payable and before any judgment or decree for the payment of amounts due thereon shall have been entered, all arrears of interest upon the Notes and all other sums due in respect thereof, except any principal or interest payments which shall not have matured or come due by their terms, shall have been duly paid by AIIB and all other events of default thereunder shall have been cured, the holders of not less than a majority in principal amount of the Notes then outstanding, by written notice given to AIIB or the Fiscal Agent at the office of the Fiscal Agent, may rescind such declaration, but no such rescission shall impair any right consequent on any subsequent event of default.

Amendments

Each and every holder of the Notes must consent to any amendment of a provision of the Notes or the Fiscal Agency Agreement that would:

(1) change the due date of the principal of or interest on the Notes;

(2) reduce the principal amount, interest rate or amount payable upon acceleration of the due date of the Notes;

(3) change the currency (unless required by law) or place of payment of principal of or interest on the Notes;

(4) shorten the period during which AIIB is not permitted to redeem the Notes or permit AIIB to redeem the Notes if, prior to such amendment, AIIB is not permitted so to do; or

(5) reduce the proportion of the principal amount of the Notes that must be held by any of the holders to vote to amend or supplement the terms of the Fiscal Agency Agreement or the Notes.

AIIB may, however, upon the affirmative vote of the holders of 66 2/3% of the principal amount of the Notes at a meeting duly called and held or with the written consent of the holders of 66 2/3% of the principal amount of the Notes, modify any of the other terms or provisions of the Notes or, insofar with respect to the Notes, the Fiscal Agency Agreement. Such holders may make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or the Notes to be made, taken or given by holders of the Notes. Also, AIIB may, in agreement with the Fiscal Agent but without the vote or consent of the holders of the Notes, modify any of the terms and conditions of the Fiscal Agency Agreement and the Notes for the purpose of:

(1) adding to AIIB's covenants for the benefit of the holders of the Notes;

(2) surrendering any right or power conferred on AIIB;

(3) securing the Notes;

(4) curing any ambiguity or correcting or supplementing any defective provision of the Fiscal Agency Agreement or the Notes; or

(5) for any purpose that AIIB may consider necessary or desirable that AIIB, in its sole discretion, reasonably determines is not inconsistent with the Notes and does not adversely affect the interest of any holder of the Notes.

Governing Law and Jurisdiction

The Notes will be governed by, and interpreted in accordance with, the laws of the State of New York, except with respect to authorization, execution, delivery and performance by AIIB, which shall be governed by the Articles of Agreement.

AIIB has not waived or agreed to any modification of any status, immunities, privileges or exemptions of AIIB under its Articles of Agreement, all of its basic documents, any applicable law or international practice. AIIB has not consented to the jurisdiction of any court in connection with actions arising out of or based on the Notes, has not appointed any agent for service of process and has not agreed to waive any defense of sovereign immunity to which it may be entitled in any action or proceeding in any jurisdiction. Subject to the foregoing, AIIB has agreed that any dispute, controversy or claim arising out of or relating to the Notes, including the existence, validity, performance, breach or termination thereof (including a dispute regarding non-contractual obligations arising out of or relating to the Notes), shall be referred to and finally resolved by arbitration administered by the HKIAC under the UNCITRAL Arbitration Rules in force when the Notice of Arbitration is submitted, as modified by the HKIAC Procedures for the Administration of Arbitration under the UNCITRAL Rules. The dispute resolution provisions applicable to the Notes shall also be governed by and construed in accordance with the laws of the State of New York. Hong Kong law will be the procedural law of an arbitration. The arbitral tribunal will consist of three arbitrators, who will be appointed in the manner set out in the UNCITRAL Rules. The seat of the arbitration will be Hong Kong, and the language of the arbitration will be English. The arbitral tribunal will not be authorized to grant any interim measures or pre-award or emergency relief against AIIB, notwithstanding any provisions of the UNCITRAL Rules to the contrary.

Under the Articles of Agreement, the property and assets of AIIB, wheresoever located and by whomsoever held, shall be immune from all forms of seizure, attachment or execution before the delivery against AIIB of an enforceable final judgment. With respect to execution, the U.S. Foreign Sovereign Immunities Act of 1976, as amended, provides that commercial property located in the United States of an agency or instrumentality of a foreign state may be levied upon for the satisfaction of judgments rendered against it by U.S. courts (i) in connection with its commercial activities or (ii) based on an order confirming an arbitral award.

Further Issues

AIIB may from time to time, without notice to or the consent of the holders of the Notes, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date, issue price and, if applicable, the first interest payment thereon) and such further notes shall be consolidated and form a single series with the Notes outstanding.

Repurchase

AIIB may repurchase Notes at any time and price in the open market or otherwise. Notes repurchased by AIIB may, at AIIB's discretion, be held, resold (subject to compliance with applicable securities and tax laws) or surrendered to the Fiscal Agent for cancellation.

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Notices

All notices will be delivered in writing to each holder of the Notes of any series. If at the time of such notice the Notes of a series are represented by global notes, the notice shall be delivered to the applicable depositary for such securities and shall be deemed to have been given three business days after delivery to such depositary. If at the time of the notice the Notes of a series are not represented by global notes, the notice shall be delivered to the registered holders of the Notes of the series and in that case shall be deemed to have been given three business days after the mailing of the notice by first class mail.

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GLOBAL CLEARANCE AND SETTLEMENT

The Global Note

AIIB will issue the Notes in the form of the Global Note registered in the name of Cede & Co., as nominee of DTC. The Global Note will be issued:

- only in fully registered form, and
- without interest coupons.

You may hold beneficial interests in the Global Note directly through DTC if you have an account at DTC, or indirectly through organizations that clear through or maintain a custodial relationship with a DTC account holder, either directly or indirectly. Euroclear Bank as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, société anonyme ("Clearstream"), are indirect participants in DTC, and therefore participants in Euroclear and Clearstream will hold beneficial interests in the Notes indirectly at DTC.

Global Security

A global security (such as the Global Note) is a special type of security held in the form of a certificate by a depositary for the investors in a particular issue of securities. The aggregate principal amount of the global security equals the sum of the principal amounts of the issue of securities it represents. The depositary or its nominee is the sole legal holder of the global security. The beneficial interests of investors in the issue of securities are represented in book-entry form in the computerized records of the depositary. If investors want to purchase securities represented by a global security, they must do so through brokers, banks or other financial institutions that have an account with the depositary. In the case of the Notes, DTC will act as depositary, Cede & Co. will act as DTC's nominee and the Fiscal Agent will act as custodian of the Global Note.

Special Investor Considerations for Global Securities

Because you, as an investor, will not be a registered legal holder of the Global Note, your rights relating to the Global Note will be governed by the account rules of your bank or broker and of the depositary, DTC, as well as general laws relating to securities transfers. AIIB will not recognize a typical investor as a legal owner of the Notes and instead will deal only with the Fiscal Agent and DTC or its nominee, the registered legal holder of the Global Note.

You should be aware that as long as the Notes are issued only in the form of a global security:

- You cannot get the Notes registered in your own name.
- You cannot receive physical certificates for your interests in the Notes.
- You will not be a registered legal holder of the Notes and must look to your own bank or broker for payments on the Notes and protection of your legal rights relating to the Notes.
- You may not be able to sell interests in the Notes to some insurance companies and other institutions that are required by law to own their securities in the form of physical certificates.
- As an owner of beneficial interests in the Global Note, you may not be able to pledge your interests to anyone who does not have an account with DTC, or to otherwise take actions in respect of your interests, because you cannot get physical certificates representing those interests.

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- DTC's policies will govern payments of principal and interest, transfers, exchanges and other matters relating to your interest in the Global Note. AIIB and the Fiscal Agent have no responsibility for any aspect of DTC's actions or for its records of ownership interests in the Global Note. Also, AIIB and the Fiscal Agent do not supervise DTC in any way.
- DTC will require that interests in the Global Note be purchased or sold within its system using same-day funds.

Description of DTC

DTC has informed AIIB that:

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934.

DTC was created to hold securities for financial institutions that have accounts with it, and to facilitate the clearance and settlement of securities transactions between the account holders through electronic book-entry changes in their accounts, thereby eliminating the need for physical movement of certificates. DTC account holders include securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to the DTC system is also available to banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC account holder, either directly or indirectly.

DTC's rules are on file with the SEC.

DTC's records reflect only the identity of the account holders to whose accounts beneficial interests in the Global Note are credited. These account holders may or may not be the owners of the beneficial interests so recorded. The account holders will be responsible for keeping account of their holdings on behalf of the beneficial owners.

Definitive Notes

In a few special situations described in the next paragraph, the Global Note will terminate and your interests in it will be exchanged for physical certificates representing the Notes. After that exchange, the choice of whether to hold the Notes directly or in "street name" (in computerized book-entry form) will be up to you. You must consult your own bank or broker to find out how to have your interests in the Notes transferred to your own name, if you wish to be a direct legal holder of the Notes.

AIIB will cause definitive Notes to be issued in exchange for the Global Note if:

- DTC notifies AIIB that it is unwilling or unable to continue acting as the depositary for the Global Note and AIIB is unable to appoint a successor depositary within five business days of its receipt of such notice;
- DTC notifies AIIB that it has ceased to be a clearing agency registered under the Securities Exchange Act of 1934 at a time when it is required to be so registered and AIIB is unable to appoint a successor depositary within five business days of its receipt of such notice;
- AIIB delivers to the Fiscal Agent a written notice executed by an authorized officer of AIIB that the Global Note shall be exchangeable; or
- an event of default entitling the holders of the Global Note to accelerate the maturity thereof has occurred and is continuing with respect to such Global Note.

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AIIB would issue definitive Notes in this way:

- in fully registered form;
- without interest coupons; and
- in denominations of multiples of US$1,000.

Any definitive Notes issued in this way would be registered in the names and denominations requested by DTC.

Payments on the Notes

The Global Note

The Fiscal Agent will make payments of principal of, and interest on, the Global Note to Cede & Co., the nominee for DTC, as the registered owner. The principal of, and interest on, the Notes will be payable in immediately available funds in U.S. dollars.

AIIB understands that it is DTC's current practice, upon DTC's receipt of any payment of principal of, or interest on, global securities such as the Global Note, to credit the accounts of DTC account holders with payment in amounts proportionate to their respective beneficial interests in the principal amount of the Global Note as shown on the records of DTC. Payments by DTC account holders to owners of beneficial interests in the Global Note held through these account holders will be the responsibility of the account holders, as is now the case with securities held for the accounts of customers registered in "street name."

Neither AIIB nor the Fiscal Agent will have any responsibility or liability for any aspect of DTC's or its account holders' records relating to, or payments made on account of, beneficial ownership interests in the Global Note or for maintaining, supervising or reviewing any records relating to these beneficial ownership interests.

"Street name" and other owners of beneficial interests in the Global Note should consult their banks or brokers for information on how they will receive payments.

Definitive Notes

Payment of the principal of definitive Notes, if any exist, may be made at the office of the Fiscal Agent and/or any paying agent appointed for such purpose. Payment of the interest on definitive Notes will be paid by wire transfer or by check mailed to you if you are a registered holder of definitive Notes.

Unclaimed Payments on the Notes

Any monies paid by AIIB to the Fiscal Agent or any paying agent for the payment of the principal of (or premium, if any) or interest on any Notes and remaining unclaimed at the end of two years after such principal (or premium) or interest (as applicable) shall have become due and payable (whether at maturity or otherwise) shall, together with any interest earned thereon, be repaid to AIIB upon its written request. Upon such repayment, all liability of the Fiscal Agent and any paying agent with respect thereto shall cease.

Transfer and Exchange of the Notes

The Global Note

Except as described below, the Global Note may be transferred, in whole and not in part, only to DTC, to another nominee of DTC or to a successor of DTC or its nominee.

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Beneficial Interests in the Global Note

Beneficial interests in the Global Note will be represented, and transfers of such beneficial interests will be made, through accounts of financial institutions acting on behalf of beneficial owners either directly as account holders, or indirectly through account holders, at DTC. Beneficial interests will be in multiples of US$1,000.

Definitive Notes

You may present definitive Notes, if any exist, for registration of transfer or exchange at the agency and trust services office of the Fiscal Agent in London, which AIIB has appointed as the security registrar and transfer agent for the Notes.

Exercise of Legal Rights Under the Notes

DTC may grant proxies or otherwise authorize DTC account holders (or persons holding beneficial interests in the Notes through DTC account holders) to exercise any rights of a legal holder of the Global Note or take any other actions that a holder is entitled to take under the Fiscal Agency Agreement or the Notes. Under its usual procedures, as soon as possible after a record date, DTC would mail an omnibus proxy to AIIB assigning Cede & Co.'s consenting or voting rights to those DTC account holders to whose accounts the Notes are credited on such record date. Accordingly, in order to exercise any rights of a holder of Notes, as an owner of a beneficial interest in the Global Note, you must rely on the procedures of DTC and, if you are not an account holder, on the procedures of the account holder through which you own your interest.

AIIB understands that, under existing industry practice, in the event that you, as an owner of a beneficial interest in the Global Note, desire to take any action that Cede & Co., as the holder of the Global Note, is entitled to take, Cede & Co. would authorize the relevant DTC account holder to take the action, and the account holder would authorize you, as an owner of a beneficial interest in the Global Note, through its accounts, to take the action or would otherwise act upon the instructions of beneficial owners owning through it.

Although DTC has agreed to the procedures described above in order to facilitate transfers of Notes among DTC account holders, DTC is under no obligation to perform or continue to perform such procedures, and these procedures may be modified or discontinued at any time.

"Street name" and other owners of beneficial interests in the Global Note should consult their banks or brokers for information on how to exercise and protect their rights in the Notes represented by the Global Note.

Certain Other Provisions

You should refer to “Description of the Notes” for a description of certain other provisions of the Notes and the Fiscal Agency Agreement.

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UNITED STATES TAXATION

This section summarizes the material U.S. federal income tax consequences of owning the Notes. It is the opinion of Sullivan & Cromwell LLP, U.S. counsel to AIIB. It applies to you only if you acquire Notes in the offering at the offering price and you hold your Note as capital assets for tax purposes. This section does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a bank,
- a life insurance company,
- a tax-exempt organization,
- a person that owns Notes that are a hedge or that are hedged against interest rate risks,
- a person that owns Notes as part of a straddle or conversion transaction for tax purposes,
- a person that purchases or sells Notes as part of a wash sale for tax purposes or
- a United States holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

If you purchase Notes at a price other than the offering price, the amortizable bond premium or market discount rules may also apply to you. You should consult your tax advisor regarding this possibility.

This section is based on the Internal Revenue Code of 1986 (the “Code”), as amended, its legislative history, existing and proposed regulations under the Code, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly or a retroactive basis.

If an entity treated as a partnership for U.S. federal tax purposes holds the Notes, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Notes should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the Notes.

Please consult your own tax advisor concerning the consequences of owning these Notes in your particular circumstances under the Cod and the laws of any other taxing jurisdiction.

U.S. Holders

This subsection describes the tax consequences to a U.S. holder. You are a U.S. holder if you are a beneficial owner of a Note and you are:

- a citizen or resident of the United States,
- a domestic corporation,
- an estate whose income is subject to U.S. federal income tax regardless of its source or
- a trust if a U.S. court can exercise primary supervision over the trust’s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust or if the trust has a valid election in place to be treated as a domestic trust.

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If you are not a U.S. holder, this subsection does not apply to you and you should refer to "U.S. Alien Holders" below.

Payments of Interest

You will be taxed on interest on your Note as ordinary income at the time you receive the interest or when it accrues, depending on your method of accounting for tax purposes.

The Notes may be issued with a de minimis amount of original issue discount ("OID"). While a U.S. holder is not required to include de minimis OID in income prior to the sale or maturity of the Notes, U.S. holders that maintain certain types of financial statements and that are subject to the accrual method of tax accounting will be required to include de minimis OID on the Notes in income no later than the time upon which they include such amounts in income on their financial statements. A U.S. holder of Notes that maintains financial statements should consult their tax advisors regarding the tax consequences to them of this requirement.

Purchase, Sale and Retirement of the Notes

Your tax basis in your Note generally will be its cost. You will generally recognize capital gain or loss on the sale or retirement of you Note equal to the difference between the amount you realize on the sale or retirement, excluding any amounts attributable to accrued but unpaid interest (which will be treated as interest payments), and your tax basis in your Note. Capital gain of a noncorporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year.

Medicare Tax

A U.S. holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) the U.S. holder's "net investment income" (or "undistributed net investment income" in the case of an estate or trust) for the relevant taxable year and (2) the excess of the U.S. holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between US$125,000 and US$250,000, depending on the individual's circumstances). A U.S. holder's net investment income generally includes its interest income and its net gains from the disposition of Notes, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment i the Notes.

U.S. Alien Holders

This subsection describes the tax consequences to a U.S. alien holder. You are a U.S. alien holder if you are a beneficial owner of a Note and you are, for U.S. federal income tax purposes:

- a nonresident alien individual,
- a foreign corporation or
- an estate or trust that in either case is not subject to U.S. federal income tax on a net income basis on income or gain from a Note.

If you are a U.S. holder, this subsection does not apply to you.

Under U.S. federal income and estate tax law, and subject to the discussion of backup withholding below, if you are a U.S. alien holder of a Note, interest on a Note paid to you is generally exempt from

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U.S. federal income tax, including withholding tax, whether or not you are engaged in a trade or business in the United States, unless:

- you are an insurance company carrying on a U.S. insurance business to which the interest is attributable, within the meaning o the Code, or
- you both
  - have an office or other fixed place of business in the United States to which the interest is attributable and
  - derive the interest in the active conduct of a banking, financing or similar business within the United States, or are a

corporation with a principal business of trading in stocks and securities for its own account.

Purchase, Sale, Retirement and Other Disposition of the Notes

If you are a U.S. alien holder of a Note, you generally would not be subject to U.S. federal income tax on gain realized on the sale, exchange or retirement of a Note unless:

- the gain is effectively connected with your conduct of a trade or business in the United States or
- you are an individual, you are present in the United States for 183 or more days during the taxable year in which the gain is realized and certain other conditions exist.

For purposes of the U.S. federal estate tax, the Notes will be treated as situated outside the United States and will not be includible in the gross estate of a holder who is neither a citizen nor a resident of the United States at the time of death.

Information with Respect to Foreign Financial Assets

Owners of "specified foreign financial assets" with an aggregate value in excess of US$50,000 (and in some circumstances, a higher threshold) may be required to file an information report with respect to such assets with their tax returns. "Specified foreign financial assets" may include financial accounts maintained by foreign financial institutions, as well as the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts that have non-U.S. issuers or counterparties and (iii) interests in foreign entities. Holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the Notes.

Backup Withholding and Information Reporting

If you are a noncorporate U.S. holder, information reporting requirements, on Internal Revenue Service Form 1099, generally would apply to payments of principal and interest on a Note within the United States, and the payment of proceeds to you from the sale of a Note effected at a U.S. office of a broker.

Additionally, backup withholding may apply to such payments if you fail to comply with applicable certification requirements or (in the case of interest payments) are notified by the Internal Revenue Service (the "IRS") that you have failed to report all interest and dividends required to be shown on your federal income tax returns.

If you are a U.S. alien holder, you are generally exempt from backup withholding and information reporting requirements with respect to payments of principal and interest made to you outside the

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United States by AIIB or another non-U.S. payor. You are also generally exempt from backup withholding and information reporting requirements in respect of payments of principal and interest made within the United States and the payment of the proceeds from the sale of a Note effected at a U.S. office of a broker, as long as either (i) the payor or broker does not have actual knowledge or reason to know that you are a U.S. person and you have furnished a valid IRS Form W-8 or other documentation upon which the payor or broker may rely to treat the payments as made to a non-U.S. person or (ii) you otherwise establish an exemption.

Payment of the proceeds from the sale of a Note effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale effected at a foreign office of a broker could be subject to information reporting in the same manner as a sale within the United States (and in certain cases may be subject to backup withholding as well) if (i) the broker has certain connections to the United States, (ii) the proceeds or confirmation are sent to the United States or (iii) the sale has certain other specified connections with the United States.

You may be able to obtain a refund or credit of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the IRS.

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UNDERWRITING

AIIB intends to offer the Notes through Goldman Sachs International, Bank of China Limited, London Branch, Barclays Bank PLC, Crédit Agricole Corporate and Investment Bank, The Toronto-Dominion Bank, Merrill Lynch International, BNP Paribas S.A., Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, HSBC Bank plc, ICBC International Securities Limited, J.P. Morgan Securities plc, Morgan Stanley & Co. International plc, NatWest Markets Plc, Nomura International plc, RBC Europe Limited and Standard Chartered Bank as underwriters (the "Underwriters"). Subject to the terms and conditions of the underwriting agreement with AIIB, dated the date of this Prospectus, the Underwriters have agreed to purchase, and AIIB has agreed to sell to the Underwriters, US$2,500,000,00 in principal amount of Notes, as indicated in the table below:

Underwriters	Principal Amount o the Notes	
Goldman Sachs International	US$	452,000,000
Bank of China Limited, London Branch	US$	452,000,000
Barclays Bank PLC	US$	452,000,000
Crédit Agricole Corporate and Investment Bank	US$	452,000,000
The Toronto-Dominion Bank	US$	452,000,000
Merrill Lynch International	US$	20,000,000
BNP Paribas S.A.	US$	20,000,000
Citigroup Global Markets Limited	US$	20,000,000
Deutsche Bank AG, London Branch	US$	20,000,000
HSBC Bank plc	US$	20,000,000
ICBC International Securities Limited	US$	20,000,000
J.P. Morgan Securities plc	US$	20,000,000
Morgan Stanley & Co. International plc	US$	20,000,000
NatWest Markets Plc	US$	20,000,000
Nomura International plc	US$	20,000,000
RBC Europe Limited	US$	20,000,000
Standard Chartered Bank	US$	20,000,000
Total	**US$**	**2,500,000,000**

The underwriting agreement provides that the Underwriters are obligated to purchase all of the Notes if any are purchased.

The Underwriters propose to offer the Notes initially at the offering price on the cover page of this Prospectus.

The Underwriters may offer such Notes to selected dealers at the public offering price minus a selling concession of up to 0.075% of the principal amount of the Notes. In addition, the Underwriters may allow, and those selected dealers may reallow, a selling concession t certain other dealers of up to 0.025% of the principal amount of the Notes. After the initial offering, the Underwriters may change the publ offering price and other selling terms.

AIIB has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the Underwriters may be required to make in respect of those liabilities.

The total expenses of the offering, excluding underwriting discounts and commissions, are estimated to amount to approximately US$2,145,500.

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The Notes are a new issue of securities with no established trading market. AIIB has been advised by the Underwriters that they presently intend to make a market in the Notes after completion of the offering. However, the Underwriters are under no obligation to do s and may discontinue any market-making activities at any time without any notice. No assurance can be given with respect to the liquidity o the trading market for the Notes or that an active public market for the Notes will develop. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected.

In connection with this offering, the Underwriters may, subject to applicable laws and regulations, purchase and sell the Notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales Short sales involve the sale by the Underwriters of a greater number of Notes than it is required to purchase in this offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Note while the offering is in progress.

These activities by the Underwriters may stabilize, maintain or otherwise affect the market price of the Notes. As a result, the price of the Notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time.

One or more of the Underwriters may not be a U.S.-registered broker-dealer. All sales of securities in the U.S. will be made by or through a U.S.-registered broker-dealer.

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Articles 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this document relates (including any invitation, offer or agreement to subscribe, purchase or otherwise acquire the notes) is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Other relationships

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities.

The Underwriters and their respective affiliates may have performed, and may in the future perform, investment banking, commercial banking and advisory services for AIIB from time to time for which they have received customary fees and expenses. The Underwriters and their respective affiliates may, from time to time, engage in transactions with and perform services for AIIB in the ordinary course of their business with AIIB. They may have received or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of AIIB. If the Underwriters or their respective affiliates have a lending

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relationship with AIIB, the Underwriters or certain of their affiliates may routinely hedge their credit exposure to AIIB, consistent with their customary risk management policies. Such exposure may be hedged by entering into transactions that consist of either the purchase of credit default swaps or the creation of short positions in the securities of AIIB, including potentially the Notes. Any such credit default swaps or short positions may affect future trading prices of the Notes. The Underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The government of China, which holds the largest percentage of voting power over AIIB, is the beneficial owner of a majority of ordinary shares of (i) Bank of China Limited ("Bank of China") which, acting through its London branch, is one of the Underwriters and (ii) Industrial and Commercial Bank of China Limited, which indirectly holds all of the issued ordinary shares of ICBC International Securities Limited ("ICBC International"), which is one of the Underwriters. Bank of China and ICBC International are not registered to sell securities in this offering in the United States and, accordingly, have represented and agreed severally that they have not, directly or indirectly, offered or sold, and that they will not, directly or indirectly, offer, sell or deliver, any of the Notes in or from the United States or to any resident of the United States.

MIFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the Underwriters' target market assessment in respect of the Notes has led them to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "MiFID II") and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

AIIB does not qualify as an "investment firm," "manufacturer" or "distributor" for the purposes of MiFID II.

VALIDITY OF THE NOTES

The validity of the Notes will be passed upon on behalf of AIIB by Sullivan & Cromwell LLP and on behalf of the Underwriters by Latham & Watkins LLP. Sullivan & Cromwell LLP and counsel to the Underwriters may rely as to certain matters on the opinion of AIIB's Office of the General Counsel.

EXPERTS

The Financial Statements included in this Prospectus have been so included in reliance on the reports of PricewaterhouseCoopers, independent auditor, given on the authority of said firm as experts in auditing and accounting.

AUTHORIZED REPRESENTATIVE

AIIB's authorized representative in the United States of America is Puglisi & Associates. The address of the authorized representative in the United States is 850 Library Avenue, Suite 204, Newark, Delaware 19711.

WHERE YOU CAN FIND MORE INFORMATION

This registration statement of which this Prospectus forms a part, including its various exhibits, is available to the public over the internet at the SEC's website: http://www.sec.gov.

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ASIAN INFRASTRUCTURE INVESTMENT BANK

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Asian Infrastructure Investment Bank

Auditor's Report and Financial Statements for the Year Ended Dec. 31, 2018

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Independent Auditor's Report

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

Opinion

What we have audited

The financial statements of Asian Infrastructure Investment Bank (the "Bank") set out on pages 1 to 50, which comprise:

- the statement of comprehensive income for the year ended December 31, 2018;
- the statement of financial position as at December 31, 2018;
- the statement of changes in equity for the year ended December 31, 2018;
- the statement of cash flows for the year ended December 31, 2018; 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 Bank as at December 31, 2018, 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 Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the

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going concern basis of accounting unless management either intend to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank'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. 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 audi 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 fron 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 Bank'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 Bank'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 Bank 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.

/s/ PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, April 3, 2019

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Financial Statements

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Asian Infrastructure Investment Bank
Statement of Comprehensive Income
For the year ended Dec. 31, 2018

In thousands of US Dollars	Note	For the year ended Dec. 31, 2018	For the year ended Dec. 31, 2017
Interest income	C1	250,761	124,193
Interest expense	C1	—	—
Net interest income		**250,761**	**124,193**
Net fee and commission income/(expense)	C2	12,654	(866
Net gain on investments at fair value through profit or loss	C5	56,622	53,783
Impairment provision	C6	(39,608)	(9,088
General and administrative expenses	C3	(84,737)	(56,098
Net foreign exchange gain/(loss)		44	(58
Operating profit for the year		**195,736**	**111,866**
Accretion of paid-in capital receivables	C7	103,780	140,442
Net profit for the year		**299,516**	**252,308**
Other comprehensive income		—	—
Total comprehensive income		**299,516**	**252,308**
Attributable to:			
Equity holders of the Bank		**299,516**	**252,308**

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

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Asian Infrastructure Investment Bank
Statement of Financial Position
As at Dec. 31, 2018

In thousands of US Dollars	Note	Dec. 31, 2018	Dec. 31, 2017
Assets			
Cash and cash equivalents	C4	2,252,741	1,104,866
Term deposits	C4	8,223,299	5,885,854
Investments at fair value through profit or loss	C5	3,325,484	3,255,140
Funds deposited for cofinancing arrangements		5,992	1,592
Loan investments, at amortized cost	C6	1,365,187	773,238
Paid-in capital receivables	C7	4,386,984	7,948,901
Intangible assets		906	1,032
Other assets	C8	1,676	1,983
Total assets		**19,562,269**	**18,972,606**
Liabilities			
Prepaid paid-in capital		2,560	—
Other liabilities	C9	47,291	13,587
Total liabilities		**49,851**	**13,587**
Members' equity			
Paid-in capital	C10	19,268,000	19,000,300
Reserve for accretion of paid-in capital receivables		(70,481)	(160,444
Retained earnings		314,899	119,163
Total members' equity		**19,512,418**	**18,959,019**
Total liabilities and members' equity		**19,562,269**	**18,972,606**

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

/s/ Jin Liqun
Mr. Jin Liqun
President

/s/ Thierry de Longuemar
Mr. Thierry de Longuemar
Vice President
and Chief Financial Officer

/s/ Hui Fong Lee
Ms. Hui Fong Lee
Acting Controller

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Asian Infrastructure Investment Bank
Statement of Changes in Equity
For the year ended Dec. 31, 2018

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, 2017		**90,327,000**	**(72,261,600)**	**18,065,400**	**(282,868)**	**7,297**	**17,789,829**
Capital subscription and contribution		4,674,100	(3,739,200)	934,900	—	—	934,900
Net profit for the year		—	—	—	—	252,308	252,308
Paid-in capital receivables – accretion effect		—	—	—	(18,018)	—	(18,018
Transfer of accretion	C7	—	—	—	140,442	(140,442)	—

Dec. 31, 2017	C10	**95,001,100**	**(76,000,800)**	**19,000,300**	**(160,444)**	**119,163**	**18,959,019**
Jan. 1, 2018		**95,001,100**	**(76,000,800)**	**19,000,300**	**(160,444)**	**119,163**	**18,959,019**
Capital subscription and contribution		1,338,600	(1,070,900)	267,700	—	—	267,700
Net profit for the year		—	—	—	—	299,516	299,516
Paid-in capital receivables – accretion effect		—	—	—	(13,817)	—	(13,817
Transfer of accretion	C7	—	—	—	103,780	(103,780)	—
Dec. 31, 2018	C10	**96,339,700**	**(77,071,700)**	**19,268,000**	**(70,481)**	**314,899**	**19,512,418**

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

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Asian Infrastructure Investment Bank
Statement of Cash Flows
For the year ended Dec. 31, 2018

In thousands of US Dollars	Note	For the year ended Dec. 31, 2018	For the year ended Dec. 31, 2017
Cash flows from operating activities			
Net profit for the year		299,516	252,308
Adjustments for:			
Interest income from term deposits		(195,918)	(104,710
Accrued interest on funds deposited for cofinancing arrangements		(136)	(167
Accretion of paid-in capital receivables	C7	(103,780)	(140,442
Net gain on investments at fair value through profit or loss	C5	(56,622)	(53,783
Impairment provision	C6	39,608	9,088
Depreciation and amortization		997	193
Increase in loan investments	C6	(602,871)	(768,681
(Increase)/Decrease in funds deposited for cofinancing arrangements		(4,264)	22,198
Decrease/(Increase) in other assets		205	(1,651
Increase in other liabilities		5,020	3,957
Net cash used in operating activities		(618,245)	(781,690
Cash flows from investing activities			
Investment purchases	C5	(15,364)	(21,484
Return of capital contributions from LP Fund	C5	1,642	—
Increase in term deposits		(2,282,921)	(3,541,000
Interest received from term deposits		141,394	51,997
Intangible assets		(308)	(222
Property improvements		(368)	(232
Computer hardware		(95)	(145
Net cash used in investing activities		(2,156,020)	(3,511,086
Cash flows from financing activities			
Capital contributions received	C7	3,919,580	4,115,650
Prepaid paid-in capital received		2,560	—
Net cash from financing activities		3,922,140	4,115,650
Net increase/(decrease) in cash and cash equivalents		1,147,875	(177,126
Cash and cash equivalents at beginning of year		1,104,866	1,281,992
Cash and cash equivalents at end of year	C4	**2,252,741**	**1,104,866**

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

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Asian Infrastructure Investment Bank
Notes to the Financial Statements
For the year ended Dec. 31, 2018
(All amounts in thousands of US Dollars unless otherwise stated)

A General Information

The Asian Infrastructure Investment Bank (the "Bank" or "AIIB") is a multilateral development bank. By the end of year 2015, representatives from 57 countries signed AIIB's 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).

For the year ended Dec. 31, 2018, AIIB has approved nine new membership applications. As at Dec. 31, 2018, the Bank's total approved membership is 93, of which 69 have completed the membership process and have become members of AIIB in accordance wit 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 AIIB 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, the Vice President and Chief Financial Officer, and the Acting Controller on April 3, 2019.

B Accounting Policies

B1 Basis of preparation

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

The Bank has adopted all of the IFRS standards and interpretations effective for annual periods beginning on Jan. 1, 2018. In additio the Bank has adopted IFRS 9 Financial Instruments (full version issued in July 2014 and mandatorily effective on Jan. 1, 2018), IFRS 15 Revenue from Contracts with Customers (mandatorily effective on Jan. 1, 2018), and 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.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also require management to exercise judgment in its process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where judgments or estimates are significant to the financial statements are disclosed in Note B4. The financial statements have been prepared on a going concern basis.

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Asian Infrastructure Investment Bank
Notes to the Financial Statements
For the year ended Dec. 31, 2018
(All amounts in thousands of US Dollars unless otherwise stated)

B Accounting Policies

B2 New accounting pronouncements

The new accounting pronouncements, amendments and interpretations issued in 2018 do not have any significant impact on the operating results, financial position and comprehensive income of the Bank, based on the assessment of the Bank.

B3 Summary of significant accounting policies

B3.1 Functional currency and foreign currency transactions

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

Foreign currency transactions are initially translated into USD using exchange rates prevailing at the dates of the related transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss during the period in which they arise.

B3.2 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 a maturity of three months or less are classified as cash and cash equivalents.

B3.3 Financial instruments

B3.3.1 Financial assets

The Bank'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 Bank 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

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B Accounting Policies

B3 Summary of significant accounting policies (Continued)

B3.3 Financial instruments (Continued)

B3.3.1 Financial assets (Continued)

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

(ii) The contractual terms give rise, on specified dates, to cash flows that are solely payments of principal or interest on the principal outstanding.

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

(b) Classification of financial assets at FVOCI

Financial assets at FVOCI comprise:

(i) Financial assets having contractual cash flows which reflect solely payments of principal and interest on 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 Bank 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 Bank 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 at FVPL irrevocably, when such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;

(iii) Investments in equity instruments that are held for trading; and

(iv) Investments in equity instruments for which the Bank has not elected to recognize fair value gains or losses through OCI.

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B Accounting Policies

B3 Summary of significant accounting policies (Continued)

B3.3 Financial instruments (Continued)

B3.3.2 Financial liabilities

The Bank's financial liabilities are classified as either financial liabilities through FVPL or other financial liabilities, carried at amortized cost.

(a) Classification of financial liabilities at FVPL

Financial liabilities at FVPL have two subcategories, financial liabilities held for trading and those designated as FVPL on initial recognition. There were no financial liabilities classified as FVPL during the reporting period or as at Dec. 31, 2018 and 2017.

(b) Other financial liabilities

Other financial liabilities are measured at amortized cost, using the effective interest method. The related interest expenses are recognized in profit or loss.

B3.3.3 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

A puttable financial instrument includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put. The puttable instrument that includes such an obligation is classified as an equity instrumer when meeting all the generally required features being most subordinate class of shares with identical features and all have the same rights on liquidation.

B3.3.4 Impairment of financial instruments

Financial assets of the Bank that are measured at amortized cost (Note B3.3.1(a)), FVOCI (Note B3.3.1 (b) (i)) and certain unrecognized financial instruments such as loan commitments are subject to credit loss estimated through an expected credit loss ("ECL") model, assessed on a forward-looking basis.

At each reporting date, the Bank assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When making this assessment, the Bank considers the change in the risk of a default occurring over the expected life of the financial instrument. To make this assessment, the Bank compares the risk of a default occurring as at the reporting date with the risk of default occurring as at the date of initial recognition, based on reasonable and supportable information that is available without undue cos or effort and is indicative of significant increases in credit risk since initial recognition.

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B Accounting Policies

B3 Summary of significant accounting policies (Continued)

B3.3 Financial instruments (Continued)

B3.3.4 Impairment of financial instruments (Continued)

At each reporting date, the Bank measures the loss allowance for a financial instrument at either:

(i) An amount equal to the lifetime ECL if the credit risk related to that financial instrument has increased significantly since initial recognition; or

(ii) An amount equal to a 12-month ECL if the credit risk related to that financial instrument has not increased significantly since initial recognition.

The Bank measures ECL related to a financial instrument in a way that reflects:

(i) An unbiased and probability-weighted amount determined by evaluating a range of possible outcomes;

(ii) The time value of money; and

(iii) Reasonable and supportable information that is available without undue cost or effort at the reporting date regarding relevant past events, current circumstances, and forecasts of future economic conditions.

The Bank identified financial assets as having credit impairment when one or more events that could have a detrimental impact on th estimated future cash flows of that financial asset have occurred.

The Bank recognizes the loss allowance of loan commitments as a provision. However, if a financial instrument includes both a loan (i.e. financial asset) and an undrawn commitment (i.e. loan commitment) component and the Bank cannot separately identify the ECL on the loan commitment component from those on the financial asset component, the ECL on the loan commitment is recognized together with the loss allowance for the financial asset. To the extent that the combined ECL exceeds the gross carrying amount of the financial asset, the ECL is recognized as a provision.

B3.3.5 Determination of fair value

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

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based o quoted market prices.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, pricing service, or regulatory agency; and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

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B Accounting Policies

B3 Summary of significant accounting policies (Continued)

B3.3 Financial instruments (Continued)

B3.3.5 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.

B3.3.6 Recognition and derecognition

The Bank recognizes a financial asset or a financial liability in its statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

At initial recognition, the Bank 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 fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuanc of the financial asset or financial liability.

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

Upon derecognition of a financial asset in its entirety, the difference between the carrying amount of the asset and the sum of the consideration received and receivable and, where applicable, the cumulative gain or loss that had been recognized in other comprehensive income is reclassified to profit or loss, except for those investments in equity instruments designated as FVOCI.

Financial liabilities are derecognized when the related obligation is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the sum of the consideration paid and payable is recognized in the profit or los

B3.4 Property improvements

Property improvements are stated at cost less accumulated depreciation. Depreciation is calculated on a straight line basis to write down the cost of each asset to its residual value over its estimated useful economic life. Property improvements are depreciated over a useful economic life of no more than 3 years.

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B Accounting Policies

B3 Summary of significant accounting policies (Continued)

B3.5 Intangible assets

Intangible assets are stated at cost less accumulated amortization. Amortization is calculated on a straight line basis to write down the cost of each asset to its residual value over its estimated useful economic life. Intangible assets comprise computer software which is amortized over a useful economic life of no more than 3 years.

B3.6 Revenue

B3.6.1 Interest income

Interest income is calculated using the effective interest method. In this regard, the effective interest rate is applied to the gross carrying amount of a financial asset except for:

(i) Purchased or originated credit-impaired financial assets, for which the credit adjusted effective interest rate is applied to the amortized cost of the financial assets from initial recognition; and

(ii) Credit-impaired financial assets that have been recognized subsequent to initial recognition, for which the original effective interest rate is applied to the net carrying value in subsequent reporting periods.

With respect to (ii) above, in subsequent reporting periods, interest income is calculated by applying the effective interest rate to the gross carrying amount if the credit risk of the financial asset improves so that it is no longer credit impaired.

B3.6.2 Front-end and commitment fees

Front-end fees received by the Bank relating to the origination or acquisition of a financial asset are an integral part of generating an involvement with the resulting financial instrument and, accordingly, are an integral part of the effective interest rate of that financial instrument.

Commitment fees received by the Bank to originate a loan when the loan commitment is not measured at FVPL are treated as follows

(i) If it is probable that the Bank will enter into a specific lending arrangement, it is an integral part of the effective interest rate of a financial instrument. If the commitment expires without the Bank making the loan, the fee is recognized as revenue at expiration of the commitment.

(ii) If it is likely that a specific lending arrangement will not be entered into, or the loan commitment fee is directly related to the undrawn portion of the loan commitment and it changes based on the portion of the unused commitment at tha time, it is not an integral part of the effective interest rate of the financial instrument and the fee is accounted for as revenue over the commitment period.

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Asian Infrastructure Investment Bank
Notes to the Financial Statements
For the year ended Dec. 31, 2018
(All amounts in thousands of US Dollars unless otherwise stated)

B Accounting Policies

B3 Summary of significant accounting policies (Continued)

B3.6 Revenue (Continued)

B3.6.3 Administration fees

Administration fees are recognized as revenue throughout the period that the services are rendered.

B3.7 Employee benefits

Employee benefits represent considerations given, and are expenditures incurred by the Bank, in exchange for services rendered by employees or for termination of employment contracts. These benefits include short-term employee benefits and contributions to defined contribution plans.

Short-term employee benefits

During the reporting period in which an employee has rendered services, the Bank recognizes the short-term employee benefits payable for those services as a liability with a corresponding increase in the related expense. Short-term employee benefits include base salary and location premiums, pre-retirement medical insurance, life insurance, accidental death and disability provision, death grant, leave travel accident coverage, long-term disability, multipurpose loans to staff as well as flexible allowance and resettlement allowance which are special allowances for staff recruited globally.

Defined contribution plans

A defined contribution plan is a retirement plan under which the Bank pays fixed contributions into a separate entity. When an employee has rendered service to the Bank during a period, the Bank recognizes a contribution payable to a defined contribution plan in exchange for that service, along with the related expense. Defined contribution plans include defined contribution retirement plans and post-retirement medical benefit plans.

B3.8 Leases

A lease contract is one which conveys the right to control the use of an asset for a specified period of time. The lease liability is measured as the present value of the payments that are not paid at the date of recognition discounted at the leases' implicit interest rate. The right of use asset is measured at cost, consisting of the lease liability plus any payments made before the commencement of lease and less any lease incentives.

B3.9 Dividends

Dividend distributions to the Bank's members are recognized as a liability in the period in which the dividends are approved by the Board of Governors.

B3.10 Current and noncurrent presentation

The Bank presents its assets and liabilities in the order of liquidity as this provides more relevant information.

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B Accounting Policies

B3 Summary of significant accounting policies (Continued)

B3.11 Taxation

In accordance with Article 51 of the AOA, within the scope of its official activities, the Bank, its assets, property, income, and its operations and transactions, shall be exempt from all taxation and from all custom duties in its member countries. Article 51 also exempts the Bank from any obligation for the payment, withholding, or collection of any tax or duty.

B4 Critical accounting estimates and judgments in applying accounting policies

The Bank makes estimates and assumptions that affect the amounts recognized in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

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

B4.1 Impairment losses on financial instruments

The measurement of the ECL allowance for financial assets measured at amortized cost requires extensive financial modelling and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in measuring ECL, which include:

- Determining criteria for significant increase in credit risk and definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and probability of forward-looking scenarios for each type of product; and
- Assigning exposures through an internal credit rating process.

Details of the inputs, assumptions, and estimation techniques used in measuring ECL are further disclosed in Note D3, which also presents sensitivities of the ECL.

B4.2 Measurement of fair value

Paid-in capital receivables are initially measured at fair value. The Bank is required to use valuation techniques to determine the fair value. The Bank made judgments about the expected timing of future cash flows and the appropriate discount rate to apply. If the interest rate changed by +/-1 basis point ("bps"), the carrying amount of the capital receivables as at Dec. 31, 2018 would have decreased/increased by approximately USD0.42 million (2017: USD1.09 million). Detailed information is further disclosed in Note E.

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B Accounting Policies

B4 Critical accounting estimates and judgments in applying accounting policies (Continued)

B4.3 Structured entity consolidation

The Bank manages AIIB's Project Preparation Special Fund (the "Special Fund"), and has made a judgment on whether or not, for accounting purposes, it is the principal or an agent, to assess whether the Bank controls the Special Fund and should consolidate it. The Bank identified the Special Fund's assets as a "silo" when conducting its consolidation assessment. When performing this assessment, the Bank considered several factors including, among other things, the scope of its decision-making authority over the structured entity, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the administration services and the Bank's exposure to variability of returns from other interests that it holds in the structured entity. The Bank is not exposed to any significant variability in its returns and as such was deemed to not control the Special Fund. The Bank performs re-assessment periodically.

Detailed information about the unconsolidated structured entity is set out in Note C13.

C Disclosure Notes

C1 Interest income and expense

	For the year ended Dec. 31, 2018	For the year ended Dec. 31, 2017
Interest income		
Loan investments (1)	37,380	11,795
Cash and deposits	213,381	112,398
Total interest income	**250,761**	**124,193**

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

Interest expense	—	—
Total interest expense	—	—
Net interest income	**250,761**	**124,193**

(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.

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C Disclosure Notes

C2 Net fee and commission income/(expense)

	For the year ended Dec. 31, 2018	For the year ended Dec. 31, 2017
Special Fund administration fee (Note C13)	70	70
Loan commitment fee and service fee	13,823	49
Others	10	—
Total fee and commission income	**13,903**	**119**
Cofinancing service fee	(1,249)	(985)
Total fee and commission expense	**(1,249)**	**(985)**
Net fee and commission income/(expense)	**12,654**	**(866)**

C3 General and administrative expenses

	For the year ended Dec. 31, 2018	For the year ended Dec. 31, 2017
Staff costs (1)	38,425	25,226
Professional service expenses	19,653	12,607
IT services	7,771	5,691
Travelling expenses	7,421	4,186
Facilities and administration expenses	5,529	5,028
Annual audit fee	1,100	1,000
Others	4,838	2,360
Total general and administrative expenses	**84,737**	**56,098**

(1) Staff costs

	For the year ended Dec. 31, 2018	For the year ended Dec. 31, 2017
Short-term employee benefits	33,719	22,092
Defined contribution plans	4,596	3,120
Others	110	14
Total	**38,425**	**25,226**

Refer to Note C14 for details of key management remuneration.

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

C Disclosure Notes

C4 Cash and deposits with banks

	Dec. 31, 2018	Dec. 31, 2017
Cash	—	—
Deposits with banks		
- Demand deposits	533,731	457,124
- Term deposits with maturity of less than 3 months	245,602	647,742
Money Market Funds (Note D2)	1,473,408	—
Total cash and cash equivalents	**2,252,741**	**1,104,866**
Add: term deposits with maturity more than 3 months (1)	8,223,299	5,885,854
Total cash and deposits with banks	**10,476,040**	**6,990,720**

(1) Term deposits with maturity more than 3 months have maturities up to 24 months.

C5 Investments at fair value through profit or loss

	For the year ended Dec. 31, 2018	For the year ended Dec. 31, 2017
As at beginning of year	3,255,140	3,179,873
Additions	15,364	21,484
Return of capital contributions from LP Fund	(1,642)	—
Fair value gain, net	56,622	53,783
Total investments at fair value through profit or loss	**3,325,484**	**3,255,140**

Analysis of investments at fair value through profit or loss:

	Dec. 31, 2018	Dec. 31, 2017
Trust Fund (a)	3,292,628	3,236,448
LP Fund (b)	32,360	18,692
Others	496	—
Total investments at fair value through profit or loss	**3,325,484**	**3,255,140**

The Bank has the following investments in certain unconsolidated structured entities:

(a) The Bank places funds with an external counterparty in a trust fund account (the "Trust Fund"), which, in accordance with the related Administrative Agreement between the Bank and the counterparty, reinvests the funds in a larger collective pool of investments (the "Pool") in accordance with the investment mandate for the entire Pool. Notional allocations within the Pool are made, subject to the Investment Framework agreement between the Bank and the counterparty, to create a model portfolio exposure, as the basis for determining the fair value of the Trust Fund. The Bank classifies this investment as a

C Disclosure Notes

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

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

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 as further disclosed in Note C15.

(b) The Bank also invests in a fund, established and registered as a limited partnership in England (the "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.

C6 Loan investments, loan commitments and related ECL allowance

Loan investments	**Dec. 31, 2018**	**Dec. 31, 2017**
Gross carrying amount	1,381,382	778,511
ECL allowance	(16,195)	(5,273)
Net carrying amount	**1,365,187**	**773,238**

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 Dec. 31, 2018, USD1.88 million of the total carrying amount is maturing within 12 months from the reporting date (Dec. 31, 2017: USD0.19 million).

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C Disclosure Notes

C6 Loan investments, loan commitments and related ECL allowance (Continued)

The following table sets out overall information about the credit quality of loan investments and loan commitments issued for effective contracts as at Dec. 31, 2018. The gross amounts of loans include the transaction costs and fees that are capitalized through the effective interest method, or EIR method.

	Dec. 31, 2018	**Dec. 31, 2017**
Loan investments, gross carrying amount	1,381,382	778,511
Loan commitments	3,328,105	1,947,528
	4,709,487	2,726,039
Total ECL allowance (a)	(48,973)	(9,365)
	4,660,514	2,716,674

During the year ended Dec. 31, 2018, new loan investments and loan commitments with a carrying amount of USD1,976 million (including sovereign-backed loans of USD1,556 million, rating ranged from 3 to 10, and nonsovereign-backed loans of USD420 million, rating ranged from 1 to 7) became effective and were included in the assessment of ECL at Dec. 31, 2018.

The increase of ECL allowance during the year ended Dec. 31, 2018 was mainly attributed to the downgrade of internal ratings related to certain sovereign borrowers. Refer to Note D3.

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

(a) As at Dec. 31, 2018, the total ECL related to loan commitments was USD32.78 million (Dec. 31, 2017: USD4.09 million), presented as a provision in Note C9. Consequential to the disbursements, all of the ECL for the loan commitments that was presented as a provision at Dec. 31, 2017 was included in the ECL allowance at Dec. 31, 2018.

C7 Paid-in capital receivables

According to the AOA, payments for paid-in capital (refer to Note C10) are due in five installments, with the exception of members designated as less developed countries, who may pay in ten installments. Paid-in capital receivables represent amounts due from members in respect of paid-in capital. These amounts are initially recognized at fair value and subsequently measured at amortized cost. The fair value discount is accreted through income using the effective interest method. For the year ended Dec. 31, 2018, a total discoun of USD13.82 million (2017: USD18.02 million) was debited to the reserve. An amount of USD103.78 million (2017: USD140.44 million) has been accreted through income in the current year.

Members	Paid-in capital receivables at amortized cost as at	
	Dec. 31, 2018	Dec. 31, 2017
Afghanistan	13,496	13,268
Australia	145,618	289,241
Austria	19,765	39,260
Azerbaijan	10,053	30,151

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C Disclosure Notes

C7 Paid-in capital receivables (Continued)

Members	Paid-in capital receivables at amortized cost as at	
	Dec. 31, 2018	Dec. 31, 2017
Bahrain	15,587	—
Bangladesh	75,093	86,925
Brunei Darussalam	2,071	4,114
Cambodia	7,122	8,249
Canada	152,082	—
China	1,175,447	2,335,329
Cyprus	3,027	—
Denmark	14,618	29,075
Egypt	25,684	51,036
Ethiopia	5,390	7,127
Fiji	1,439	1,898
Finland	24,671	36,781
France	133,491	265,470
Georgia	2,131	4,235
Germany	176,903	351,383
Hong Kong, China	89,592	118,497
Hungary	11,712	15,491
Iceland	692	1,375
India	330,600	657,150
Indonesia	132,871	264,210
Iran	125,392	123,411
Ireland	15,249	20,144
Israel	29,671	59,015
Italy	101,693	202,212

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

Jordan	4,695	9,320
Kazakhstan	58,010	86,548
Korea	147,492	292,963
Kyrgyz Republic	3,089	3,580
Lao PDR	4,891	5,664
Luxembourg	5,517	5,442
Madagascar	757	—
Malaysia	4,306	12,913
Maldives	788	911
Malta	533	1,060
Mongolia	1,618	3,215
Myanmar	29,777	34,429
Nepal	10,809	10,639
Netherlands	40,695	80,832
New Zealand	18,207	36,165
Norway	43,713	65,134

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C Disclosure Notes

C7 Paid-in capital receivables (Continued)

Members	**Paid-in capital receivables at amortized cost as at**	
	Dec. 31, 2018	**Dec. 31, 2017**
Oman	10,232	30,688
Pakistan	82,106	122,341
Philippines	38,611	76,681
Poland	32,908	65,447
Portugal	2,555	7,674
Qatar	23,926	47,473
Romania	22,945	—
Russia	257,659	512,461
Samoa	305	—
Saudi Arabia	100,781	200,573
Singapore	9,863	19,591
Spain	68,952	136,659
Sri Lanka	10,624	31,863
Sudan	8,750	—
Sweden	50,055	74,623
Switzerland	56,141	83,706
Tajikistan	4,146	4,702
Thailand	56,403	112,058
Timor-Leste	1,848	2,440
Turkey	103,254	205,374
United Arab Emirates	46,899	93,284
United Kingdom	120,508	361,402
Uzbekistan	8,685	17,256
Vanuatu	—	—
Vietnam	52,771	78,743
Total paid-in capital receivables	**4,386,984**	**7,948,901**

As at Dec. 31, 2018, the contractual undiscounted paid-in capital receivables overdue amounting to USD256.69 million (Dec. 31, 201

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

USD346.04 million) (Note C10) are not considered as impaired. Of this amount, USD178.68 million (Dec. 31, 2017: USD342.44 million) was collected by the date of signing of the 2018 financial statements.

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C Disclosure Notes

C7 Paid-in capital receivables (Continued)

As at Dec. 31, 2018, USD4,029 million (Dec. 31, 2017: USD4,021 million) of the above balance is due within 12 months from the reporting date.

	For the year ended Dec. 31, 2018	For the year ended Dec. 31, 2017
As at beginning of year	7,948,901	11,007,227
Paid-in capital receivables originated	253,883	916,882
Contributions received	(3,919,580)	(4,115,650)
Accretion to profit or loss	103,780	140,442
Carrying amount	**4,386,984**	**7,948,901**

C8 Other assets

	Dec. 31, 2018	Dec. 31, 2017
Prepayments	766	63
Property improvements	341	271
Computer hardware	160	238
Tax refund receivable	—	750
Others	409	661
Total other assets	**1,676**	**1,983**

C9 Other liabilities

	Dec. 31, 2018	Dec. 31, 2017
Provision – ECL allowance (Note C6)	32,778	4,092
Accrued expenses	12,847	8,080
Staff costs payable	948	1,205
Deferred administration fee (Note C14)	690	210
Others	28	—
Total other liabilities	**47,291**	**13,587**

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C Disclosure Notes

C10 Share capital

	Dec. 31, 2018	Dec. 31, 2017
Authorized capital	100,000,000	100,000,000
– Allocated		
– Subscribed	96,339,700	95,001,100
– Unsubscribed	2,166,300	3,277,600
– Unallocated	1,494,000	1,721,300
Total authorized capital	100,000,000	100,000,000
Subscribed capital	96,339,700	95,001,100
Less: callable capital	(77,071,700)	(76,000,800)
Paid-in capital	19,268,000	19,000,300
Paid-in capital comprises:		
– amounts received	14,810,535	10,890,955
– amounts due but not yet received	256,695	346,040
– amounts not yet due	4,200,770	7,763,305
Total paid-in capital	**19,268,000**	**19,000,300**

In accordance with Articles 4 and 5 of the AOA, the initial authorized capital stock of the Bank is USD100 billion, divided into 1,000,000 shares, which shall be available for subscription only by members.

The original authorized capital stock is divided into paid-in shares and callable shares, with paid-in shares having an aggregate par value of USD20 billion and callable shares having an aggregate par value of USD80 billion.

Payment of the amount subscribed to the callable capital stock of the Bank shall be subject to call only as and when required by the Bank to meet its liabilities. Calls on unpaid subscriptions shall be uniform in percentage on all callable shares.

In accordance with Article 37 of the AOA, any member may withdraw from the Bank at any time by delivering a notice in writing to the Bank at its principal office. A withdrawing member remains liable for all direct and contingent obligations to the Bank to which it was subject at the date of delivery of the withdrawal notice. At the time a country ceases to be a member, the Bank shall arrange for the repurchase of such country's shares by the Bank as a part of the settlement of accounts with such country.

Members	Total shares	Subscribed capital	Callable capital	Paid-in capital	Paid-in capital received	Paid-in capital not yet received
Afghanistan	866	86,600	69,300	17,300	3,460	13,840
Australia	36,912	3,691,200	2,953,000	738,200	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

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C Disclosure Notes

C10 Share capital (Continued)

Members	Total shares	Subscribed capital	Callable capital	Paid-in capital	Paid-in capital received	Paid-in capital not yet received
Bangladesh	6,605	660,500	528,400	132,100	52,840	79,260
Brunei Darussalam	524	52,400	41,900	10,500	8,400	2,100
Cambodia	623	62,300	49,800	12,500	5,000	7,500

Canada	9,954	995,400	796,300	199,100	39,820	159,280
China	297,804	29,780,400	23,824,300	5,956,100	4,764,880	1,191,220
Cyprus	200	20,000	16,000	4,000	800	3,200
Denmark	3,695	369,500	295,600	73,900	59,120	14,780
Egypt	6,505	650,500	520,400	130,100	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	37,260	24,840
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	87,540	58,360
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	8,340	5,560
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	4,860	11,340
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	66,060	44,040
Oman	2,592	259,200	207,400	51,800	41,440	10,360

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C Disclosure Notes

C10 Share capital (Continued)

Members	Total shares	Subscribed capital	Callable capital	Paid-in capital	Paid-in capital received	Paid-in capital not yet received
Pakistan	10,341	1,034,100	827,300	206,800	124,080	82,720
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
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

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

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	75,600	50,400
Switzerland	7,064	706,400	565,100	141,300	84,780	56,520
Tajikistan	309	30,900	24,700	6,200	1,860	4,340
Thailand	14,275	1,427,500	1,142,000	285,500	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	79,620	53,080
Total	963,397	96,339,700	77,071,700	19,268,000	14,810,535	4,457,465

C11 Reserves

Based on 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.

C12 Distribution

Retained earnings as at Dec. 31, 2018 were USD314.90 million (Dec. 31, 2017: USD119.16 million). As at Dec. 31, 2018, USD103.78 million (Dec. 31, 2017: USD140.44 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.

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C Disclosure Notes

C13 Unconsolidated structured entity

The Special Fund established and administered by the Bank based on Article 17.1 of the AOA is an unconsolidated structured entity for accounting purposes. The objective of the Special Fund is to support and facilitate the preparation of projects for the benefit of one or more members of the Bank that, at the time when the decision to extend the grant is made by the Bank, are classified as recipients of financing from the International Development Association, including Blend countries; however, the projects that benefit other members may also be eligible for such assistance in exceptional circumstances, such as innovative and complex projects and regional or cross-border projects with significant regional impacts. Consistent with Article 10 of the Bank's AOA, the resources of the Special Fund shall at all times and in all respects be held, used, committed, invested or otherwise disposed of entirely separately from the Bank's ordinary resources.

The resources of the Special Fund consist of: (a) amounts accepted from any member of the Bank, any of its political or administrative sub-divisions, or any entity under the control of the member or such sub-divisions or any other country, entity or person approved by the President may become a contributor to the Special Fund; (b) income derived from investment of the resources of the Special Fund; and (c) funds reimbursed to the Special Fund, if any.

The full cost of administering the Special Fund is charged to that Special Fund. The Bank charges an administration fee equal to 1% of any contribution, and the Special Fund bears all expenses appertaining directly to operations financed from the resources of the Special Fund.

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

As at Dec. 31, 2018, the Special Fund had aggregate contributions received amounting to USD93.00 million (Dec. 31, 2017: USD38.0 million). The Bank, acting as administrator of the Special Fund, receives administration fees equal to 1% of the amount of contributions. For the year ended Dec. 31, 2018, fees recognized as income amounted to USD0.07 million (2017: USD0.07 million) (Note C2). As at Dec 31, 2018, deferred administration fees recognized as other liabilities amounted to USD0.69 million (Dec. 31, 2017: USD0.21 million).

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

C14 Related party transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely to the legal form.

Outstanding balances with related parties were as follows:

	Dec. 31, 2018		Dec. 31, 2017	
	Key management personnel	Other related parties	Key management personnel	Other related parties
Assets – loans granted	24	—	100	—
Other liabilities (Note C9)	—	690	—	210

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C Disclosure Notes

C14 Related party transactions (Continued)

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

	For the year ended Dec. 31, 2018		For the year ended Dec. 31, 2017	
	Key management personnel	Other related parties	Key management personnel	Other related parties
Income	1	70	—	70
Expense	—	—	—	—

Income from other related parties relates to the Special Fund administration fee (Note C13).

Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct, and control the activities of th Bank. Key management personnel of the Bank is defined as the members of the Bank's Executive Committee, that is, in accordance with the Terms of Reference of the Executive Committee, the President, Vice Presidents, the General Counsel and the Chief Risk Officer.

During 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 year comprises short-term employee benefits of USD3.48 million (2017: USD3.31 million) and defined contribution plans of USD0.57 million (2017: USD0.54 million).

Use of office building

In accordance with Article 5 of the Headquarters Agreement, the Government provides a permanent office building and temporary office accommodation to the Bank, free of charge.

Loan investments

As at Dec. 31, 2018, 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. As at Dec. 31, 2018, the carrying amount of this loan investment is USD47 million.

C15 Events after the end of the reporting period

As at Jan. 31, 2019, Trust Fund investment has been terminated and funds have been returned to the general treasury portfolio in the amount of USD3,295.16 million.

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C Disclosure Notes

C15 Events after the end of the reporting period (Continued)

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

D Financial Risk Management

D1 Overview

The 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 supported by 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 risks 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 projects 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 makes final approval of investment projects.

Accountabilities at different stages of the credit risk/project approval and monitoring process are delineated and regularly updated by the Bank's management.

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D Financial Risk Management

D2 Financial risk management framework (Continued)

(ii) Treasury portfolio

The treasury portfolio includes cash and deposits with banks, Money Market Funds ("MMFs"), and the investments in the Trust Fund.

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

With respect to the MMFs (Note C4), these 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.

With respect to the Trust Fund described in Note C5, the Trust Fund's assets consist of its notionally allocated share of cash and investments in the Pool. The Pool is actively managed and invested in accordance with the investment strategy established for all such Trust Funds administered by the counterparty. The objective of the investment strategy is foremost to maintain adequate liquidity to meet foreseeable cash flow needs and preserve capital and then, to maximize investment returns. The Pool is exposed to credit, market and liquidity risks.

D3 Credit risk

Credit risk management

The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets and loan commitments.

The Bank is primarily exposed to credit risk in both its loan granting of bank activities and deposit placing of treasury activities. The counterparties could default on their contractual obligations or the value of the Bank's investments could become impaired.

(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"),

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

D Financial Risk Management

D3 Credit risk (Continued)

Credit risk management (Continued)

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 rating 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 Dec. 31, 2018 and Dec. 31, 2017, 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.

- 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.

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D Financial Risk Management

D3 Credit risk (Continued)

Credit risk management (Continued)

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

As at Dec. 31, 2018 and Dec. 31, 2017, 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 Dec. 31, 2018, the investment operations portfolio includes an LP Fund investment described in Note C5. 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 Departmen periodically.

As at Dec. 31, 2018, the treasury portfolio includes cash and deposits with banks, MMFs, and investment in the Trust Fund as described in Note C5. The Trust Fund is measured at fair value through profit or loss, and the fair value related information is described i Note E. As the Trust Fund is not subject to significant credit risk, the credit risk of the treasury portfolio is mainly from the term deposits and MMFs. Given the high credit quality, no significant loss provisions were made for the investments in the treasury portfolio for the yea ended Dec. 31, 2018 and 2017.

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.

	Dec. 31, 2018		Dec. 31, 2017	
	Loans and loan commitments	ECL	Loans and loan commitments	ECL
Sovereign-backed loans	4,123,810	(46,375)	2,558,761	(5,050)
Nonsovereign-backed loans	585,677	(2,598)	167,278	(4,315)
Total	**4,709,487**	**(48,973)**	**2,726,039**	**(9,365)**

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D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

(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 a follows:

	Dec. 31, 2018			Dec. 31, 2017		
Region (1)	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Sovereign-backed loans						
Central Asia	87,692	—	87,692	27,486	—	27,486
Eastern Asia	—	—	—	—	—	—
South-eastern Asia	899,853	—	899,853	340,781	99,977	440,758
Southern Asia	956,798	400,600	1,357,398	1,112,237	—	1,112,237
Western Asia	914,711	864,156	1,778,867	713,934	264,346	978,280

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

Asia	2,859,054	1,264,756	4,123,810	2,194,438	364,323	2,558,761
Non-Asia	—	—	—	—	—	—
Subtotal	**2,859,054**	**1,264,756**	**4,123,810**	**2,194,438**	**364,323**	**2,558,761**

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

	Dec. 31, 2018			Dec. 31, 2017		
Region	**Stage 1**	**Stage 2**	**Total**	**Stage 1**	**Stage 2**	**Total**
Nonsovereign-backed loans						
Central Asia	—	—	—	—	—	—
Eastern Asia	247,007	—	247,007	—	—	—
South-eastern Asia	19,461	—	19,461	20,198	—	20,198
Southern Asia	48,643	—	48,643	—	—	—
Western Asia	124,063	—	124,063	—	—	—
Asia	439,174	—	439,174	20,198	—	20,198
Non-Asia	146,503	—	146,503	147,080	—	147,080
Subtotal	**585,677**	**—**	**585,677**	**167,278**	**—**	**167,278**
Total	**3,444,731**	**1,264,756**	**4,709,487**	**2,361,716**	**364,323**	**2,726,039**

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D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

The following table sets out the credit quality of loan investments (gross carrying amount of loans and exposure of loan commitments) segmented by the Bank's internal credit rating system and their respective staging.

	Dec. 31, 2018			Dec. 31, 2017		
Internal credit rating	**Stage 1**	**Stage 2**	**Total**	**Stage 1**	**Stage 2**	**Total**
Sovereign-backed loans						
Investment grade	1,630,685	—	1,630,685	828,834	99,977	928,811
Noninvestment grade (a)	1,228,369	1,264,756	2,493,125	1,365,604	264,346	1,629,950
Subtotal	**2,859,054**	**1,264,756**	**4,123,810**	**2,194,438**	**364,323**	**2,558,761**
Nonsovereign-backed loans						
Investment grade	247,007	—	247,007	—	—	—
Noninvestment grade (b)	338,670	—	338,670	167,278	—	167,278
Subtotal	**585,677**	**—**	**585,677**	**167,278**	**—**	**167,278**
Total	**3,444,731**	**1,264,756**	**4,709,487**	**2,361,716**	**364,323**	**2,726,039**

(a) For the noninvestment grade sovereign-backed loan exposures as at Dec. 31, 2018, balances of USD2,005 million have internal ratings ranging from 5 to 7 (Dec. 31, 2017: USD1,203 million), and balances of USD488 million have internal ratings ranging from 8 to 12 (Dec. 31, 2017: USD427 million).

(b) For the noninvestment grade nonsovereign-backed loan exposures as at Dec. 31, 2018, balances of USD173 million have internal ratings ranging from 5 to 7, and balances of USD166 million have internal ratings ranging from 8 to 12 (Dec. 31, 2017: all the balances of noninvestment grade have internal ratings ranging from 8 to 12).

(ii) Credit enhancement

As at Dec. 31, 2018, the Bank's maximum exposure to credit risk from financial instruments other than undrawn loan commitments before taking into account any collateral held or other credit enhancements is their carrying amount presented on the statement of financial position. The maximum exposure to credit risk from the undrawn loan commitments as at Dec. 31, 2018 is USD3,328 million (Dec. 31, 2017: USD1,948 million).

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

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

	Dec. 31, 2018	Dec. 31, 2017
Guaranteed by sovereign members	1,764,711	864,303
Guaranteed by nonsovereign entities	266,469	20,199
Unguaranteed (a)	2,678,307	1,841,537
Total	**4,709,487**	**2,726,039**

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D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

(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 Dec. 31, 2018, the Bank holds project assets and certain securities as collateral for certain nonsovereign-backed loans. There was no other credit enhancement held as at Dec. 31, 2018 and 2017.

(iii) Reconciliation of 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 EC allowances is as follows:

Sovereign-backed loans

	Stage 1	Stage 2	Total
Gross carrying amount of loans and exposure of loan commitments as at Jan. 1, 2018	**2,194,438**	**364,323**	**2,558,761**
New loans and commitments originated	1,557,603	—	1,557,603
Movement in net transaction costs, fees, and related income through EIR method	6,394	1,052	7,446
Transfer to stage 1 (1)	100,051	(100,051)	—
Transfer to stage 2 (2)	(999,432)	999,432	—
As at Dec. 31, 2018	**2,859,054**	**1,264,756**	**4,123,810**

	Stage 1	Stage 2	Total
ECL allowance as at Jan. 1, 2018	**1,478**	**3,572**	**5,050**
Additions	476	—	476
Change in risk parameters (3)	196	(357)	(161
Change from lifetime (stage 2) to 12-month (stage 1) ECL (1)	4	(463)	(459
Change from 12-month (stage 1) to lifetime (stage 2) ECL (2)	(147)	41,616	41,469
As at Dec. 31, 2018	**2,007**	**44,368**	**46,375**

(1) As at Dec. 31, 2018, as a result of an improved implied credit rating primarily related to a favorable GDP growth rate forecast, the credit risk of one sovereign loan in South-eastern Asia has decreased to its level at origination. The gross carrying amount c loans and commitment exposure was transferred to stage 1. The related ECL allowance was, therefore, based on 12-month, rather than lifetime, ECL.

(2) During the year ended Dec. 31, 2018, the outstanding loan balances and commitment exposure of two sovereign borrowers in Southern and Western Asia were transferred from stage 1 to stage 2 based on an internal ratings downgrade, primarily in response to increasing

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

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D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

sovereign debt denominated in foreign currencies and significant local currency depreciation of the borrowers' countries.

Nonsovereign-backed loans

	Stage 1	Stage 2	Total
Gross carrying amount of loans and exposure of loan commitments as at Jan. 1, 2018	**167,278**	**—**	**167,278**
New loans and commitments originated	424,200	—	424,200
Repayment of loans	(236)	—	(236
Cancellation of loan commitments	(1,138)	—	(1,138
Movement in net transaction costs, fees, and related income through EIR method	(4,427)	—	(4,427
As at Dec. 31, 2018	**585,677**	**—**	**585,677**

	Stage 1	Stage 2	Total
ECL allowance as at Jan. 1, 2018	**4,315**	**—**	**4,315**
Additions	302	—	302
Change in risk parameters (3)	(2,019)	—	(2,019
As at Dec. 31, 2018	**2,598**	**—**	**2,598**
Total gross carrying amount of loans and exposure of loan commitments as at Dec. 31, 2018	**3,444,731**	**1,264,756**	**4,709,487**
Total ECL allowance as at Dec. 31, 2018	**4,605**	**44,368**	**48,973**

(3) 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.

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.

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D Financial Risk Management

D3 Credit risk (Continued)

ECL measurement (Continued)

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.

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 ("ICRAs") 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.

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D Financial Risk Management

D3 Credit risk (Continued)

ECL measurement (Continued)

(i) Significant increase in credit risk (Continued)

- 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 cases. 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.

(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 include 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 t the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

In addition, the credit-impaired assets also include the purchased or originated financial assets at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may have caused financial assets to become credit-impaired. For sovereign-backed loans, the same criteria of past due for “default assets” (see D3 (vi)) is also bein applied for assessing credit impaired financial assets.

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D Financial Risk Management

D3 Credit risk (Continued)

ECL measurement (Continued)

(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 o insufficient information available to estimate LGD for nonsovereign-backed loans, based upon management’s estimat 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 ne year.
4. The above calculation is performed for three different scenarios. The weights (w_S) of the 3 scenarios are 50%, 25%,

and 25% respectively for the Baseline, Good and Bad scenarios. The estimation is based on the best representative management judgment without undue cost or effort that, going forward the current path of macroeconomic projections with equal chance of being significantly worse (Bad scenario) or better (Good scenario), considering the macroeconomic projections of those countries and relevant industries to which the Bank has credit exposures.

- Estimation of lifetime ECL

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

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 – 50% for Baseline, 25% 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 3 years and is assumed to revert back to the long-run PD for the remaining years.

3) LGD is the same as the 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.

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D Financial Risk Management

D3 Credit risk (Continued)

ECL measurement (Continued)

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

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 3 scenarios are the same as the 12-month ECL calculation.

(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.

(v) Sensitivity analysis

The output of the Bank's ECL model is most sensitive to the credit quality of the obligors especially of those with the lowest credit quality and/or the largest amount of exposure. The Bank identified two obligors meeting these criteria. Should their ratings be downgraded by one more notch and consequentially moved to Stage 2 when SICR criteria is met, the amount of ECL would have been USD79.20 million (2017: USD31.14 million), or increased by USD30.22 million (2017: USD21.78 million).

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D Financial Risk Management

D3 Credit risk (Continued)

ECL measurement (Continued)

(v) Sensitivity analysis (Continued)

The weights of the scenarios used is another source of sensitivity. Should the Bank change the weights to 30%, 40% and 30% respectively for good, baseline and bad scenarios, the amount of ECL would have been USD49.22 million (2017: USD9.51 million), or increased by USD0.24 million (2017: USD0.15 million).

(vi) 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 of 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.

(vii) 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)

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D Financial Risk Management

D4 Market risk (Continued)

Currency risk

The Bank currently offers loans only in US Dollars. This will continue to be the case until the Bank is prepared to hedge nondollar lending through swaps or other hedging mechanisms. As at Dec. 31, 2018, the currency risk is not material for the Bank. A currency table for the main financial assets is set out below:

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**

As at Dec. 31, 2017	USD	Other currencies USD equivalent	Total
Financial assets			
Cash and cash equivalents	1,104,756	110	1,104,866
Term deposits	5,885,854	—	5,885,854
Investments at fair value through profit or loss	3,255,140	—	3,255,140
Funds deposited for cofinancing arrangements	1,592	—	1,592
Loan investments, at amortized cost	773,238	—	773,238
Paid-in capital receivables	7,948,901	—	7,948,901
	18,969,481	**110**	**18,969,591**

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 rates.

Sensitivity analysis

As the Bank has no material financial liabilities as at Dec. 31, 2018, the following table illustrates the potential impact for the current year, of a parallel upward or downward shift of 50 basis points in relevant interest rate curves on the Bank's interest income from the floating rate financial instruments which are measured at amortized cost, based on the carrying value at the end of the reporting period. This analysis assumes that interest rates of all maturities move by the same amount.

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D Financial Risk Management

D4 Market risk (Continued)

Sensitivity analysis (Continued)

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates over the next 12 months fror the reporting date with the assumption that the structure of financial assets held at the period end remains unchanged.

	Interest income sensitivity in million	
	For the year ended Dec. 31, 2018	For the year ended Dec. 31, 2017
+50 basis points	5	2
-50 basis points	(5)	(2)

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 Dec. 31, 2018, 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 anc 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

Disclosure for Fund and Other Equity Investments

The Bank's investments in LP 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

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D Financial Risk Management

D7 Capital management (Continued)

Disclosure for Fund and Other Equity Investments (Continued)

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

the requirement of IFRS 9. Refer to Note B3.3.1 and B3.3.3 for the related accounting policies and Note C5 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 bot following features:

(1) The investments entitle the Bank to the funds' distribution according to the pre-determined arrangements during their live 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 Dec 31, 2018, such investments in LP funds and other fund investments, amounting to USD32.36 million and USD0.50 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 year endec Dec. 31, 2018.

The fair value of the Bank's financial assets and financial liabilities are determined as follows:

- If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively.
- If not traded in active markets, fair values of financial assets and financial liabilities are determined in accordance with generall 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.

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E Fair Value Disclosures (Continued)

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.

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:

	Dec. 31, 2018	Dec. 31, 2017

	Carrying amount	Fair value	Carrying amount	Fair value
Financial instruments				
Term deposits	8,223,299	8,221,432	5,885,854	5,884,195
Loan investments, at amortized cost	1,365,187	1,379,138	773,238	779,443
Paid-in capital receivables	4,386,984	4,341,828	7,948,901	7,947,268

As at Dec. 31, 2018, 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.

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E Fair Value Disclosures (Continued)

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

The table below summarizes the fair values of the financial assets and financial liabilities measured in the statement of financial position at their fair value:

As at 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

As at Dec. 31, 2017

	Level 1	Level 2	Level 3	Total
Investments at fair value through profit or loss				
• Trust Fund	—	3,236,448	—	3,236,448
• LP Fund	—	—	18,692	18,692
Total	—	3,236,448	18,692	3,255,140

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 year.

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ASIAN INFRASTRUCTURE INVESTMENT BANK

AUDITOR'S REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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羅兵咸永道

Independent Auditor's Report

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

Opinion

What we have audited

The financial statements of Asian Infrastructure Investment Bank (the "Bank") set out on pages 1 to 48, which comprise:

- the statement of comprehensive income for the year ended December 31, 2017;
- the statement of financial position as at December 31, 2017;
- the statement of changes in equity for the year ended December 31, 2017;
- the statement of cash flows for the year ended December 31, 2017; 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 Bank as at December 31, 2017, 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 Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional 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, an for such internal control as management determine is necessary

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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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank'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. 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 fror 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 Bank'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 Bank'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 Bank to cease to continue as a going concern.

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羅兵咸永道

- 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.

/s/ PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 8, 2019

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FINANCIAL STATEMENTS

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ASIAN INFRASTRUCTURE INVESTMENT BANK
Statement of Comprehensive Income
For the year ended December 31, 2017

	For the year ended December 31,	For the period from January 16, 2016 to

In thousands of US Dollars	Note	2017	December 31, 2016
Interest income	C1	124,193	23,455
Interest expense	C1	—	—
Net interest income		**124,193**	**23,455**
Net fee and commission expense	C2	(866)	(70
Net gain on investments at fair value through profit or loss	C5	53,783	14,873
Impairment provision	C6	(9,088)	(277
General and administrative expenses	C3	(56,098)	(30,658
Net foreign exchange loss		(58)	(26
Operating profit for the year/period		**111,866**	**7,297**
Accretion of paid-in capital receivables	C7	140,442	160,063
Net profit for the year/period		**252,308**	**167,360**
Other comprehensive income		—	—
Total comprehensive income		**252,308**	**167,360**
Attributable to:			
Equity holders of the Bank		**252,308**	**167,360**

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

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ASIAN INFRASTRUCTURE INVESTMENT BANK
Statement of Financial Position
As at December 31, 2017

In thousands of US Dollars	Note	December 31, 2017	December 31, 2016
Assets			
Cash and cash equivalents	C4	1,104,866	1,281,992
Term deposits	C4	5,885,854	2,292,141
Investments at fair value through profit or loss	C5	3,255,140	3,179,873
Funds deposited for co-financing arrangements		1,592	23,623
Loan investments, at amortized cost	C6	773,238	9,553
Paid-in capital receivables	C7	7,948,901	11,007,227
Intangible assets		1,032	—
Other assets	C8	1,983	958
Total assets		**18,972,606**	**17,795,367**
Liabilities			
Other liabilities	C9	13,587	5,538
Total liabilities		**13,587**	**5,538**
Members' equity			
Paid-in capital	C10	19,000,300	18,065,400
Reserve for accretion of paid-in capital receivables		(160,444)	(282,868
Retained earnings		119,163	7,297
Total members' equity		**18,959,019**	**17,789,829**
Total liabilities and members' equity		**18,972,606**	**17,795,367**

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

/s/ Jin Liqun
Mr. Jin Liqun
President

/s/ Thierry de Longuemar
Mr. Thierry de Longuemar
Vice President
and Chief Financial Officer

/s/ Jae Hoon Yoo
Mr. Jae Hoon Yoo
Controller

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ASIAN INFRASTRUCTURE INVESTMENT BANK
Statement of Changes in Equity
For the year ended December 31, 2017

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
January 16, 2016		**—**	**—**	**—**	**—**	**—**	**—**
Capital subscription and contribution		90,327,000	(72,261,600)	18,065,400	—	—	18,065,400
Net profit for the period		—	—	—	—	167,360	167,360
Paid-in capital receivables – accretion effect		—	—	—	(442,931)	—	(442,931
Transfer of accretion	C7	—	—	—	160,063	(160,063)	—
December 31, 2016	C10	**90,327,000**	**(72,261,600)**	**18,065,400**	**(282,868)**	**7,297**	**17,789,829**
January 1, 2017		**90,327,000**	**(72,261,600)**	**18,065,400**	**(282,868)**	**7,297**	**17,789,829**
Capital subscription and contribution		4,674,100	(3,739,200)	934,900	—	—	934,900
Net profit for the year		—	—	—	—	252,308	252,308
Paid-in capital receivables – accretion effect		—	—	—	(18,018)	—	(18,018
Transfer of accretion	C7	—	—	—	140,442	(140,442)	—
December 31, 2017	C10	**95,001,100**	**(76,000,800)**	**19,000,300**	**(160,444)**	**119,163**	**18,959,019**

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

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ASIAN INFRASTRUCTURE INVESTMENT BANK
Statement of Cash Flows
For the year ended December 31, 2017

In thousands of US Dollars	Note	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
Cash flows from operating activities			
Net profit for the year/period		252,308	167,360
Adjustments for:			
Interest income from term deposits		(104,710)	(17,141
Accrued interest on funds deposited for co-financing arrangements		(167)	—
Accretion of paid-in capital receivables	C7	(140,442)	(160,063
Net gain on investments at fair value through profit or loss	C5	(53,783)	(14,873
Impairment provision	C6	9,088	277
Depreciation and amortization		193	—
Increase in loan investments	C6	(768,681)	(9,830
Decrease/(Increase) in funds deposited for co-financing arrangements		22,198	(23,623
Increase in other assets		(1,651)	(958

Increase in other liabilities		3,957	5,538
Net cash used in operating activities		(781,690)	(53,313
Cash flows from investing activities			
Investment purchases	C5	(21,484)	(3,165,000
Increase in term deposits, net of interest received		(3,489,003)	(2,275,000
Intangible assets		(222)	—
Property improvements		(232)	—
Computer hardware		(145)	—
Net cash used in investing activities		(3,511,086)	(5,440,000
Cash flows from financing activities			
Capital contributions received	C7	4,115,650	6,775,305
Net cash from financing activities		4,115,650	6,775,305
Net (decrease)/increase in cash and cash equivalents		(177,126)	1,281,992
Cash and cash equivalents at beginning of year/period		1,281,992	—
Cash and cash equivalents at end of year/period	C4	**1,104,866**	**1,281,992**

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

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ASIAN INFRASTRUCTURE INVESTMENT BANK
Notes to the Financial Statements
For the year ended December 31, 2017
(All amounts in thousands of US Dollars unless otherwise stated)

A GENERAL INFORMATION

Asian Infrastructure Investment Bank (the “Bank” or the “AIIB”) is a multilateral development bank. In June 2015, representatives from 57 countries signed the Articles of Agreement (the “AOA”). The AOA entered into force on December 25, 2015. The Bank commenced operations on January 16, 2016. The principal office of the Bank is located in Beijing, the People’s Republic of China (the “PRC”).

For the year ended December 31, 2017, the Bank has approved 27 new membership applications. As at December 31, 2017, the Bank’s total approved membership is 84, of which 61 have completed the membership process and have become members of the Bank i accordance with the AOA.

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

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

These financial statements were signed by the President, the Vice President and Chief Financial Officer, and the Controller on April 10, 2018.

B ACCOUNTING POLICIES

B1 Basis of preparation

These financial statements for the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). According to By-Laws of the AIIB, the financial year of the Bank begins on January 1 and ends on December 31 of each year. For the year in which the Bank commenced operations, the financial year begins on the date the Bank commences operations and ends on December 31 of that year.

The Bank has adopted all of the IFRS standards and interpretations effective for annual periods beginning on January 1, 2017. In addition, the Bank has adopted IFRS 9 *Financial Instruments* (full version issued in July 2014 and mandatorily effective on January 1, 2018), IFRS 15 *Revenue from Contracts with Customers* (mandatorily effective on January 1, 2018), and IFRS 16 *Leases* (mandatorily effective on January 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.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also require management to exercise judgment in its process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where judgments or estimates are significant to the financial statements are disclosed in Note B4. The financial statements have been prepared on a going concern basis.

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B ACCOUNTING POLICIES

B2 New accounting pronouncements

The new accounting pronouncements, amendments and interpretations issued in 2017 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 Summary of significant accounting policies

B3.1 Functional currency and foreign currency transactions

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

Foreign currency transactions are initially translated into USD using exchange rates prevailing at the dates of the related transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss during the period in which they arise.

B3.2 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 insignifican risk of changes in value. Deposits with a maturity of three months or less are classified as cash and cash equivalents.

B3.3 Financial instruments

B3.3.1 Financial assets

The Bank'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 Bank 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

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B ACCOUNTING POLICIES

B3 Summary of significant accounting policies (Continued)

B3.3 Financial instruments (Continued)

B3.3.1 Financial assets (Continued)

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

(ii) The contractual terms give rise, on specified dates, to cash flows that are solely payments of principal or interest on the principal outstanding.

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

(b) Classification of financial assets at FVOCI

Financial assets at FVOCI comprise:

(i) Financial assets having contractual cash flows which reflect solely payments of principal and interest on 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 Bank 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 Bank 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 at FVPL irrevocably, when such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;

(iii) Investments in equity instruments that are held for trading; and

(iv) Investments in equity instruments for which the entity has not elected to recognize fair value gains or losses through OCI.

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ASIAN INFRASTRUCTURE INVESTMENT BANK
Notes to the Financial Statements
For the year ended December 31, 2017
(All amounts in thousands of US Dollars unless otherwise stated)

B ACCOUNTING POLICIES

B3 Summary of significant accounting policies (Continued)

B3.3 Financial instruments (Continued)

B3.3.2 Financial liabilities

The Bank's financial liabilities are classified as either financial liabilities through FVPL or other financial liabilities, carried at amortized cost.

(a) Classification of financial liabilities at FVPL

Financial liabilities at FVPL have two subcategories, financial liabilities held for trading and those designated as FVPL on initial recognition. There were no financial liabilities classified as FVPL during the reporting period or as at December 31, 2017 and 2016.

(b) Other financial liabilities

Other financial liabilities are measured at amortized cost, using the effective interest method. The related interest expenses are recognized in profit or loss.

B3.3.3 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

A puttable financial instrument includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put. The puttable instrument that includes such an obligation is classified as an equity instrumen when meeting all the generally required features being most subordinate class of shares with identical features and all have the same rights on liquidation.

B3.3.4 Impairment of financial instruments

Financial assets of the Bank that are measured at amortized cost (Note B3.3.1(a)), FVOCI (Note B3.3.1 (b) (i)) and certain unrecognized financial instruments such as loan commitments are subject to credit loss estimated through an expected credit loss ("ECL") model, assessed on a forward-looking basis.

At each reporting date, the Bank assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When making this assessment, the Bank considers the change in the risk of a default occurring over the expected life of the financial instrument. To make this assessment, the Bank compares the risk of a default occurring as at the reporting date with the risk of default occurring as at the date of initial recognition, based on reasonable and supportable information that is available without undue cos or effort and is indicative of significant increases in credit risk since initial recognition.

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B ACCOUNTING POLICIES

B3 Summary of significant accounting policies (Continued)

B3.3 Financial instruments (Continued)

B3.3.4 Impairment of financial instruments (Continued)

At each reporting date, the Bank measures the loss allowance for a financial instrument at either:

(i) An amount equal to the lifetime ECL if the credit risk related to that financial instrument has increased significantly since initial recognition; or

(ii) An amount equal to a 12-month ECL if the credit risk related to that financial instrument has not increased significantly since initial recognition.

The Bank measures ECL related to a financial instrument in a way that reflects:

(i) An unbiased and probability-weighted amount determined by evaluating a range of possible outcomes;

(ii) The time value of money; and

(iii) Reasonable and supportable information that is available without undue cost or effort at the reporting date regarding relevant past events, current circumstances, and forecasts of future economic conditions.

The Bank identified financial assets as having credit impairment when one or more events that could have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

The Bank recognizes the loss allowance of loan commitments as a provision. However, if a financial instrument includes both a loan (i.e. financial asset) and an undrawn commitment (i.e. loan commitment) component and the Bank cannot separately identify the ECL on the loan commitment component from those on the financial asset component, the ECL on the loan commitment is recognized together with the loss allowance for the financial asset. To the extent that the combined ECL exceed the gross carrying amount of the financial asset, the ECL is recognized as a provision.

B3.3.5 Determination of fair value

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

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, pricing service, or regulatory agency; and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

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B ACCOUNTING POLICIES

B3 Summary of significant accounting policies (Continued)

B3.3 Financial instruments (Continued)

B3.3.5 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.

B3.3.6 Recognition and derecognition

The Bank recognizes a financial asset or a financial liability in its statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

At initial recognition, the Bank 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 fair value through profit or loss, 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 Bank determines whether the derecognition analysis should be applied to a part of a financial asset or a financial asset in its entirety. The Bank 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 Bank neither transfers nor retains substantially all the risks and rewards of ownership and has not retained control of the transferred asset, the Bank derecognizes the financial asset and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer.

Upon derecognition of a financial asset in its entirety, the difference between the carrying amount of the asset and the sum of the consideration received and receivable and, where applicable, the cumulative gain or loss that had been recognized in other comprehensive income is reclassified to profit or loss, except for those investments in equity instruments designated as FVOCI.

Financial liabilities are derecognized when the related obligation is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the sum of the consideration paid and payable is recognized in the profit or loss

B3.4 Property improvements

Property improvements are stated at cost less accumulated depreciation. Depreciation is calculated on a straight line basis to write down the cost of each asset to its residual value over its estimated useful economic life. Property improvements are depreciated over a useful economic life of no more than 3 years.

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B ACCOUNTING POLICIES

B3 Summary of significant accounting policies (Continued)

B3.5 Intangible assets

Intangible assets are stated at cost less accumulated amortization. Amortization is calculated on a straight line basis to write down the cost of each asset to its residual value over its estimated useful economic life. Intangible assets comprise computer software which is amortized over a useful economic life of no more than 3 years.

B3.6 Revenue

B3.6.1 Interest income

Interest income is calculated using the effective interest method. In this regard, the effective interest rate is applied to the gross carrying amount of a financial asset except for:

(i) Purchased or originated credit-impaired financial assets, for which the credit adjusted effective interest rate is applied to the amortized cost of the financial assets from initial recognition; and

(ii) Credit-impaired financial assets that have been recognized subsequent to initial recognition, for which the original effective interest rate is applied to the net carrying value in subsequent reporting periods.

With respect to (ii) above, in subsequent reporting periods, interest income is calculated by applying the effective interest rate to the gross carrying amount if the credit risk of the financial asset improves so that it is no longer credit impaired.

B3.6.2 Front-end and commitment fees

Front-end fees received by the Bank relating to the origination or acquisition of a financial asset are an integral part of generating an involvement with the resulting financial instrument and, accordingly, are an integral part of the effective interest rate of that financial instrument.

Commitment fees received by the Bank to originate a loan when the loan commitment is not measured at FVPL are treated as follows

(i) If it is probable that the Bank will enter into a specific lending arrangement, it is an integral part of the effective interest rate of a financial instrument. If the commitment expires without the Bank making the loan, the fee is recognized as revenue at expiration of the commitment.

(ii) If it is likely that a specific lending arrangement will not be entered into, it is not an integral part of the effective interest rate of the financial instrument, the fee is accounted for as revenue over the commitment period.

B3.6.3 Administration fees

Administration fees are recognized as revenue throughout the period that the services are rendered.

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B ACCOUNTING POLICIES

B3 Summary of significant accounting policies (Continued)

B3.6 Revenue (Continued)

B3.7 Employee benefits

Employee benefits represent considerations given, and are expenditures incurred by the Bank, in exchange for services rendered by employees or for termination of employment contracts. These benefits include short-term employee benefits and contributions to defined contribution plans.

Short-term employee benefits

During the reporting period in which an employee has rendered services, the Bank recognizes the short-term employee benefits payable for those services as a liability with a corresponding increase in the related expense. Short-term employee benefits include base salary and location premiums, pre-retirement medical insurance, life insurance, accidental death and disability provision, death grant, leave travel accident coverage, long-term disability, multipurpose loans to staff as well as flexible allowance and resettlement allowance which are special allowances for staff recruited globally.

Defined contribution plans

A defined contribution plan is a retirement plan under which the Bank pays fixed contributions into a separate entity. When an employee has rendered service to the Bank during a period, the Bank recognizes a contribution payable to a defined contribution plan in exchange for that service, along with the related expense. Defined contribution plans include defined contribution retirement plans and post-retirement medical benefit plans.

B3.8 Leases

A lease contract is one which conveys the right to control the use of an asset for a specified period of time. The lease liability is measured as the present value of the payments that are not paid at the date of recognition discounted at the leases' implicit interest rate. The right of use asset is measured at cost, consisting of the lease liability plus any payments made before the commencement of lease and less any lease incentives.

B3.9 Dividends

Dividend distributions to the Bank's members are recognized as a liability in the period in which the dividends are approved by the Board of Governors.

B3.10 Current and noncurrent presentation

The Bank presents its assets and liabilities in the order of liquidity as this provides more relevant information.

B3.11 Taxation

In accordance with Article 51 of the AOA, within the scope of its official activities, the Bank, its assets, property, income, and its operations and transactions, shall be exempt from all taxation and

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B ACCOUNTING POLICIES

B3 Summary of significant accounting policies (Continued)

B3.11 Taxation (Continued)

from all custom duties in its member countries. Article 51 also exempts the Bank from any obligation for the payment, withholding, or collection of any tax or duty.

B4 Critical accounting estimates and judgments in applying accounting policies

The Bank makes estimates and assumptions that affect the amounts recognized in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

B4.1 Impairment losses on financial instruments

The measurement of the ECL allowance for financial assets measured at amortized cost requires extensive financial modelling and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in measuring ECL, which include:

- Determining criteria for significant increase in credit risk and definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and probability of forward-looking scenarios for each type of product; and
- Assigning exposures through an internal credit grading process.

Details of the inputs, assumptions, and estimation techniques used in measuring ECL are further disclosed in Note D3, which also presents sensitivities of the ECL.

B4.2 Measurement of fair value

Paid-in capital receivables are initially measured at fair value. The Bank is required to use valuation techniques to determine the fair value. The Bank made judgments about the expected timing of future cash flows and the appropriate discount rate to apply. If the interest rate were changed +/-1 basis point ("bps"), the carrying amount of the capital receivables as at December 31, 2017 would have decreased/increased by approximately USD1.09 million (2016: USD3 million).

B4.3 Structured entity consolidation

The Bank manages AIIB's Project Preparation Special Fund (the "Special Fund"), and has made a judgment on whether or not, for accounting purposes, it is the principal or an agent, to assess whether

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

B ACCOUNTING POLICIES

B4 Critical accounting estimates and judgments in applying accounting policies (Continued)

B4.3 Structured entity consolidation (Continued)

the Bank controls the Special Fund and should consolidate it. The Bank identified the Special Fund's assets as a "silo" when conducting its consolidation assessment. When performing this assessment, the Bank considered several factors including, among other things, the scope of its decision-making authority over the structured entity, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the administration services and the Bank's exposure to variability of returns from other interests that it holds in the structured entity. The Bank is not exposed to any significant variability in its returns and as such was deemed to not control the Special Fund. The Bank performs re-assessment periodically.

Detailed information about the unconsolidated structured entity is set out in Note C13.

C DISCLOSURE NOTES

C1 Interest income and expense

	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
Interest income		
Loan investments (1)	11,795	6
Cash and deposits	112,398	23,449
Total interest income	**124,193**	**23,455**
Interest expense	—	—
Total interest expense	—	—
Net interest income	**124,193**	**23,455**

(1) Interest income for loan investments includes amortization of front-end fees, commitment fees and other incremental and directly related costs in relation to loan origination that are an integral part of the effective interest rate of those loans.

C2 Net fee and commission expense

	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
Special Fund administration fee (Note C13)	70	100
Loan service fee	49	—
Total fee and commission income	**119**	**100**
Co-financing service fee	(985)	(170)
Total fee and commission expense	**(985)**	**(170)**
Net fee and commission expense	**(866)**	**(70)**

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C DISCLOSURE NOTES

C3 General and administrative expenses

	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
Staff costs (1)	25,226	12,226
Professional service expenses	12,607	6,729
IT services	5,691	3,170
Facilities and administration expenses	5,028	4,553
Travelling expenses	4,186	2,102
Auditor’s remuneration	1,000	455
Others	2,360	1,423
Total general and administrative expenses	**56,098**	**30,658**

(1) Staff costs

	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
Short-term employee benefits	22,092	10,826
Defined contribution plans	3,120	1,391
Others	14	9
Total	**25,226**	**12,226**

Refer to Note C14 for details of key management remuneration.

C4 Cash and deposits with banks

	December 31, 2017	December 31, 2016
Cash	—	—
Deposits with banks		
- Demand deposits	457,124	4,488
- Term deposits	6,533,596	3,569,645
Total cash and deposits with banks	**6,990,720**	**3,574,133**
Less: term deposits with maturity more than 3 months (1)	(5,885,854)	(2,292,141)
Total cash and cash equivalents	**1,104,866**	**1,281,992**

(1) Term deposits with maturity more than 3 months have maturities up to 24 months.

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C DISCLOSURE NOTES

C5 Investments at fair value through profit or loss

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

	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
As at beginning of year/period	3,179,873	—
Additions	21,484	3,165,000
Fair value gain, net	53,783	14,873
Total investments at fair value through profit or loss	**3,255,140**	**3,179,873**

Analysis of investments at fair value through profit or loss:

	December 31, 2017	December 31, 2016
Trust Fund (a)	3,236,448	3,179,873
LP Fund (b)	18,692	—
Total investments at fair value through profit or loss	**3,255,140**	**3,179,873**

The Bank has the following investments in certain unconsolidated structured entities:

(a) The Bank places funds with an external counterparty in a trust fund account (the "Trust Fund"), which, in accordance with the related Administrative Agreement between the Bank and the counterparty, reinvests the funds in a larger collective pool of investments (the "Pool") in accordance with the investment mandate for the entire Pool. Notional allocations within the Pool are made, subject to the Investment Framework agreement between the Bank and the counterparty, to create a model portfolio exposure, as the basis for determining the fair value of the Trust Fund. The Bank classifies this investment as a single unit of account measured at fair value through profit or loss. Fees charged for the administration of the Trust Fund are comprised of a flat fee based upon average assets under management and full-cost recovery of the counterparty's staff costs, related benefits and allocated overhead related to administering the Pool.

The counterparty does not guarantee any investment return or the principal amount deposited. The Trust Fund reports its notional allocation in the Pool as one class of financial assets.

(b) The Bank also invests in a Limited Partnership Fund ("LP Fund"). The LP Fund is an Emerging Asia growth-focused private equity fund with a returns-driven strategy, selectively investing growth capital across multiple sectors. The LP Fund is managed by the General Partner who makes all investment decisions on behalf of the Limited Partners. The Bank, along with other investors, has entered into the 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. The management fee is payable on a quarterly basis.

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C DISCLOSURE NOTES

C6 Loan investments, loan commitments and related ECL allowance

Loan investments	December 31, 2017	December 31, 2016
Gross carrying amount	778,511	9,830
ECL allowance	(5,273)	(277)
Net carrying amount	**773,238**	**9,553**

The following table sets out overall information about the credit quality of loan investments and loan commitments issued for effective contracts as at December 31, 2017. The gross amounts of loans include the transaction costs and fees that are capitalized through the effective interest method.

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

	December 31, 2017	December 31, 2016
Loan investments, gross carrying amount	778,511	9,830
Loan commitments	1,947,528	334,305
	2,726,039	344,135
Total ECL allowance (a)	(9,365)	(277)
	2,716,674	343,858

(a) As at December 31, 2017, ECL related to loan commitments were USD4.09 million, presented as a provision in Note C9.

C7 Paid-in capital receivables

According to the AOA, payments for paid-in capital (refer to Note C10) are due in five installments, with the exception of members designated as less developed countries, who may pay in ten installments. Paid-in capital receivables represent amounts due 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 year ended December 31, 2017, a total discount of USD18 million (2016: USD443 million) was debited into reserve. An amount of USD140 million (2016: USD160 million) has been accreted through income in the current year.

Members	Paid-in capital receivables at amortized cost as at	
	December 31, 2017	December 31, 2016
Afghanistan	13,268	—
Australia	289,241	430,896
Austria	39,260	58,488
Azerbaijan	30,151	39,999
Bangladesh	86,925	98,609
Brunei Darussalam	4,114	6,129

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C DISCLOSURE NOTES

C7 Paid-in capital receivables (Continued)

Members	Paid-in capital receivables at amortized cost as at	
	December 31, 2017	December 31, 2016
Cambodia	8,249	9,359
China	2,335,329	3,479,854
Denmark	29,075	44,043
Egypt	51,036	102,081
Ethiopia	7,127	—
Fiji	1,898	—
Finland	36,781	48,753
France	265,470	395,954
Georgia	4,235	6,310
Germany	351,383	523,473
Hong Kong, SAR	118,497	—
Hungary	15,491	—
Iceland	1,375	2,052

India	657,150	979,699
Indonesia	264,210	394,036
Iran	123,411	—
Ireland	20,144	—
Israel	59,015	58,368
Italy	202,212	301,572
Jordan	9,320	13,892
Kazakhstan	86,548	114,798
Korea	292,963	436,442
Kyrgyz Republic	3,580	4,153
Lao PDR	5,664	6,424
Luxembourg	5,442	8,106
Malaysia	12,913	—
Maldives	911	1,031
Malta	1,060	1,580
Mongolia	3,215	4,791
Myanmar	34,429	38,995
Nepal	10,639	12,063
Netherlands	80,832	120,420
New Zealand	36,165	53,876
Norway	65,134	86,287
Oman	30,688	30,320
Pakistan	122,341	162,072
Philippines	76,681	192,537
Poland	65,447	97,622
Portugal	7,674	—
Qatar	47,473	71,024

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C DISCLOSURE NOTES

C7 Paid-in capital receivables (Continued)

Members	Paid-in capital receivables at amortized cost as at	
	December 31, 2017	December 31, 2016
Russia	512,461	763,574
Saudi Arabia	200,573	299,384
Singapore	19,591	29,186
Spain	136,659	—
Sri Lanka	31,863	42,232
Sweden	74,623	98,908
Switzerland	83,706	110,959
Tajikistan	4,702	5,251
Thailand	112,058	167,149
Timor-Leste	2,440	—
Turkey	205,374	306,373
United Arab Emirates	93,284	139,159
United Kingdom	361,402	478,770
Uzbekistan	17,256	25,714
Vietnam	78,743	104,460
Total paid-in capital receivables	**7,948,901**	**11,007,227**

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

As at December 31, 2017, the contractual undiscounted paid-in capital receivables overdue amounting to USD346.04 million (December 31, 2016: USD433.80 million) (Note C10), because of an administrative delay but are not considered as impaired. Of this amount, USD342.44 million was collected by the date of signing of the 2017 financial statements (2016: USD433.18 million) (Note C15).

As at December 31, 2017, USD4,021 million (December 31, 2016: USD3,856 million) of the above balance is due within 12 months from the reporting date.

	For the year ended December 31, 2017	For the period from January 16, 2016 to December 31, 2016
As at beginning of year/period	11,007,227	—
Paid-in capital receivables originated	916,882	17,622,469
Contributions received	(4,115,650)	(6,775,305)
Accretion to profit or loss	140,442	160,063
Carrying amount	**7,948,901**	**11,007,227**

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C DISCLOSURE NOTES

C8 Other assets

	December 31, 2017	December 31, 2016
Tax refund receivable	750	305
Property improvements	271	168
Computer hardware	238	—
Prepaid co-financing service fee	63	175
Others	661	310
Total other assets	**1,983**	**958**

C9 Other liabilities

	December 31, 2017	December 31, 2016
Accrued expenses	8,080	5,102
Provision – ECL allowance (Note C6)	4,092	—
Staff costs payable	1,205	436
Deferred administration fee (Note C14)	210	—
Total other liabilities	**13,587**	**5,538**

C10 Share capital

	December 31, 2017	December 31, 2016
Authorized capital	100,000,000	100,000,000
– Allocated		
– Subscribed	95,001,100	90,327,000
– Unsubscribed	3,277,600	7,824,400
– Unallocated	1,721,300	1,848,600
Total authorized capital	100,000,000	100,000,000

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

Subscribed capital	95,001,100	90,327,000
Less: callable capital	(76,000,800)	(72,261,600)
Paid-in capital	19,000,300	18,065,400
Paid-in capital comprises:		
– amounts received	10,890,955	6,775,305
– amounts due but not yet received	346,040	433,795
– amounts not yet due	7,763,305	10,856,300
Total paid-in capital	**19,000,300**	**18,065,400**

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C DISCLOSURE NOTES

C10 Share capital (Continued)

In accordance with Articles 4 and 5 of the AOA, the initial authorized capital stock of the Bank is USD100 billion, divided into 1,000,000 shares, which shall be available for subscription only by members.

The original authorized capital stock is divided into paid-in shares and callable shares, with paid-in shares having an aggregate par value of USD20 billion and callable shares having an aggregate par value of USD80 billion.

Payment of the amount subscribed to the callable capital stock of the Bank shall be subject to call only as and when required by the Bank to meet its liabilities. Calls on unpaid subscriptions shall be uniform in percentage on all callable shares.

In accordance with Article 37 of the AOA, any member may withdraw from the Bank at any time by delivering a notice in writing to the Bank at its principal office. A withdrawing member remains liable for all direct and contingent obligations to the Bank to which it was subject at the date of delivery of the withdrawal notice. At the time a country ceases to be a member, the Bank shall arrange for the repurchase of such country's shares by the Bank as a part of the settlement of accounts with such country.

Members	**Total shares**	**Subscribed capital**	**Callable capital**	**Paid-in capital**	**Paid-in capital received**	**Paid-in capital not yet received**
Afghanistan	866	86,600	69,300	17,300	3,460	13,840
Australia	36,912	3,691,200	2,953,000	738,200	442,920	295,280
Austria	5,008	500,800	400,600	100,200	60,120	40,080
Azerbaijan	2,541	254,100	203,300	50,800	20,320	30,480
Bangladesh	6,605	660,500	528,400	132,100	39,630	92,470
Brunei Darussalam	524	52,400	41,900	10,500	6,300	4,200
Cambodia	623	62,300	49,800	12,500	3,750	8,750
China	297,804	29,780,400	23,824,300	5,956,100	3,573,660	2,382,440
Denmark	3,695	369,500	295,600	73,900	44,340	29,560
Egypt	6,505	650,500	520,400	130,100	78,060	52,040
Ethiopia	458	45,800	36,600	9,200	1,840	7,360
Fiji	125	12,500	10,000	2,500	500	2,000
Finland	3,103	310,300	248,200	62,100	24,840	37,260
France	33,756	3,375,600	2,700,500	675,100	405,060	270,040
Georgia	539	53,900	43,100	10,800	6,480	4,320
Germany	44,842	4,484,200	3,587,400	896,800	538,080	358,720
Hong Kong, SAR	7,651	765,100	612,100	153,000	30,600	122,400
Hungary	1,000	100,000	80,000	20,000	4,000	16,000
Iceland	176	17,600	14,100	3,500	2,100	1,400
India	83,673	8,367,300	6,693,800	1,673,500	1,004,100	669,400
Indonesia	33,607	3,360,700	2,688,600	672,100	403,260	268,840

Iran	15,808	1,580,800	1,264,600	316,200	189,725	126,475

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C DISCLOSURE NOTES

C10 Share capital (Continued)

Members	Total shares	Subscribed capital	Callable capital	Paid-in capital	Paid-in capital received	Paid-in capital not yet received
Ireland	1,313	131,300	105,000	26,300	5,260	21,040
Israel	7,499	749,900	599,900	150,000	90,000	60,000
Italy	25,718	2,571,800	2,057,400	514,400	308,640	205,760
Jordan	1,192	119,200	95,400	23,800	14,280	9,520
Kazakhstan	7,293	729,300	583,400	145,900	58,360	87,540
Korea	37,387	3,738,700	2,991,000	747,700	448,620	299,080
Kyrgyz Republic	268	26,800	21,400	5,400	1,620	3,780
Lao PDR	430	43,000	34,400	8,600	2,580	6,020
Luxembourg	697	69,700	55,800	13,900	8,340	5,560
Malaysia	1,095	109,500	87,600	21,900	8,760	13,140
Maldives	72	7,200	5,800	1,400	420	980
Malta	136	13,600	10,900	2,700	1,620	1,080
Mongolia	411	41,100	32,900	8,200	4,920	3,280
Myanmar	2,645	264,500	211,600	52,900	15,870	37,030
Nepal	809	80,900	64,700	16,200	4,860	11,340
Netherlands	10,313	1,031,300	825,000	206,300	123,780	82,520
New Zealand	4,615	461,500	369,200	92,300	55,380	36,920
Norway	5,506	550,600	440,500	110,100	44,040	66,060
Oman	2,592	259,200	207,400	51,800	20,720	31,080
Pakistan	10,341	1,034,100	827,300	206,800	82,720	124,080
Philippines	9,791	979,100	783,300	195,800	117,480	78,320
Poland	8,318	831,800	665,400	166,400	99,840	66,560
Portugal	650	65,000	52,000	13,000	5,200	7,800
Qatar	6,044	604,400	483,500	120,900	72,540	48,360
Russia	65,362	6,536,200	5,229,000	1,307,200	784,320	522,880
Saudi Arabia	25,446	2,544,600	2,035,700	508,900	305,340	203,560
Singapore	2,500	250,000	200,000	50,000	30,000	20,000
Spain	17,615	1,761,500	1,409,200	352,300	211,380	140,920
Sri Lanka	2,690	269,000	215,200	53,800	21,520	32,280
Sweden	6,300	630,000	504,000	126,000	50,400	75,600
Switzerland	7,064	706,400	565,100	141,300	56,520	84,780
Tajikistan	309	30,900	24,700	6,200	1,240	4,960
Thailand	14,275	1,427,500	1,142,000	285,500	171,300	114,200
Timor-Leste	160	16,000	12,800	3,200	640	2,560
Turkey	26,099	2,609,900	2,087,900	522,000	313,200	208,800
United Arab Emirates	11,857	1,185,700	948,600	237,100	142,260	94,840
United Kingdom	30,547	3,054,700	2,443,800	610,900	244,360	366,540
Uzbekistan	2,198	219,800	175,800	44,000	26,400	17,600
Vietnam	6,633	663,300	530,600	132,700	53,080	79,620
Total	**950,011**	**95,001,100**	**76,000,800**	**19,000,300**	**10,890,955**	**8,109,345**

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C DISCLOSURE NOTES

C11 Reserves

Based on 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.

C12 Distribution

Distributable retained earnings as at December 31, 2017 were USD119.16 million (December 31, 2016: USD7.30 million). As at December 31, 2017, USD140.44 million (December 31, 2016: USD160.06 million) of retained earnings has been transferred to reserve for accretion of the paid-in capital receivables.

No dividends were declared during the reporting period.

C13 Unconsolidated structured entity

The Special Fund established and administered by the Bank based on Article 17.1 of the AOA is an unconsolidated structured entity for accounting purposes. The objective of the Special Fund is to support and facilitate the preparation of projects for the benefit of one or more members of the Bank that, at the time when the decision to extend the grant is made by the Bank, are classified as recipients of financing from the International Development Association, including Blend countries; however, the projects that benefit other members ma 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 time 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% o any contribution, and the Special Fund bears all expenses appertaining directly to operations financed from the resources of the Special Fund.

As at December 31, 2017, the Special Fund had aggregate contributions received amounting to USD38 million (December 31, 2016: USD10 million). The Bank, acting as administrator of the Special Fund, receives administration fees. For the year ended December 31, 2017, fees recognized as income amounted to USD0.07 million (for the period from January 16, 2016 to December 31, 2016: USD0.10 million) (Note C2).

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

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C DISCLOSURE NOTES

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C14 Related party transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely to the legal form.

Outstanding balances with related parties were as follows:

	December 31, 2017		December 31, 2016	
	Key management personnel	Other related parties	Key management personnel	Other related parties
Assets – loans granted	100	—	23	—
Other liabilities (Note C9)	—	210	—	—

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

	For the year ended December 31, 2017		For the period from January 16, 2016 to December 31, 2016	
	Key management personnel	Other related parties	Key management personnel	Other related parties
Income	—	70	—	100
Expense	—	—	—	—

Income from other related parties relates to the Special Fund administration fee (Note C13).

Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct, and control the activities of th Bank. Key management personnel of the Bank is defined as the members of the Bank's Executive Committee, that is, in accordance with the Terms of Reference of the Executive Committee, the President, Vice Presidents, the General Counsel and the Chief Risk Officer.

During the year ended December 31, 2017, other than loans granted to key management personnel as disclosed above, the Bank ha no other material transactions with key management personnel.

The compensation of key management personnel during the year comprises short-term employee benefits of USD3.31 million (2016: USD2.12 million) and defined contribution plans of USD0.54 million (2016: USD0.30 million).

Use of office building

In accordance with Article 5 of the Headquarters Agreement, the Government provides a permanent office building and the temporary office accommodation to the Bank, free of charge.

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C DISCLOSURE NOTES

C15 Events after the end of the reporting period

Subsequent to December 31, 2017, USD342.44 million of paid-in capital receivables that were overdue has been received by the Bank from members.

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 an 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, a thorough and robust project review and monitoring process, the risk management function provides independent oversight of credit, market, liquidity, operational, and associated reputational risk in th Bank's activities. It is also designed to integrate asset and liability risk to minimize the volatility of equity value and to maintain sufficient liquidity.

D2 Financial risk management framework

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

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

The Risk Management Department has overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies, and approving internal policies, measures and procedures related to risk management.

(i) Investment operations portfolio

The Investment Committee of Senior Management reviews that a proposed project prepared by Investment Operation staff is in line with the Bank's policies and procedures. In order to make its recommendations, the committee is supported by relevant departments with assessments specific to their area, including risk management, legal, finance, strategy, environmental and social aspects, and procurement. The Board of Directors makes final approval of investment projects.

Accountabilities at different stages of the credit risk/project approval and monitoring process are delineated and regularly updated by the Bank's management.

(ii) Treasury portfolio

The treasury portfolio includes deposits with banks and the investments in the Trust Fund.

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D FINANCIAL RISK MANAGEMENT

D2 Financial risk management framework (Continued)

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

With respect to the Trust Fund described in Note C5, the Trust Fund's assets consist of its notionally allocated share of cash and investments in the Pool. The Pool is actively managed and invested in accordance with the investment strategy established for all such kind of Trust Funds administered by the counterparty. The objective of the investment strategy is foremost to maintain adequate liquidity t meet foreseeable cash flow needs and preserve capital and then, to maximize investment returns. The Pool is exposed to credit, market and liquidity risks.

D3 Credit risk

Credit risk management

The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets and loan commitments.

The Bank is primarily exposed to credit risk in both its loan granting of bank activities and deposit placing of the treasury activities. Th counterparties could default on their contractual obligations or the value of the Bank's investments could become impaired.

(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 credi 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 rating 1-4 for investment grade.

As at December 31, 2017, the rating of sovereign-backed loans ranged from 3 to 10 and the related range of annualized PD was 0.14%-8.67%.

As an international financial institution, the Bank does not participate in country debt rescheduling or debt reduction exercises of sovereign-backed loans or guarantees.

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D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

Credit risk management (Continued)

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.

- 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 nonsovereig 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 December 31, 2017, the rating of nonsovereign-backed loans was 9 and the related annualized PD was 4.58%.

- LP Fund investment

As at December 31, 2017, the investment operations portfolio includes LP Fund investment described in Note C5. 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

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

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 Departmen periodically.

As at December 31, 2017, the treasury portfolio includes term deposits with banks and investment in the Trust Fund described in Note C5. The Trust Fund is measured at fair value through profit or loss, and the fair value related information is described in Note E. As the Trust Fund is not subject to significant credit risk, the credit risk of the treasury portfolio is mainly from the term deposits. Given the high credit quality, no significant loss provisions were made for the investments in the treasury portfolio for the year ended December 31, 2017 and 2016.

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D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

Credit quality analysis

Except for loan investments, other financial assets at amortized cost are paid-in capital receivables and deposits with banks, for which the credit risk is not material.

The following table set out the loans and loan commitments for sovereign-backed loans and nonsovereign-backed loans, with their respective ECL allowance balances.

	December 31, 2017		December 31, 2016	
	Loans and loan commitments	ECL	Loans and loan commitments	ECL
Sovereign-backed loans	2,558,761	(5,050)	344,135	(277)
Nonsovereign-backed loans	167,278	(4,315)	—	—
Total	**2,726,039**	**(9,365)**	**344,135**	**(277)**

(i) Concentration of credit risk

As at December 31, 2017, the geographical distribution of the Bank's loan investments (gross carrying amount of loans and exposure of loan commitments) is as follows:

	December 31, 2017			December 31, 2016
Region	Stage 1	Stage 2	Total	Stage 1
Sovereign-backed loans				
Asia	2,194,438	364,323	2,558,761	344,135
NonAsia	—	—	—	—
Subtotal	**2,194,438**	**364,323**	**2,558,761**	**344,135**
Nonsovereign-backed loans				
Asia	20,198	—	20,198	—
NonAsia	147,080	—	147,080	—
Subtotal	**167,278**	**—**	**167,278**	**—**
Total	**2,361,716**	**364,323**	**2,726,039**	**344,135**

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D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

Credit quality analysis (Continued)

The following table sets out the credit quality of loan investments (gross carrying amount of loans and exposure of loan commitments) segmented by the Bank's internal credit rating system and their respective staging.

	December 31, 2017			December 31, 2016
Internal credit rating	**Stage 1**	**Stage 2**	**Total**	**Stage 1**
Sovereign-backed loans				
Investment grade	828,834	99,977	928,811	216,059
Noninvestment grade (a)	1,365,604	264,346	1,629,950	128,076
Subtotal	**2,194,438**	**364,323**	**2,558,761**	**344,135**
Nonsovereign-backed loans				
Investment grade	—	—	—	—
Noninvestment grade (a)	167,278	—	167,278	—
Subtotal	167,278	—	167,278	—
Total	**2,361,716**	**364,323**	**2,726,039**	**344,135**

(a) For the noninvestment grade sovereign-backed loan exposures as at December 31, 2017, the balances of USD1,203 million are within internal rating ranging from 5 to 7, and the balances of USD427 million are within internal rating ranging from 8 to 12 (2016: all the balances of non-investment grade are within internal rating ranging from 8 to 12).

For the nonsovereign-backed loan exposures as at December 31, 2017, all the balances of noninvestment grade are within internal rating ranging from 8 to 12 (2016: nil).

(ii) Credit enhancement

As at December 31, 2017, 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 December 31, 2017 is USD1,948 million (December 31, 2016: USD334 million).

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

	December 31, 2017	December 31, 2016
Guaranteed by sovereign members	864,303	—
Guaranteed by nonsovereign entities	20,199	—
Unguaranteed (a)	1,841,537	344,135
Total	**2,726,039**	**344,135**

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D FINANCIAL RISK MANAGEMENT

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

D3 Credit risk (Continued)

Credit quality analysis (Continued)

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

There was no other credit enhancement held as at December 31, 2017 and December 31, 2016.

(iii) Reconciliation of loan gross carrying amount and ECL

An analysis of the changes in the gross carrying amount of loans and exposure of loan commitments, with the related changes in EC allowances is as follows:

Sovereign-backed loans

	Stage 1	Stage 2	Total
Gross carrying amount of loans and exposure of loan commitments as at January 1, 2017	344,135	—	344,135
New loans and commitments originated	2,214,626	—	2,214,626
Transfer to Stage 2	(364,323)	364,323	—
As at December 31, 2017	**2,194,438**	**364,323**	**2,558,761**

	Stage 1	Stage 2	Total
ECL allowance as at January 1, 2017	**277**	**—**	**277**
Additions	4,730	—	4,730
Change in risk parameters*	43	—	43
Transfer to Stage 2	(3,572)	3,572	—
As at December 31, 2017	**1,478**	**3,572**	**5,050**

* The increase in the loss allowance is due to an increase in the probability of default (PD) used to calculate the 12-month expected credit loss for the performing loans.

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D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

Credit quality analysis (Continued)

Nonsovereign-backed loans

	Stage 1	Stage 2	Total
Gross carrying amount of loans and exposure of loan commitments as at January 1, 2017	**—**	**—**	**—**
New loans and commitments originated	167,278	—	167,278
Transfer to Stage 2	—	—	—
As at December 31, 2017	**167,278**	**—**	**167,278**

	Stage 1	Stage 2	Total
ECL allowance as at January 1, 2017	**—**	**—**	**—**
Additions	4,315	—	4,315
Change in risk parameters	—	—	—
Transfer to Stage 2	—	—	—
As at December 31, 2017	**4,315**	**—**	**4,315**
Total gross carrying amount of loans and exposure of loan commitments as at December 31, 2017	**2,361,716**	**364,323**	**2,726,039**

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

Total ECL allowance as at December 31, 2017	**5,793**	**3,572**	**9,365**

(iv) Past due information

As at December 31, 2017, a front-end and supervision fee receivable amount of USD2.28 million was past due but not yet more than 30 days. All the amounts were collected by the date of signing of the 2017 financial statements (2016: nil).

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.

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D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

ECL measurement (Continued)

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.

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 Standard & Poor's ("S&P"), Moody's and Fitch. In case the sovereign borrower is not rated by any of the three ICRAs, the Bank uses Economist Intelligence Unit rating assessmen as the basis for further analysis. For nonsovereign loans, the loan may be rated using the risk rating methodology that is in-line with the Bank's policy for nonsovereign-backed financing depending on the type of their financing structure. More specifically, project finance transactions will be rated using a credit scoring tool for project finance. Similarly, corporate financing transactions will be rated based on a credit scoring tool for corporate finance: these initial ratings are used to estimate the Stage 1—12-month ECL at each reporting date to determine the SICR since origination.

- Qualitative criteria

In addition to the quantitative criteria, the following qualitative elements will also contribute to a determination that the loan should migrate to Stage 2:

  - Adverse changes in business, financial or economic conditions;
  - Expected breach of contract that may lead to covenant waivers or amendments;
  - Transfer to watch list/monitoring; and
  - Changes in payment behavior.

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D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

ECL measurement (Continued)

(i) Significant increase in credit risk (Continued)

- Backstop
  - 30 days past due.
- Overlay

Temporary adjustments ("overlay adjustments") to the allowance are adjustments which may be used to account for circumstances when it becomes evident that existing or expected risk factors have not been considered in the credit risk rating and modelling process. Management should evaluate the appropriateness of overlay adjustments made to the output of quantitative models, and assess such overlays for indication of bias. Any overlay adjustment shall be properly discussed with the Risk Committee.

A new ECL calculation software has been used for the year ended December 31, 2017. It is used to replace the previous excel based template used for calculating ECL. The new tool applies the same three-stage ECL methodology in compliance with IFRS 9 requirements with enhancements in a more sophisticated approach to incorporate the PIT PD term structure and forward-looking assessment.

(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 include 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 t the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

In addition, the credit-impaired assets also include the purchased or originated financial assets at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may have caused financial assets to become credit-impaired. For sovereign-backed loans, the same criteria of past due for "default assets" (see D3 (vi)) is also bein applied for assessing credit impaired financial assets.

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D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

ECL measurement (Continued)

(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 o insufficient information available to estimate LGD for nonsovereign-backed loans, based upon management's estimat 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 ne year.

The above calculation is performed for three different scenarios. The weights of the 3 scenarios are 50%, 25%, and 25% respectively for the Baseline, Good and Bad scenarios. The estimation is based on the best representative management judgment without undue cost or effort that, going forward the current path of macroeconomic projections with equal chance of being significantly worse (Bad scenario) or better (Good scenario), considering the macroeconomic projections of those countries and relevant industries that the Bank has credit exposures.

- Estimation of lifetime ECL

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

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

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

ECL_t is calculated as: $ECL_t = \sum_{s=baseline,good,bad} w_s \times PIT\ PD_t \times LGD_t \times EAD_t$), where w_s is the weight of each scenario – 50% for Baseline, 25% for both Good and Bad scenarios.

1) Conditional PIT PD

The process to convert TTC PD to conditional PIT PD term structure is the same as 12-month ECL calculation for th first 3 years and is assumed to revert back to the long-run PD for the remaining years.

2) LGD is the same as 12-month ECL calculation.

3) EAD for any given year is based on loan balance at the period end + net projected disbursement in the next 1 year, as by the disbursement schedule for each year.

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D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

ECL measurement (Continued)

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

4) Lifetime is equal to contractual lifetime.

5) Discount rate is equal to calculated effective interest rate.

In the same way as the 12-month ECL calculation, the above calculation is done for each of the three scenarios and then probability weighted, and the weighting of the 3 scenarios are the same as 12-month ECL calculation.

(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.

(v) Sensitivity analysis

The output of the Bank's ECL model is most sensitive to the credit quality of the obligors especially of those with the lowest credit quality and/or the largest amount of exposure. The Bank identified two obligors meeting these criteria. Should their ratings have been downgraded by one more notch and consequentially moved to Stage 2 when SICR criteria is met, the amount of ECL would have been USD31.14 million, or increased by USD21.78 million.

The weights of the scenarios used is another source of sensitivity. Should the Bank have changed the weights to 30%, 40% and 30% respectively for good, baseline and bad scenarios, the amount of ECL would have been USD9.51 million, or increased by USD0.15 million

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D FINANCIAL RISK MANAGEMENT

D3 Credit risk (Continued)

ECL measurement (Continued)

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

(vi) 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.

(vii) 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.

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

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D FINANCIAL RISK MANAGEMENT

D4 Market risk (Continued)

Currency risk (Continued)

December 31, 2017, the currency risk is not material for the Bank. A currency table for the main monetary items is set out below:

As at December 31, 2017	USD	Other currencies USD equivalent	Total
Financial assets			
Cash and cash equivalents	1,104,756	110	1,104,866
Term deposits	5,885,854	—	5,885,854
Investments at fair value through profit or loss	3,255,140	—	3,255,140
Funds deposited for co-financing arrangements	1,592	—	1,592
Loan investments, at amortized cost	773,238	—	773,238

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

	USD	Other currencies USD equivalent	Total
Paid-in capital receivables	7,948,901	—	7,948,901
	18,969,481	**110**	**18,969,591**

As at December 31, 2016	**USD**	**Other currencies USD equivalent**	**Total**
Financial assets			
Cash and cash equivalents	1,281,832	160	1,281,992
Term deposits	2,292,141	—	2,292,141
Investments at fair value through profit or loss	3,179,873	—	3,179,873
Funds deposited for co-financing arrangements	23,623	—	23,623
Loan investments, at amortized cost	9,553	—	9,553
Paid-in capital receivables	11,007,227	—	11,007,227
	17,794,249	**160**	**17,794,409**

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.

Sensitivity analysis

As the Bank has no material financial liabilities as at December 31, 2017, the following table illustrates the potential impact for the current year, of a parallel upward or downward shift of 50 basis points in relevant interest rate curves on the Bank's interest income from the floating rate loan investments and certain managed rate overnight deposits which are measured at amortized cost, based on the carrying value at the end of the reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparalleled yield curve movements.

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D FINANCIAL RISK MANAGEMENT

D4 Market risk (Continued)

Sensitivity analysis (Continued)

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates over the next 12 months from the reporting date with the assumption that the structure of financial assets held at the period end remains unchanged.

	Interest income	
	For the year ended December 31, 2017	**For the period from January 16, 2016 to December 31, 2016**
+50 basis points	26	3
-50 basis points	(26)	(3)

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 December 31, 2017, the Bank does not have any significant financial liabilities.

D6 Operational risk

Consistent with guidance issued by the Basel Committee on Banking Supervision, operational risk is defined as risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Effective management and mitigation of operational risk relies on a system of internal controls aimed at identifying various risks, and establishing acceptable risk parameters and monitoring procedures.

The Bank adopts the Basic Indicator Approach (as recommended by Basel II) for capital allocation for operational risks, which is set a 15% of the average gross income over the past 3 years, ignoring those years where income was not positive. For initial years, the Bank allocates capital for operational risk at 1% of its paid-in capital, reserves and retained earnings.

D7 Capital management

The Bank collectively manages the paid-in capital plus reserves and retained earnings as capital. To ensure that the Bank has the highest possible credit on a stand-alone basis at all times, two limits are relevant to be always observed. The first, as required by Article 12.1 of the Bank's AOA, the Bank's total unimpaired subscribed capital, reserves, and retained earnings have to be always greater than the total exposure from its investment operations (i.e. loans, equity investments, guarantees and other types of financing). This limit may b increased up to 250% of the Bank's unimpaired subscribed capital, reserves, and retained earnings with the approval of the Board of Governors. The second, using an economic capital framework, the Bank's available capital must be greater than the required economic capital given the composition of its investment assets by credit risk rating plus a certain amount of buffer.

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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 year endec December 31, 2017.

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 generall accepted pricing models or discounted cash flow analysis using prices from observable current market transactions for similar instruments or using unobservable inputs relevant to the Bank's assessment.

Fair value hierarchy

The Bank classifies financial assets and financial liabilities into the following 3 levels based on the extent to which inputs to valuation techniques used to measure fair value of the financial assets and financial liabilities are observable:

Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities;

Level 2: Fair value measurements are those derived from inputs other than quoted included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3: Fair value measurements are based on models, and unobservable inputs are significant to the entire measurement.

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E FAIR VALUE DISCLOSURES

Financial assets and financial liabilities not measured at fair value on the statement of financial position

The table below summarizes the carrying amounts and fair values of those financial assets and financial liabilities not measured in the Statement of Financial Position at their fair value:

	December 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	1,104,866	1,104,866	1,281,992	1,281,992
Term deposits	5,885,854	5,884,195	2,292,141	2,291,991
Funds deposited for co-financing arrangements	1,592	1,592	23,623	23,623
Loan investments, at amortized cost	773,238	779,443	9,553	9,553
Paid-in capital receivables	7,948,901	7,947,268	11,007,227	10,522,553
Financial liabilities				
Other liabilities	13,587	13,587	5,538	5,538

As at December 31, 2017, the Bank's balances of those financial assets and liabilities not measured at fair value but with short-term maturity approximate their fair values.

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

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

The table below summarizes the fair values of the financial assets and financial liabilities measured in the statement of financial position at their fair value:

As at December 31, 2017

	Level 1	Level 2	Level 3	Total
Investments at fair value through profit or loss				
• Trust Fund	—	3,236,448	—	3,236,448
• LP Fund	—	—	18,692	18,692
Total	—	3,236,448	18,692	3,255,140

As at December 31, 2016

	Level 1	Level 2	Level 3	Total
Investments at fair value through profit or loss				
• Trust Fund	—	3,179,873	—	3,179,873

Investments at fair value through profit or loss are amounts invested in the Trust Fund and the LP Fund (Note C5).

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E FAIR VALUE DISCLOSURES

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

The Trust Fund's notionally allocated share in the Pool is not traded in any market. The fair value of the Trust Fund is derived from that of the notionally allocated assets. Discounted cash flow valuation technique is used for the valuation of the underlying assets of the LP Fund. The unobservable inputs include weighted average cost of capital, liquidity discount and projected cash flows. The fair value of the investment in the LP fund is based on an adjusted net assets method.

There has been no transfer among Level 1, Level 2 and Level 3 during the year.

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ASIAN INFRASTRUCTURE INVESTMENT BANK

$2,500,000,000

2.250% NOTES
DUE 2024