

Asian Infrastructure Investment Bank
Condensed Financial Statements (Unaudited)
for the Nine Months Ended Sep. 30, 2022

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Asian Infrastructure Investment Bank
Condensed Statement of Comprehensive Income
For the nine months ended Sep. 30, 2022

<i>In thousands of US Dollars</i>	Note	For the nine months ended Sep. 30, 2022 (unaudited)	For the nine months ended Sep. 30, 2021 (unaudited)
Interest income	C1	371,340	179,966
Interest expense	C1	(200,690)	(141,389)
Net interest income		170,650	38,577
Net fee and commission income	C2	26,481	17,201
Net gain on financial instruments measured at fair value through profit or loss	C3	155,355	193,271
Net loss on financial instruments measured at amortized cost	C9	(13,172)	(643)
Share of gain/(loss) on investment in associate	C10	573	(603)
Impairment provision	C4	(158,673)	(17,796)
General and administrative expenses	C5	(131,948)	(115,963)
Net foreign exchange loss		(97,439)	(42,614)
Operating (loss)/profit for the period		(48,173)	71,430
Accretion of paid-in capital receivables	C11	1,866	3,880
Net (loss)/profit for the period		(46,307)	75,310
Other comprehensive income <i>Items will not be reclassified to profit or loss</i>			
Unrealized gain/(loss) on fair- valued borrowings arising from changes in own credit risk	C13	82,321	(37,659)
Total comprehensive income		36,014	37,651
Attributable to:			
Equity holders of the Bank		36,014	37,651

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

Asian Infrastructure Investment Bank
Condensed Statement of Financial Position
As at Sep. 30, 2022

<i>In thousands of US Dollars</i>	Note	Sep. 30, 2022 (unaudited)	Dec. 31, 2021 (audited)
Assets			
Cash and cash equivalents	C6	2,745,592	2,109,608
Term deposits	C6	10,024,036	11,748,908
Investments at fair value through profit or loss	C7	11,337,598	10,565,949
Loan investments, at amortized cost	C8	15,103,016	12,245,887
Bond investments, at amortized cost	C9	4,517,960	2,495,119
Paid-in capital receivables	C11	314,842	303,695
Derivative assets	C14	525,749	248,371
Investment in associate	C10	47,915	33,842
Property and equipment		4,249	4,330
Intangible assets		6,627	5,107
Other assets	C12	2,262,143	477,323
Total assets		46,889,727	40,238,139
Liabilities			
Borrowings	C13	23,918,457	19,267,851
Derivative liabilities	C14	2,414,345	563,604
Prepaid paid-in capital		-	1,200
Other liabilities	C15	318,255	239,566
Total liabilities		26,651,057	20,072,221
Members' equity			
Paid-in capital	C16	19,392,900	19,355,000
Reserves			
Accretion of paid-in capital receivables		(2,759)	(3,463)
Unrealized gain/(loss) on fair-valued borrowings arising from changes in own credit risk	C13	20,699	(61,622)
Retained earnings		827,830	876,003
Total members' equity		20,238,670	20,165,918
Total liabilities and members' equity		46,889,727	40,238,139

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

Asian Infrastructure Investment Bank
Condensed Statement of Changes in Equity
For the nine months ended Sep. 30, 2022

<i>In thousands of US Dollars</i>	Note	Reserves						Total members' equity
		Subscribed capital	Less: callable capital	Paid-in capital	Accretion of paid-in capital receivables	Unrealized (loss)/gain on fair-valued borrowings arising from changes in own credit risk	Retained earnings	
Jan. 1, 2021		96,748,900	(77,399,100)	19,349,800	(8,198)	(23,703)	825,858	20,143,757
Capital subscription and contribution		21,200	(17,000)	4,200	-	-	-	4,200
Net profit for the period		-	-	-	-	-	75,310	75,310
Other comprehensive income		-	-	-	-	(37,659)	-	(37,659)
Paid-in capital receivables - accretion effect		-	-	-	(27)	-	-	(27)
Transfer of accretion	C11	-	-	-	3,880	-	(3,880)	-
Sep. 30, 2021 (unaudited)	C16	96,770,100	(77,416,100)	19,354,000	(4,345)	(61,362)	897,288	20,185,581
Jan. 1, 2022		96,775,100	(77,420,100)	19,355,000	(3,463)	(61,622)	876,003	20,165,918
Capital subscription and contribution		189,600	(151,700)	37,900	-	-	-	37,900
Net loss for the period		-	-	-	-	-	(46,307)	(46,307)
Other comprehensive income		-	-	-	-	82,321	-	82,321
Paid-in capital receivables - accretion effect		-	-	-	(1,162)	-	-	(1,162)
Transfer of accretion	C11	-	-	-	1,866	-	(1,866)	-
Sep. 30, 2022 (unaudited)	C16	96,964,700	(77,571,800)	19,392,900	(2,759)	20,699	827,830	20,238,670

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

Asian Infrastructure Investment Bank
Condensed Statement of Cash Flows
For the nine months ended Sep. 30, 2022

<i>In thousands of US Dollars</i>	Note	For the nine months ended Sep. 30, 2022 (unaudited)	For the nine months ended Sep. 30, 2021 (unaudited)
Cash flows from operating activities			
Net (loss)/profit for the period		(46,307)	75,310
Adjustments for:			
Interest income from term deposits		(58,662)	(47,903)
Interest expense for borrowings	C13	194,465	139,882
Issuance cost for borrowings	C5	5,348	7,035
Accretion of paid-in capital receivables	C11	(1,866)	(3,880)
Net gain on financial instruments measured at fair value through profit or loss		(144,658)	(192,120)
Share of (gain)/loss on investment in associate		(573)	603
Impairment provision	C4	158,673	17,796
Depreciation and amortization		1,915	1,540
Increase in loan investments	C8	(3,011,236)	(2,730,577)
Increase in bond investments		(58,287)	(2,349,594)
Decrease in funds deposited for cofinancing arrangements		-	3,891
Net cash received from derivatives		48,894	68,902
Increase in other assets		(1,785,366)	(342,228)
Increase in other liabilities		82,721	292,800
Net cash used in operating activities		(4,614,939)	(5,058,543)
Cash flows from investing activities			
Investment purchases, net		(3,109,523)	(3,944,803)
Return of capital contributions	C7	33,801	9,724
Decrease in term deposits		1,750,000	1,236,454
Increase in investment in associate	C10	(13,500)	(7,500)
Interest received from term deposits		33,533	70,724
Increase in intangible assets, property and equipment		(2,808)	(475)
Net cash used in investing activities		(1,308,497)	(2,635,876)
Cash flows from financing activities			
Proceeds from borrowings, net	C13	7,058,185	8,028,827
Repayments of borrowings	C13	(376,313)	(183,251)
Interest payments on borrowings	C13	(148,709)	(105,761)
Capital contributions received	C11	26,257	111,880
Net cash from financing activities		6,559,420	7,851,695
Net increase in cash and cash equivalents		635,984	157,276
Cash and cash equivalents at beginning of period		2,109,608	2,702,461
Cash and cash equivalents at end of period	C6	2,745,592	2,859,737

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

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2022
(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 (the “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 (the “PRC”).

As at Sep. 30, 2022, the Bank’s total approved membership is 105, of which 92 have completed the membership process and have become members of AIIB in accordance with the AOA.

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

The legal status, privileges and immunities for the operation and functioning of 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.

B Accounting Policies

B1 Basis of preparation

These condensed interim financial statements for the nine months ended Sep. 30, 2022 have been prepared in accordance with International Financial Reporting Standard: IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the annual financial statements for the year ended Dec. 31, 2021.

The accounting policies adopted are consistent with those used in the Bank’s annual financial statements for the year ended Dec. 31, 2021.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in its process of applying the Bank’s accounting policies. The Bank has stated the change of accounting estimates in the criteria for significant increase in credit risk in Note D3. The financial statements have been prepared on a going concern basis.

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2022
(All amounts in thousands of US Dollars unless otherwise stated)

B Accounting Policies

B2 New accounting pronouncements

The new accounting pronouncements, amendments and interpretations issued during the nine months ended Sep. 30, 2022, do not have any significant impact on the operating results, financial position and comprehensive income of the Bank, based on the assessment of the Bank.

B3 Comparatives

The comparative date of the Condensed Statement of Financial Position is as at Dec. 31, 2021, while the comparative period of the Condensed Statement of Comprehensive Income, the Condensed Statement of Changes in Equity and the Condensed Statement of Cash Flows are from Jan. 1, 2021 to Sep. 30, 2021.

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2022
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C1 Interest income and expense

	For the nine months ended Sep. 30, 2022	For the nine months ended Sep. 30, 2021
Interest income		
Loan investments ⁽¹⁾	246,553	116,831
Cash, cash equivalents, and deposits	79,024	48,543
Bond investments	45,763	14,592
Total interest income	371,340	179,966
Interest expense		
Borrowings ⁽²⁾	(200,690)	(141,389)
Total interest expense	(200,690)	(141,389)
Net interest income	170,650	38,577

⁽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.

⁽²⁾ Interest expense is accrued mainly based on the notional coupon rate. However, the Bank uses derivatives to manage interest rate and foreign currency risks, and hence, the actual borrowing cost for the Bank is swapped from fixed to floating rate. The hedging results are presented in Note C14 Derivatives.

C2 Net fee and commission income

	For the nine months ended Sep. 30, 2022	For the nine months ended Sep. 30, 2021
Loan commitment fee and service fee	26,175	17,423
Special Funds administration fee (Note C20)	188	168
MCDF administration fee ⁽¹⁾	1,681	897
MCDF IP and GIF TP administration fee ⁽²⁾	278	-
Others	15	14
Total fee and commission income	28,337	18,502
Cofinancing service fee	(1,856)	(1,301)
Total fee and commission expense	(1,856)	(1,301)
Net fee and commission income	26,481	17,201

⁽¹⁾ According to the Governing Instrument of the Finance Facility of the Multilateral Cooperation Center for Development Finance ("MCDF Finance Facility") and the agreement on the terms and conditions of service as the administrator of the MCDF Finance Facility, AIIB provides administrative and financial services to the MCDF Finance Facility, including the establishment and hosting of the secretariat of the Multilateral Cooperation Center for Development Finance ("MCDF"). Therefore, the Bank charges an administration fee for the services provided as the administrator of the MCDF Finance Facility. The MCDF serves as a multilateral initiative to foster high-quality infrastructure and connectivity investments in developing countries.

⁽²⁾ For the nine months ended Sep. 30, 2022, the Bank received USD260 thousand and USD18 thousand of administration fee from the MCDF Finance Facility and Global Infrastructure Facility ("GIF") respectively related to costs associated with MCDF financed activities as part of AIIB's role as an implementing partner of the MCDF Finance Facility ("MCDF IP") and technical partner of GIF ("GIF TP").

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2022
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C3 Net gain on financial instruments measured at fair value through profit or loss

	For the nine months ended Sep. 30, 2022	For the nine months ended Sep. 30, 2021
Money Market Funds (Note C6)	10,697	1,151
Investments at fair value through profit or loss (Note C7)	(330,922)	32,293
Borrowings (Note C13)	2,000,049	361,249
Derivatives (Note C14):		
- Borrowings associated	(1,972,277)	(269,106)
- Loan investments associated	121,690	8,064
- Liquidity portfolio and bond investments associated	326,118	59,620
Total	155,355	193,271

C4 Impairment provision

	For the nine months ended Sep. 30, 2022	For the nine months ended Sep. 30, 2021
Impairment provision for		
- Loan investments (Note C8)	150,075	17,240
- Bond investments (Note C9)	8,598	556
Total impairment provision	158,673	17,796

C5 General and administrative expenses

	For the nine months ended Sep. 30, 2022	For the nine months ended Sep. 30, 2021
Staff costs	71,316	58,411
Professional service expenses	21,079	18,654
IT services	14,215	13,243
Facilities and administration expenses	12,188	12,374
Issuance cost for borrowings	5,348	7,035
Travelling expenses	2,198	1,225
Others	5,604	5,021
Total general and administrative expenses	131,948	115,963

Refer to Note C20 for details of key management remuneration.

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2022
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C6 Cash, cash equivalents, and deposits with banks

	Sep. 30, 2022	Dec. 31, 2021
Cash	-	-
Deposits with banks		
- Demand deposits ⁽¹⁾	133,402	199,487
- Term deposits with initial maturity of three months or less	1,623,435	200,099
Money Market Funds ⁽²⁾	988,755	1,710,022
Total cash and cash equivalents	2,745,592	2,109,608
Add: term deposits with initial maturity more than three months ⁽³⁾	10,024,036	11,748,908
Total cash, cash equivalents, and deposits with banks	12,769,628	13,858,516

⁽¹⁾ USD44.20 million of demand deposits is segregated for the externally managed portfolios (Dec. 31, 2021: USD40.04 million).

⁽²⁾ Money Market Funds

	For the nine months ended Sep. 30, 2022	For the year ended Dec. 31, 2021
As at beginning of period/year	1,710,022	1,900,091
Additions	28,430,000	26,020,000
Disposals	(29,161,964)	(26,211,432)
Fair value gain, net	10,697	1,363
Total Money Market Funds	988,755	1,710,022

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

⁽³⁾ Term deposits with initial maturity more than three months have maturities up to 24 months. As at Sep. 30, 2022, USD9.82 billion of term deposits has remaining maturity within 12 months (Dec. 31, 2021: USD11.65 billion).

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2022
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C7 Investments at fair value through profit or loss

	For the nine months ended Sep. 30, 2022	For the year ended Dec. 31, 2021
As at beginning of period/year	10,565,949	6,652,155
Additions, net	1,136,372	3,922,183
Return of capital contributions	(33,801)	(13,335)
Net (loss)/gain of investments	(330,922)	4,946
Total investments at fair value through profit or loss	11,337,598	10,565,949

Analysis of investments at fair value through profit or loss:

	Sep. 30, 2022	Dec. 31, 2021
External Managers Program (a)	4,041,941	4,104,144
Bond investments (b)	4,312,568	2,710,777
Certificates of deposit and commercial papers (c)	2,220,130	3,143,959
Investment Operations fixed income portfolio (d)	215,962	274,843
LP Funds and others (e)	498,310	277,809
Investment in Trust (f)	48,687	54,417
Total investments at fair value through profit or loss	11,337,598	10,565,949

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

- (a) The Bank has engaged external asset managers to invest in portfolios of high credit quality securities (the "External Managers Program"). The portfolios are fair value measured and securities are eligible for sale. The following table sets out the amounts of the investment portfolio by asset categories.

External Managers Program	Sep. 30, 2022	Dec. 31, 2021
Investment grade corporate bonds	1,735,708	1,809,008
Sovereign, Supranational and Agency bonds	1,221,419	1,734,072
Treasury bills and notes	593,231	223,255
Term deposits and certificates of deposit	271,860	141,715
Commercial papers	111,397	83,121
Other investment securities	108,326	112,973
Total	4,041,941	4,104,144

C Disclosure Notes

C7 Investments at fair value through profit or loss (Continued)

- (b) The Bank invests in bond securities which are actively managed. Therefore, the bond investments are measured at fair value through profit or loss. The bonds invested are of high credit quality. The Bank also invested in infrastructure asset-backed securities issued by the Special Purpose Vehicle sponsored by the associate that the Bank holds direct equity interests (Note C10).
- (c) The Bank invests in certificates of deposit and commercial papers which are actively managed within treasury portfolio and measured at fair value through profit or loss. The certificates of deposit and commercial papers are of high credit quality.
- (d) The Bank has engaged external asset managers to invest in a fixed-income portfolio. The objective of this portfolio is to develop the climate bond markets in Asia, composing of labeled green bonds and unlabeled climate-aligned bonds. The investment strategy targets climate bond issuers who rate high on the evaluation of three dimensions related to the Paris Agreement: (a) climate mitigation, (b) climate adaptation and (c) contribution to the transition to a low carbon, climate resilient economy.
- (e) The Bank invests in limited partnership funds ("LP Funds"), which are managed by the general partners, who make all investment decision on behalf of the limited partners. The Bank, along with other investors, has entered into the LP Funds as a limited partner with a capital commitment which will be drawn down over the commitment period of the LP Funds, based on drawdown notices issued by the general partners. The LP Funds do not have an expected maturity date within twelve months.
- (f) The Bank has invested in the units of a Trust (the "Trust") which holds a portfolio of five operating roads and highways assets in India. The units of the Trust are listed on the National Stock Exchange of India Limited. The Trust is managed by an investment manager who make investment decisions on behalf of the Trust as per the Trust Deed and the Investment Management Agreement. The Trust has been fully disbursed which does not have an expected maturity date within twelve months.

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2022
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C8 Loan investments, loan commitments and related ECL allowance

Loan investments	Sep. 30, 2022	Dec. 31, 2021
Gross carrying amount	15,433,024	12,421,788
ECL allowance	(330,008)	(175,901)
Net carrying amount	15,103,016	12,245,887

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 where the Bank enters into such transactions is considered to be the principal market. The transaction price normally represents the fair value of loans at their initial recognition.

All sovereign-backed loans to eligible members are subject to the same pricing, taking into account the “preferred creditor status” and other terms giving the Bank rights more favorable than those available to commercial creditors. The Bank applies commercial pricing practices to nonsovereign-backed loans. The Bank has no intention to sell sovereign-backed loans, nor does it believe there is a secondary market for such loans.

The Bank began offering variable spread loans in 2019 where the lending rate consists of a variable reference rate and a variable spread. The variable spread consists of a fixed contractual lending spread and maturity premium along with a variable borrowing cost margin. The reference rate and the borrowing cost margin are determined at each interest rate reset date and are applicable for the following six months. The borrowing cost margin is based on the cost of the underlying funding for these loans at the time of the reset. As at Sep. 30, 2022, USD8,585.12 million of the total carrying amount of the Bank’s loans are variable spread loans (Dec. 31, 2021: USD6,436.65 million).

As at Sep. 30, 2022, USD147.81 million of the total carrying amount matures within 12 months (Dec. 31, 2021: USD287.42 million).

The following table sets out overall information about the credit quality of loan investments and loan commitments issued for effective contracts as at Sep. 30, 2022. The gross amounts of loans are net of the transaction costs and fees that are capitalized through the effective interest method, or EIR method.

	Sep. 30, 2022	Dec. 31, 2021
Loan investments, gross carrying amount	15,433,024	12,421,788
Loan commitments	12,658,067	10,287,656
	28,091,091	22,709,444
Total ECL allowance (a)	(332,850)	(182,775)
	27,758,241	22,526,669

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2022
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C8 Loan investments, loan commitments and related ECL allowance (Continued)

(a) As at Sep. 30, 2022, the total ECL related to loan commitments is USD2.84 million (Dec. 31, 2021: USD6.87 million), and is presented as a provision in Note C15.

For the nine months ended Sep. 30, 2022, the impairment losses on loan investments and loan commitments were USD150.07 million (for the nine months ended Sep. 30, 2021: USD17.24 million), as disclosed in Note C4.

C9 Bond investments at amortized cost

Bond investments	Sep. 30, 2022	Dec. 31, 2021
Externally managed fixed-income portfolio (a)	2,016,174	1,998,208
Internally managed fixed-income portfolio (b)	2,010,535	-
Investment Operations Asian infrastructure-related bonds (c)	504,373	501,435
Gross carrying amount	4,531,082	2,499,643
ECL allowance	(13,122)	(4,524)
Net carrying amount	4,517,960	2,495,119

(a) In Sep. 2021, the Bank engaged an external asset manager to invest in a portfolio of high credit quality securities. The portfolio adopts a hold-to-maturity business strategy. The bonds are initially recognized at fair value and subsequently measured at amortized cost.

(b) In April 2022, the Bank started an internally managed portfolio to invest in high credit quality securities. The portfolio adopts a hold-to-maturity business strategy. The bonds are initially recognized at fair value and subsequently measured at amortized cost.

(c) The Bank has invested in a fixed income portfolio which comprises Asian infrastructure-related bonds. The bonds are initially recognized at fair value and subsequently measured at amortized cost.

For the nine months ended Sep. 30, 2022, USD13.17 million investment loss was recognized as a result of disposal of certain bonds in the portfolios (for the nine months ended Sep. 30, 2021: USD0.64 million).

Bond investments at amortized cost are subject to credit losses estimated by applying an ECL model, assessed on a forward-looking basis.

As at Sep. 30, 2022, USD37.91 million of the gross carrying amount matures within 12 months (Dec. 31, 2021: USD48.54 million).

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2022
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C10 Investment in associate

On April 2, 2020, the Bank subscribed for a 30% economic interest in a private company incorporated in Singapore and limited by shares. The purpose of the investee is to acquire and securitize infrastructure loans. As at Sep. 30, 2022, the undrawn capital commitment is USD6 million (as at Dec. 31, 2021: USD19.5 million).

For the nine months ended Sep. 30, 2022, the associate recognized a profit of USD1.91 million (for the year ended Dec. 31, 2021: loss of USD0.72 million). The Bank has recorded a net profit of USD0.57 million following the equity method (for the year ended Dec. 31, 2021: net loss of USD0.22 million).

	For the nine months ended Sep. 30, 2022	For the year ended Dec. 31, 2021
As at beginning of period/year	33,842	26,559
Additions	13,500	7,500
Share of gain/(loss) for the period/year	573	(217)
Total investment in associate	47,915	33,842

C11 Paid-in capital receivables

According to the AOA, payments for paid-in capital (refer to Note C16) are due in five installments, with the exception of members considered 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 nine months ended Sep. 30, 2022, a total discount of USD1.16 million (for the nine months ended Sep. 30, 2021: USD0.03 million) has been debited to the reserve. An amount of USD1.87 million (for the nine months ended Sep. 30, 2021: USD3.88 million) has been accreted through income in the current period.

As at Sep. 30, 2022, overdue contractual undiscounted paid-in capital receivables amounting to USD191.92 million (Dec. 31, 2021: USD149.96 million) (Note C16) are not considered impaired.

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the nine months ended Sep. 30, 2022
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C11 Paid-in capital receivables (Continued)

As at Sep. 30, 2022, USD245.5 million (Dec. 31, 2021: USD241 million) of the paid-in capital balance is due within 12 months.

	For the nine months ended Sep. 30, 2022	For the year ended Dec. 31, 2021
As at beginning of period/year	303,695	436,074
Paid-in capital receivables originated	36,738	5,151
Contributions received	(26,257)	(142,073)
Transfer from prepaid paid-in capital to contribution	(1,200)	(240)
Accretion to profit or loss	1,866	4,783
Total paid-in capital receivables	314,842	303,695

C12 Other assets

	Sep. 30, 2022	Dec. 31, 2021
Cash collateral receivable (Note C14)	2,197,705	464,950
Receivable for unsettled trades	55,461	3,613
Prepayments	5,551	6,503
Receivable for MCDF administration fee	1,681	1,381
Others	1,745	876
Total other assets	2,262,143	477,323

C13 Borrowings

	Sep. 30, 2022	Dec. 31, 2021
i) Borrowings carried at fair value		
SEC-registered notes (a)	16,095,838	13,855,963
Global Medium-Term Notes (b)	5,087,477	3,533,466
Australian Dollar and New Zealand Dollar Bonds (c)	889,866	701,048
RMB Denominated Panda Bond (d)	640,098	476,956
Total borrowings at fair value	22,713,279	18,567,433
ii) Borrowings carried at amortized cost		
Global Medium-Term Notes (b)	1,205,178	700,418
Total borrowings at amortized cost	1,205,178	700,418
Total borrowings	23,918,457	19,267,851

^(a) As at Sep. 30, 2022, the Bank has issued a total of USD17.25 billion SEC-registered fixed rate global notes in the capital markets. These notes are listed on the London Stock Exchange's main market. The following table sets out the details of the SEC-registered notes.

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C Disclosure Notes

C13 Borrowings (Continued)

(in USD million)						
Date of issuance	Notional amount	Cash proceeds	Coupon (per annum)	Coupon payment	Maturity date	
May 16, 2019	2,500	2,492.95	2.25%	Semi-annual	May 16, 2024	
May 28, 2020	3,000	2,984.94	0.50%	Semi-annual	May 28, 2025	
Sep. 29, 2020	3,000	2,994.09	0.25%	Semi-annual	Sep. 29, 2023	
Jan. 27, 2021	3,000	2,987.16	0.50%	Semi-annual	Jan. 27, 2026	
Sep. 16, 2021	2,500	2,496.30	0.50%	Semi-annual	Oct. 30, 2024	
June 29, 2022	1,250	1,246.08	3.375%	Semi-annual	June 29, 2025	
Sep. 14, 2022	2,000	1,994.40	3.75%	Semi-annual	Sep. 14, 2027	
Total	17,250.00	17,195.92				

(b) As of Sep. 30, 2022, the Bank issued a total of USD6,662.21 million equivalent fixed rate notes, and a total of USD1,200.00 million floating rate notes under its Global Medium-Term Note (“GMTN”) program through a combination of private and public placements, of which an issued amount of USD606.22 million equivalent fixed rate notes have been repaid. The following table sets out the details of the GMTN notes by denominated currency, mainly payable annually.

GMTNs in denominated currency	Sep. 30, 2022	Dec. 31, 2021
GBP	2,070,561	1,320,040
USD	2,025,000	1,050,000
CNH	1,238,492	583,338
TRY	506,823	398,686
HKD	302,942	240,311
ZAR	105,035	165,598
EUR	161,898	138,355
Others	845,243	509,068
Total	7,255,994	4,405,396

(c) As at Sep. 30, 2022, the Bank has issued a total of USD1,111.08 million equivalent fixed rate notes under its Australian Dollar and New Zealand Dollar Debt Issuance program through a combination of private and public placements, payable semiannually.

(d) As at Sep. 30, 2022, the Bank has issued a total of USD649.18 million equivalent fixed rate Renminbi denominated bonds on China’s interbank bond market (“RMB Denominated Panda Bond”), payable annually.

Borrowings that are paired with swaps are designated as financial liabilities at fair value through profit or loss, in order to significantly reduce accounting mismatches that would have otherwise arisen if the borrowings were carried at amortized cost while the related swaps are carried at fair value. Interest from borrowings was calculated based on outstanding balances of the borrowings and coupon rates and presented as interest expense in the Statement of Comprehensive Income.

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C Disclosure Notes

C13 Borrowings (Continued)

Floating rate notes are carried at amortized cost with interest expenses recognized under effective interest rate method.

The fair value changes for financial liabilities that are designated as at fair value through profit or loss, that is attributable to changes in the Bank's own credit risk, are recognized in other comprehensive income in accordance with the requirements of IFRS 9. Fair value movements attributable to changes in the Bank's own credit risk are determined using the mark-to-market approach by applying an observable own credit spread curve to the Bank's exposure at the reporting date.

For the nine months ended Sep. 30, 2022, the fair value gain attributable to changes in the Bank's own credit risk included in the other comprehensive income amounted to USD82.32 million (for the nine months ended Sep. 30, 2021: fair value loss of USD37.66 million).

The following table sets out information about changes in liabilities arising from borrowing activities, including changes arising from cash flows and non-cash changes for the nine months ended Sep. 30, 2022 and the year ended Dec. 31, 2021.

	For the nine months ended Sep. 30, 2022	For the year ended Dec. 31, 2021
As at beginning of period/year	19,267,851	11,595,193
Changes arising from cash flows		
- Proceeds from borrowings, net	7,058,185	8,515,277
- Repayment of borrowings	(376,313)	(229,914)
- Interest payments	(148,709)	(154,179)
- Issuance cost for borrowings	5,348	7,035
Non-cash changes		
- Accrued interest	194,465	188,348
- Changes in fair values included in the other comprehensive income	(82,321)	37,919
- Changes in fair values included in loss (Note C3)	(2,000,049)	(691,828)
Total borrowings	23,918,457	19,267,851

C14 Derivatives

As at Sep. 30, 2022, the Bank has entered into several interest rate swap, foreign exchange forward and cross currency swap contracts. The Bank makes use of derivatives primarily to hedge the Bank's borrowings, so as to convert issuance proceeds into the currency and interest rate structure sought by the Bank. The Bank also uses derivatives to manage the net interest rate and foreign exchange risks arising from its financial assets including, but not limited to, loans, certificates of deposit and bond investments.

Derivative contracts are financial instruments valued at each reporting date using valuation techniques that consider observable market data such as yield curves, interest rates, and foreign currency rates. Net interest paid or received on these derivative contracts is included within the net gain on financial instruments.

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C Disclosure Notes

C14 Derivatives (Continued)

The following table sets out the contractual notional amounts and fair values of the derivatives as at Sep. 30, 2022 and Dec. 31, 2021. The payments under each of the derivative contracts are subject to enforceable master netting arrangements.

	As at Sep. 30, 2022		
	Contractual notional amount	Fair value Assets	Liabilities
Derivatives			
Interest rate swaps	30,930,140	183,947	1,201,336
Cross currency swaps	9,181,861	295,841	1,212,736
FX forwards	1,233,910	45,961	273
Total derivatives	41,345,911	525,749	2,414,345

	As at Dec. 31, 2021		
	Contractual notional amount	Fair value Assets	Liabilities
Derivatives			
Interest rate swaps	17,128,174	82,288	274,394
Cross currency swaps	5,618,288	158,682	284,095
FX forwards	1,352,775	7,401	5,115
Total derivatives	24,099,237	248,371	563,604

The table below presents the undiscounted cash flows in/(out) of the derivatives the Bank has entered into as at Sep. 30, 2022 and Dec. 31, 2021.

	As at Sep. 30, 2022					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives						
Interest rate swaps	(35,387)	(36,840)	(434,379)	(567,946)	6,297	(1,068,255)
Gross settling cross currency swaps - inflow	11,921	91,115	2,707,450	6,206,968	247,198	9,264,652
Gross settling cross currency swaps - outflow	(23,076)	(111,304)	(2,751,730)	(6,912,711)	(215,904)	(10,014,725)
Gross settling FX forwards - inflow	472,977	689,867	71,066	-	-	1,233,910
Gross settling FX forwards - outflow	(457,636)	(658,088)	(69,300)	-	-	(1,185,024)
Total derivatives	(31,201)	(25,250)	(476,893)	(1,273,689)	37,591	(1,769,442)

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C Disclosure Notes

C14 Derivatives (Continued)

	As at Dec. 31, 2021					
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives						
Interest rate swaps	5,852	(6,941)	17,643	(214,093)	1,025	(196,514)
Gross settling cross currency swaps - inflow	10,859	16,729	311,739	5,478,816	69,077	5,887,220
Gross settling cross currency swaps - outflow	(3,564)	(7,510)	(317,513)	(5,472,457)	(60,708)	(5,861,752)
Gross settling FX forwards - inflow	339,733	624,346	388,696	-	-	1,352,775
Gross settling FX forwards - outflow	(339,600)	(626,875)	(383,569)	-	-	(1,350,044)
Total derivatives	13,280	(251)	16,996	(207,734)	9,394	(168,315)

The Bank requires collateral in the form of cash against the exposures to derivative counterparties. The Bank records cash collateral in respect of the interest rate swaps and cross currency swaps based on the fair value of the swaps. This amount is presented separately in the Bank's Statement of Financial Position as the cash flows are not applied towards the settlement of net interest payments. The collateral would only be applied against amounts due in the event that some or all the corresponding swaps are terminated early, including, but not limited to, as a result of a default by the relevant counterparty. As at Sep. 30, 2022, the Bank has received cash collateral of USD216.41 million (Note C15) (Dec. 31, 2021: USD165.76 million) from the swap counterparties, and has paid cash collateral of USD2,197.71 million (Note C12) (Dec. 31, 2021: USD464.95 million) to the swap counterparties.

Due to the collateral arrangements in the Bank's derivatives contracts, the counterparty valuation adjustment ("CVA") and debt valuation adjustment ("DVA") do not have a material impact on the derivative valuations as at Sep. 30, 2022 and Dec. 31, 2021.

As at Sep. 30, 2022, the Bank makes use of derivatives with notional amount of USD30,932.29 million to hedge the borrowings with carrying amount of USD23,918.46 million. The Bank enters into derivatives with notional amount of USD1,855.97 million to hedge loans with carrying amount of USD1,694.06 million. The Bank makes use of derivatives with notional amount of USD215 million to hedge the Investment Operations fixed-income portfolio with carrying amount of USD215.53 million. Derivatives with notional amount of USD8,342.65 million are used to hedge financial instruments in Treasury Liquidity portfolio. The Bank's risk exposures have been well managed; therefore, the respective profit and loss are effectively hedged on a net basis.

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C Disclosure Notes

C15 Other liabilities

	Sep. 30, 2022	Dec. 31, 2021
Cash collateral payable (Note C14)	216,411	165,760
Payable for unsettled trades	40,082	-
Deferred interest (Note C20)	29,641	29,719
Accrued expenses	19,959	23,023
Staff costs payable	8,726	8,644
Provision—ECL allowance (Note C8)	2,842	6,874
Deferred administration fee (Note C20)	363	550
Payable for fund investments	-	4,990
Others	231	6
Total other liabilities	318,255	239,566

C16 Share capital

	Sep. 30, 2022	Dec. 31, 2021
Authorized capital	100,000,000	100,000,000
– Allocated		
- Subscribed	96,964,700	96,775,100
- Unsubscribed	1,616,800	1,806,400
– Unallocated	1,418,500	1,418,500
Total authorized capital	100,000,000	100,000,000
Subscribed capital	96,964,700	96,775,100
Less: callable capital	(77,571,800)	(77,420,100)
Paid-in capital	19,392,900	19,355,000
Paid-in capital comprises:		
– amounts received	19,075,300	19,047,842
– amounts due but not yet received	191,922	149,962
– amounts not yet due	125,678	157,196
Total paid-in capital	19,392,900	19,355,000

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

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

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

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C Disclosure Notes

C16 Share capital (Continued)

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
Afghanistan	866	86,600	69,300	17,300
Algeria	50	5,000	4,000	1,000
Argentina	50	5,000	4,000	1,000
Australia	36,912	3,691,200	2,953,000	738,200
Austria	5,008	500,800	400,600	100,200
Azerbaijan	2,541	254,100	203,300	50,800
Bahrain	1,036	103,600	82,900	20,700
Bangladesh	6,605	660,500	528,400	132,100
Belarus	641	64,100	51,300	12,800
Belgium	2,846	284,600	227,700	56,900
Benin	50	5,000	4,000	1,000
Brazil	50	5,000	4,000	1,000
Brunei Darussalam	524	52,400	41,900	10,500
Cambodia	623	62,300	49,800	12,500
Canada	9,954	995,400	796,300	199,100
Chile	100	10,000	8,000	2,000
China	297,804	29,780,400	23,824,300	5,956,100
Cook Islands	5	500	400	100
Côte d'Ivoire	50	5,000	4,000	1,000
Croatia	50	5,000	4,000	1,000
Cyprus	200	20,000	16,000	4,000
Denmark	3,695	369,500	295,600	73,900
Ecuador	50	5,000	4,000	1,000
Egypt	6,505	650,500	520,400	130,100
Ethiopia	458	45,800	36,600	9,200
Fiji	125	12,500	10,000	2,500
Finland	3,103	310,300	248,200	62,100
France	33,756	3,375,600	2,700,500	675,100
Georgia	539	53,900	43,100	10,800
Germany	44,842	4,484,200	3,587,400	896,800
Ghana	50	5,000	4,000	1,000
Greece	100	10,000	8,000	2,000
Guinea	50	5,000	4,000	1,000
Hong Kong, China	7,651	765,100	612,100	153,000
Hungary	1,000	100,000	80,000	20,000
Iceland	176	17,600	14,100	3,500
India	83,673	8,367,300	6,693,800	1,673,500
Indonesia	33,607	3,360,700	2,688,600	672,100
Iran	15,808	1,580,800	1,264,600	316,200
Iraq	250	25,000	20,000	5,000
Ireland	1,313	131,300	105,000	26,300
Israel	7,499	749,900	599,900	150,000
Italy	25,718	2,571,800	2,057,400	514,400
Jordan	1,192	119,200	95,400	23,800

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C Disclosure Notes

C16 Share capital (Continued)

Members	Total shares	Subscribed capital	Callable capital	Paid-in capital
Kazakhstan	7,293	729,300	583,400	145,900
Korea	37,387	3,738,700	2,991,000	747,700
Kyrgyz Republic	268	26,800	21,400	5,400
Lao PDR	430	43,000	34,400	8,600
Liberia	50	5,000	4,000	1,000
Luxembourg	697	69,700	55,800	13,900
Madagascar	50	5,000	4,000	1,000
Malaysia	1,095	109,500	87,600	21,900
Maldives	72	7,200	5,800	1,400
Malta	136	13,600	10,900	2,700
Mongolia	411	41,100	32,900	8,200
Morocco	50	5,000	4,000	1,000
Myanmar	2,645	264,500	211,600	52,900
Nepal	809	80,900	64,700	16,200
Netherlands	10,313	1,031,300	825,000	206,300
New Zealand	4,615	461,500	369,200	92,300
Norway	5,506	550,600	440,500	110,100
Oman	2,592	259,200	207,400	51,800
Pakistan	10,341	1,034,100	827,300	206,800
Peru	1,546	154,600	123,700	30,900
Philippines	9,791	979,100	783,300	195,800
Poland	8,318	831,800	665,400	166,400
Portugal	650	65,000	52,000	13,000
Qatar	6,044	604,400	483,500	120,900
Romania	1,530	153,000	122,400	30,600
Russia	65,362	6,536,200	5,229,000	1,307,200
Rwanda	50	5,000	4,000	1,000
Samoa	21	2,100	1,700	400
Saudi Arabia	25,446	2,544,600	2,035,700	508,900
Serbia	50	5,000	4,000	1,000
Singapore	2,500	250,000	200,000	50,000
Spain	17,615	1,761,500	1,409,200	352,300
Sri Lanka	2,690	269,000	215,200	53,800
Sudan	590	59,000	47,200	11,800
Sweden	6,300	630,000	504,000	126,000
Switzerland	7,064	706,400	565,100	141,300
Tajikistan	309	30,900	24,700	6,200
Thailand	14,275	1,427,500	1,142,000	285,500
Timor-Leste	160	16,000	12,800	3,200
Tonga	12	1,200	1,000	200
Tunisia	50	5,000	4,000	1,000
Türkiye	26,099	2,609,900	2,087,900	522,000
United Arab Emirates	11,857	1,185,700	948,600	237,100
United Kingdom	30,547	3,054,700	2,443,800	610,900
Uruguay	50	5,000	4,000	1,000
Uzbekistan	2,198	219,800	175,800	44,000
Vanuatu	5	500	400	100
Viet Nam	6,633	663,300	530,600	132,700
Total	969,647	96,964,700	77,571,800	19,392,900

C Disclosure Notes

C17 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.

C18 Distribution

Retained earnings as at Sep. 30, 2022 are USD827.83 million (Dec. 31, 2021: USD876 million). For the nine months ended Sep. 30, 2022, USD1.87 million (for the nine months ended Sep. 30, 2021: USD3.88 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.

C19 Unconsolidated structured entities

Special Funds established and administered by the Bank based on Article 17.1 of the AOA are unconsolidated structured entities for accounting purposes. Consistent with Article 10 of the Bank's AOA, the resources of the Special Funds 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 objective of the Project Preparation Special Fund is to support and facilitate preparatory activities during the preparation and early implementation of projects, on a grant basis, 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 ("IDA"), and other members of the Bank with substantial development needs and capacity constraints.

The resources of the Project Preparation 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 Funds; (b) income derived from investment of the resources of the Special Funds; and (c) funds reimbursed to the Special Funds, if any.

The objective of the Special Fund Window under the COVID-19 Crisis Recovery Facility was to reduce the burden of AIIB's lower-income members seeking financing under the COVID-19 Crisis Recovery Facility. It was funded by the amounts transferred by the Bank from its Project Preparation Special Fund. On March 23, 2022, AIIB Board of Directors approved the renaming of the Special Fund Window under the COVID-19 Crisis Recovery Facility as the Special Fund Window for Less Developed Members ("Special Fund Window") and the revision of the applicable Rules and Regulations. With this approval, Special Fund Window will serve a broadened scope with new contributions once new contributions are received. The Special Fund Window will provide interest rate buy-down to eligible sovereign-backed financing aligned with AIIB's Corporate Strategy in eligible members according to the approved Rules and Regulations.

C Disclosure Notes

C19 Unconsolidated structured entities (Continued)

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

As at Sep. 30, 2022, the Project Preparation Special Fund has aggregate contributions received amounting to USD128 million (Dec. 31, 2021: USD128 million). For the nine months ended Sep. 30, 2022, fees recognized as income amounted to USD0.19 million (for the nine months ended Sep. 30, 2021: USD0.17 million) (Note C2). As at Sep. 30, 2022, deferred administration fees recognized as other liabilities amounted to USD0.36 million (Dec. 31, 2021: USD0.55 million) (Note C15).

As at Sep. 30, 2022, interest rate buy-down balance for eligible sovereign-backed loans from Special Fund Window amounted to USD29.64 million (Dec. 31, 2021: USD29.72 million) (Note C15).

AIIB became the GIF TP on June 23, 2021 after executing the Financial Procedures Agreement; and the MCDF IP on Aug. 9, 2021 after executing the Implementing Partner Agreement. Resources from the GIF and MCDF Finance Facility are administrated in two separate special funds (i.e., the GIF Special Fund and the MCDF Special Fund, respectively).

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

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C Disclosure Notes

C20 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.

Major outstanding balances with related parties are as follows:

	Sep. 30, 2022			Dec. 31, 2021		
	PRC related entities	Key management personnel	Other related parties	PRC related entities	Key management personnel	Other related parties
Loan investments	918,523	-	-	807,291	-	-
LP Fund	58,053	-	-	47,626	-	-
Equity and bond investment in associate	-	-	160,871	-	-	94,293
Other liabilities	-	-	30,003	-	-	30,269

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

	For the nine months ended Sep. 30, 2022			For the nine months ended Sep. 30, 2021		
	PRC related entities	Key management personnel	Other related parties	PRC related entities	Key management personnel	Other related parties
Income from loan investments	18,760	-	-	15,377	-	-
Net gain on LP Fund	4,287	-	-	(654)	-	-
Net loss on equity and bond investment in associate	-	-	(612)	-	-	(333)
Income from Special Funds (Administration Fee)	-	-	188	-	-	168

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C Disclosure Notes

C20 Related party transactions (Continued)

Shareholder with significant influence

The Bank considers PRC as the member that has a significant influence over the Bank's financial and operating policies through its ability to exercise its voting powers in the Board. As of Sep. 30, 2022, the Government of the PRC (the "Government") owned approximately 30.71% of the paid-in capital of the Bank (Dec 31, 2021: approximately 30.77%).

The Bank enters into transactions with enterprises ultimately controlled by the Government (State-owned Entities), including but not limited to, lending, bond investments, equity and fund investments, deposits and interbank placements, goods and services.

The Bank considers the transactions with PRC state-owned entities are activities conducted in the ordinary course of business, and the dealings of the Bank have not been significantly or unduly affected by the fact that these entities are ultimately controlled by the Government.

Significant transactions with the PRC related entities are as follows:

(1) Loan investments

The Bank approved loan facilities to nonsovereign borrowers that are ultimately controlled by State-owned Entities with a total effective amount of USD284.29 million as at Sep. 30, 2022. The Bank entered into the agreement with the borrowers in the ordinary course of business under normal commercial terms and at market rates.

The Bank approved sovereign-backed facilities to PRC with a total effective amount of USD2,073.44 million equivalent as of Sep. 30, 2022. AIIB's standard interest rate for sovereign-backed loans has been applied.

(2) LP Fund

In July 2019, the Bank approved a USD75 million investment into a limited partnership fund organized under the laws of Hong Kong, China and subscribed to an interest therein in November 2019. In addition to the Bank, the Government and other entities related therewith are also limited partners of the Fund. The Bank will not take part in the management of the Fund. As at Sep. 30, 2022, the fair value of the Bank's interest in the Fund is USD58.05 million (Dec 31, 2021: USD47.63 million).

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C Disclosure Notes

C20 Related party transactions (Continued)

Transactions with other related parties are as follows:

(1) Equity and bond investment in associate

In April 2020, the Bank subscribed for USD54 million in an associate. The terms of the preference shares provide the Bank with 30% voting power over the financial and operating decisions of the investee's governing body (Note C10). As at Sep. 30, 2022, the Bank holds USD112.96 million of infrastructure asset-backed securities issued by the associate (Note C7).

(2) Other liabilities

As at Sep. 30, 2022, other liabilities relate to the Project Preparation Special Fund deferred administration fee of USD0.36 million (Dec. 31, 2021: USD0.55 million) and the interest rate buy-down of USD29.64 million from Special Fund Window (Dec. 31, 2021: USD29.72 million) (Note C19).

Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct, and control the activities of the Bank. Key management personnel of the Bank is defined as the members of the Bank's Executive Committee, that is, in accordance with the Terms of Reference of the Executive Committee dated Jan. 5, 2022, the President, the Vice Presidents, the General Counsel, the Chief Risk Officer, the Chief Financial Officer and the Chief Economist.

During the nine months ended Sep. 30, 2022 and the year ended Dec. 31, 2021, the Bank has no material transactions with key management personnel.

The compensation of key management personnel during the period comprises short-term employee benefits of USD3.13 million (for the nine months ended Sep. 30, 2021: USD2.75 million) and defined contribution plans of USD0.62 million (for the nine months ended Sep. 30, 2021: USD0.55 million).

C Disclosure Notes

C20 Related party transactions (Continued)

Use of office building

In accordance with Article 5 of the Headquarters Agreement, Government will provide a permanent office building (“Permanent Premises”) and temporary office accommodation to the Bank, free of charge. The Permanent Premises and temporary office accommodation are provided to the Bank for the purposes of carrying out its Official Activities, as defined in Article 1(k) of the Headquarters Agreement. The Bank does not have legal ownership of the Permanent Premises. Please refer to Headquarters Agreement disclosed on public domain of AIIB website.

The provision of the Permanent Premises and temporary office accommodation is not subject to any consideration payable by the Bank, or any conditions relating to the Bank’s lending or investing activities. The Bank, however, remains responsible for the management of the Premises and/or for the associated costs, including that of utilities and services.

On June 1, 2020, the Bank officially moved to the Permanent Premises. The temporary office was returned to the Government on June 5, 2020.

The Permanent Premises of the Bank are located at Towers A and B, Asia Financial Center, No.1 Tianchen East Road, Chaoyang District, Beijing 100101 and, as of the reporting date, provides the Bank with approximately 81,580 square meters of office space and associated facilities and equipment.

On September 11, 2019, the People’s Government of Tianjin Municipality (the “Tianjin Municipality”) and the Bank entered into a Memorandum of Understanding (the “MOU”), in accordance with Article 5 of the Headquarters Agreement, to set out the arrangements regarding the premises of the Bank as its back-up business office in Tianjin (the “Tianjin Premises”). Specifically, according to the MOU, Tianjin Municipality will provide the Tianjin Premises to the Bank for its use, free of charge, similar to the arrangements for the Permanent Premises.

On March 31, 2021, Tianjin Municipality officially handed over the Tianjin Premises to the Bank. The Tianjin Premises are located at Level 25, Level 26, 3-14, No. 681, Ronghe Road, Binhai New Area, Tianjin, and provide the Bank with approximately 4,258 square meters of office space.

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C Disclosure Notes

C21 Segment reporting

The Bank has only one reportable segment since financial results are reviewed and resource allocation decisions are made at the entity level.

The following table presents the Bank's loan revenue by borrowers' geographic region for the nine months ended Sep. 30, 2022, and Sep. 30, 2021.

Loan revenue comprises loan interest incomes, loan commitment fee and service fees.

Region	For the nine months ended Sep. 30, 2022			For the nine months ended Sep. 30, 2021		
	Sovereign- backed loans	Nonsovereign -backed loans	Total	Sovereign -backed loans	Nonsovereign -backed loans	Total
Central Asia	3,762	2,997	6,759	1,602	300	1,902
Eastern Asia	14,382	6,471	20,853	12,445	3,610	16,055
Southeastern Asia	44,743	7,701	52,444	15,456	7,292	22,748
Southern Asia	82,291	15,186	97,477	31,364	9,722	41,086
Western Asia	43,857	19,754	63,611	19,855	11,498	31,353
Oceania	1,049	-	1,049	460	-	460
Other Regional	-	16,417	16,417	-	15,171	15,171
Total Regional	190,084	68,526	258,610	81,182	47,593	128,775
Total Non- Regional	7,263	6,855	14,118	664	4,815	5,479
Total	197,347	75,381	272,728	81,846	52,408	134,254

C22 Events after the end of the reporting period

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

D Financial Risk Management

D1 Overview

The Bank adopts a proactive and comprehensive approach to risk management that is instrumental to the Bank's financial viability and success in achieving its mandate. The ability to identify, mitigate, and manage risk begins with the Bank's policies established with a strong risk culture. In addition to establishing appropriate risk parameters and a thorough and robust project review and monitoring process, the risk management function provides independent oversight of credit and other investment risk, market risk, liquidity risk, counterparty credit risk, model risk, operational risk, and compliance risk in the Bank's activities. It is also designed to manage assets and liabilities to minimize the volatility in equity value and to maintain sufficient liquidity.

For further information, please refer to the accompanying notes D Financial Risk Management included in the Bank's financial statements for the year ended Dec. 31, 2021.

D2 Market risk

IBOR reform

In Aug. 2020, International Accounting Standards Board ("IASB") issued Interest Rate Benchmark Reform ("IBOR Reform") — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16), which were mandatorily effective for annual reporting period beginning on Jan. 1, 2021.

The "Phase 2" amendments address issues that arise upon replacing the existing interest rate benchmark with the alternative interest rates and introduces additional disclosure requirements. "Phase 2" Amendments provide key relief that for instruments measured using amortized cost measurement, the amendments provide a practical expedient to account for these changes in the basis for determining contractual cash flows as a result of interest rate benchmark reform. Under the practical expedient, entities will account for these changes by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9 without the recognition of an immediate gain or loss. This practical expedient applies only to such a change and only to the extent that it is necessary as a direct consequence of interest rate benchmark reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

AIIB is exposed to interest rate benchmarks such as interbank offered rates across various modalities. The majority of loan investments issued by the Bank are subject to floating base rate while AIIB also issues bonds in various currencies and swapped bond proceeds into floating rate based liabilities.

D Financial Risk Management

D2 Market risk (Continued)

IBOR reform (Continued)

The interest rate swaps and cross currency swaps, taken against all new bond issuances, have been in reference to SOFR since 2021. In addition, local currency loans may be funded through cross-currency swaps from US dollars into the local currency.

In March 2021, the UK Financial Conduct Authority (“FCA”) announced the dates that panel bank submissions for all LIBOR settings will cease, after which representative LIBOR rates will no longer be available:

- immediately after Dec. 31, 2021, in the case of all Sterling, EURO, Swiss Franc and Japanese Yen settings, and the 1-week and 2-month US Dollar settings; and
- immediately after June 30, 2023, in the case of the remaining US Dollar settings.

The reform aims to achieve a smooth transition to alternative benchmark rates, however it continues to face numerous uncertainties. A disorderly transition would present systemic risks and idiosyncratic risks for market participants and could have negative implications for borrowers.

The Bank’s principal exposures that are affected by IBOR Reform have been identified as loan investments and derivatives as referred to in Notes C8 and C14, respectively.

AIIB has established an IBOR transition governance structure and an active working group to execute the transition plan. AIIB is engaging with existing sovereign and nonsovereign borrowers to transition existing contracts. In Dec. 2020, AIIB’s Board of Directors approved amendments to the General Conditions for Sovereign-backed Loans (“General Conditions”), which allowed for the standardization of transition language for all sovereign-backed loans. The revised transition language was applied to all future sovereign loans and was introduced across the existing sovereign-backed loan portfolio by means of amendment agreements (in the form of omnibus amendments that covered all of the current loan portfolio of a particular borrower with the Bank). In Oct. 2021, AIIB’s Board of Directors approved policy changes and changes to the General Conditions to introduce SOFR regulations. The revised General Conditions would apply to all variable spread loans from Jan. 1, 2022, and voluntary as of Oct. 22, 2021 until Dec. 31, 2021. Changes to the General Conditions also involved introducing regulations to allow borrowers to convert variable reference rates to fixed reference rates. The ability to convert will allow borrowers paying a fixed or variable spread over a floating reference rate (i.e., SOFR) to convert the floating reference rate to a fixed rate. Thereafter, the borrower(s) would pay the respective fixed or variable spread over the newly set fixed base rate for a period determined by the borrower. The ability to convert the underlying reference rate to a fixed rate can benefit sovereign-backed borrowers who prefer to avoid exposure to SOFR rates. Borrowers may also have other reasons to elect the newly offered conversion to fixed underlying rate. To date, the Bank has not seen any material interest in interest rate conversions and remains committed to supporting its sovereign borrowers who might chose to do so in the future.

The Bank will continue to collaborate with peer institutions and market participants to mitigate potential financial and operational risks, determine details of new products and set the Bank’s asset liability management strategy.

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D Financial Risk Management

D2 Market risk (Continued)

IBOR reform (Continued)

The following table contains details of the main financial instruments that the Bank holds as at Sep. 30, 2022 which reference USD LIBOR and have not yet transitioned to SOFR:

	Carrying amount/ Notional amount as at Sep. 30, 2022	Carrying amount/ Notional amount as at Dec. 31, 2021
<i>Non-derivative assets and liabilities at carrying amount</i>		
Loan investments, at amortized cost	6,174,311	10,602,702
Bond investments, at amortized cost	16,420	16,472
Investments at fair value through profit or loss		
- Bond investments – Liquidity portfolio	315,094	399,350
- Bond investments – Investment Operations portfolio	50,864	60,450
Non-derivative assets	6,556,689	11,078,974
<i>Derivatives at notional amount</i>		
Interest rate swaps	7,030,000	11,880,000
Cross currency swaps	3,283,789	4,527,250
Derivatives	10,313,789	16,407,250
Loan commitment	4,958,515	9,461,028

Following the transition notices sent to its sovereign borrowers for their variable spread loans, informing them of the selection of SOFR as the replacement reference rate to LIBOR and the related amendments to the provisions of the loan agreement, all variable spread sovereign loans have been transitioned to SOFR as of June 2022. During the first half of the year 2022, the Bank executed basis swaps to transform a portion of its LIBOR liabilities from pay LIBOR to pay SOFR, to maintain, approximately, a matched balance of LIBOR liabilities and LIBOR assets. As at Sep. 30, 2022, the Bank still has fixed spread loans as sovereign-backed loans on a LIBOR reference rate (matched by respective LIBOR liabilities, as stated) and those loans will transition to SOFR in the second half of 2023 following a transition notification sent to the borrowers, as established in the Bank's General Conditions. Nonsovereign loans on a LIBOR reference rate will be transitioned to SOFR by signing amendment agreements over the course of 2022 and the first half of 2023. This is in line with the Bank's defined nonsovereign transition strategy, as part of which the Bank has adopted Term SOFR as an additional risk-free rate for nonsovereign borrowers from June 2022. As for the remaining swaps on LIBOR, they will follow the ISDA protocol and remain on LIBOR until its cessation in June 2023. For bond investments in the liquidity portfolio and investment operations portfolio, the transition to SOFR will proceed according to the fallback provisions of each position.

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D Financial Risk Management

D3 Credit risk

Credit quality analysis

Except for loan investments and bond 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, nonsovereign-backed loans and bond investments, with their respective ECL allowance balances.

	Sep. 30, 2022			Dec. 31, 2021		
	Gross Carrying amount	Commitments	ECL	Gross Carrying amount	Commitments	ECL
Sovereign-backed loans	13,312,061	12,305,881	(128,140)	10,544,607	9,795,320	(113,779)
Nonsovereign-backed loans	2,120,963	352,186	(204,710)	1,877,181	492,336	(68,996)
Loan investments	15,433,024	12,658,067	(332,850)	12,421,788	10,287,656	(182,775)
Bond investments	4,531,082	-	(13,122)	2,499,643	-	(4,524)
Total	19,964,106	12,658,067	(345,972)	14,921,431	10,287,656	(187,299)

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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) and ECL is as follows:

Region	Sep. 30, 2022			Dec. 31, 2021		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Sovereign-backed loans						
Central Asia	1,660,363	50,051	1,710,414	1,447,964	-	1,447,964
Eastern Asia	2,178,525	-	2,178,525	1,290,129	-	1,290,129
Southeastern Asia	4,331,151	70,172	4,401,323	3,596,100	40,157	3,636,257
Southern Asia	11,200,089	834,465	12,034,554	8,746,320	836,995	9,583,315
Western Asia	3,328,502	837,150	4,165,652	2,846,359	865,106	3,711,465
Oceania	120,471	-	120,471	19,965	49,918	69,883
Total Regional	22,819,101	1,791,838	24,610,939	17,946,837	1,792,176	19,739,013
Total Non-Regional	1,007,003	-	1,007,003	600,914	-	600,914
Subtotal	23,826,104	1,791,838	25,617,942	18,547,751	1,792,176	20,339,927

Region	Sep. 30, 2022			Dec. 31, 2021		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
ECL allowance						
Central Asia	1,137	7,824	8,961	1,746	-	1,746
Eastern Asia	367	-	367	650	-	650
Southeastern Asia	367	16,566	16,933	789	9,302	10,091
Southern Asia	6,465	70,359	76,824	8,951	72,060	81,011
Western Asia	5,246	17,642	22,888	3,593	15,337	18,930
Oceania	228	-	228	123	959	1,082
Total Regional	13,810	112,391	126,201	15,852	97,658	113,510
Total Non-Regional	1,939	-	1,939	269	-	269
Subtotal	15,749	112,391	128,140	16,121	97,658	113,779

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D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

(i) Concentration of credit risk (Continued)

Region	Sep. 30, 2022				Dec. 31, 2021			
	Stage 1	Stage 2	Stage 3 ⁽¹⁾	Total	Stage 1	Stage 2	Stage 3	Total
Nonsovereign-backed loans								
Central Asia	131,274	-	-	131,274	131,865	-	-	131,865
Eastern Asia	309,897	-	-	309,897	316,880	-	-	316,880
Southeastern Asia	296,052	-	75,736	371,788	315,312	-	75,525	390,837
Southern Asia	422,183	-	-	422,183	442,838	46,072	-	488,910
Western Asia	584,821	67,245	-	652,066	269,634	270,316	-	539,950
Other Regional	-	416,002	-	416,002	321,443	-	-	321,443
Total Regional	1,744,227	483,247	75,736	2,303,210	1,797,972	316,388	75,525	2,189,885
Total Non-Regional	169,939	-	-	169,939	179,632	-	-	179,632
Subtotal	1,914,166	483,247	75,736	2,473,149	1,977,604	316,388	75,525	2,369,517
Total	25,740,270	2,275,085	75,736	28,091,091	20,525,355	2,108,564	75,525	22,709,444

Region	Sep. 30, 2022				Dec. 31, 2021			
	Stage 1	Stage 2	Stage 3 ⁽¹⁾	Total	Stage 1	Stage 2	Stage 3	Total
ECL allowance								
Central Asia	293	-	-	293	286	-	-	286
Eastern Asia	128	-	-	128	216	-	-	216
Southeastern Asia	296	-	49,229	49,525	1,164	-	44,018	45,182
Southern Asia	369	-	-	369	604	5,245	-	5,849
Western Asia	3,390	2,094	-	5,484	1,755	13,777	-	15,532
Other Regional	-	147,877	-	147,877	374	-	-	374
Total Regional	4,476	149,971	49,229	203,676	4,399	19,022	44,018	67,439
Total Non-Regional	1,034	-	-	1,034	1,557	-	-	1,557
Subtotal	5,510	149,971	49,229	204,710	5,956	19,022	44,018	68,996
Total	21,259	262,362	49,229	332,850	22,077	116,680	44,018	182,775

⁽¹⁾ A nonsovereign-backed loan was assessed as "credit impaired" and downgraded to Stage 3. As at Sep. 30, 2022, USD49.23 million of ECL allowance has been provided for the loan.

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D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

(i) Concentration of credit risk (Continued)

In June 2022, the Bank updated its sector and subsector classification to align with the latest international sector taxonomies and reflect the Bank's own mandate and business characteristics. The new sector distribution of the Bank's loan investments (gross carrying amount of loans and exposure of loan commitments) and ECL as at Sep. 30, 2022, and the reclassified information as at Dec. 31 2021 are as follows.

Sector	Sep. 30, 2022			Dec. 31, 2021		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
Sovereign-backed loans						
CRF ⁽¹⁾ -Economic						
Resilience/PBF ⁽²⁾	5,805,032	-	5,805,032	5,323,942	49,918	5,373,860
CRF-Finance/Liquidity	1,336,894	231,432	1,568,326	1,193,058	179,681	1,372,739
CRF-Public Health	3,477,680	-	3,477,680	2,055,526	-	2,055,526
Education						
Infrastructure	249,893	-	249,893	-	-	-
Energy	3,885,756	903,183	4,788,939	3,395,963	899,253	4,295,216
Transport	4,306,421	377,147	4,683,568	3,040,298	383,880	3,424,178
Urban	1,382,603	200,119	1,582,722	1,010,155	199,610	1,209,765
Water	3,299,733	-	3,299,733	2,446,808	-	2,446,808
Others	82,092	79,957	162,049	82,001	79,834	161,835
Subtotal	23,826,104	1,791,838	25,617,942	18,547,751	1,792,176	20,339,927

Sector	Sep. 30, 2022			Dec. 31, 2021		
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Total
ECL allowance						
CRF-Economic						
Resilience/PBF	7,501	-	7,501	9,465	959	10,424
CRF-Finance/Liquidity	2,619	36,838	39,457	1,734	26,461	28,195
CRF-Public Health	899	-	899	526	-	526
Energy	2,631	33,056	35,687	2,544	30,347	32,891
Transport	764	22,065	22,829	1,192	19,466	20,658
Urban	588	14,079	14,667	268	14,360	14,628
Water	732	-	732	383	-	383
Others	15	6,353	6,368	9	6,065	6,074
Subtotal	15,749	112,391	128,140	16,121	97,658	113,779

(1) Crisis Recovery Facility (CRF) is to support AIIB's members and clients in alleviating and mitigating economic, financial and public health pressures arising from COVID-19.

(2) PBF refers to policy-based financing.

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D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

(i) Concentration of credit risk (Continued)

Sector	Sep. 30, 2022				Dec. 31, 2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Nonsovereign-backed loans								
CRF-Finance/ Liquidity	300,418	416,002	-	716,420	522,873	-	-	522,873
CRF-Public Health	99,546	-	-	99,546	99,143	-	-	99,143
Digital Infrastructure and Technology	252,342	-	75,736	328,078	149,303	126,753	75,525	351,581
Energy	825,034	67,245	-	892,279	737,899	189,635	-	927,534
Multi-sector	95,610	-	-	95,610	100,557	-	-	100,557
Transport	43,529	-	-	43,529	56,869	-	-	56,869
Urban	297,687	-	-	297,687	310,960	-	-	310,960
Subtotal	1,914,166	483,247	75,736	2,473,149	1,977,604	316,388	75,525	2,369,517
Total	25,740,270	2,275,085	75,736	28,091,091	20,525,355	2,108,564	75,525	22,709,444

Sector	Sep. 30, 2022				Dec. 31, 2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
ECL allowance								
CRF-Finance/ Liquidity	1,880	147,877	-	149,757	2,087	-	-	2,087
CRF-Public Health	75	-	-	75	117	-	-	117
Digital Infrastructure and Technology	738	-	49,229	49,967	95	6,791	44,018	50,904
Energy	1,533	2,094	-	3,627	1,929	12,231	-	14,160
Multi-sector	508	-	-	508	754	-	-	754
Transport	329	-	-	329	420	-	-	420
Urban	447	-	-	447	554	-	-	554
Subtotal	5,510	149,971	49,229	204,710	5,956	19,022	44,018	68,996
Total	21,259	262,362	49,229	332,850	22,077	116,680	44,018	182,775

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D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

(ii) Reconciliation of gross carrying amount of loans and exposure of loan commitments, bond investments, and ECL

An analysis of the changes in the gross carrying amount of loans and exposure of loan commitments, with the related changes in ECL allowances is as follows:

Sovereign-backed loans

	Stage 1	Stage 2	Total
Gross carrying amount of loans and exposure of loan commitments as at Jan. 1, 2022	18,547,751	1,792,176	20,339,927
New loans and commitments originated	5,744,512	-	5,744,512
Repayments	(71,180)	(16,867)	(88,047)
Movement in net transaction costs, fees, and related income through EIR method	64,540	6,325	70,865
Cancellation	(53,141)	(19,448)	(72,589)
Foreign exchange movements	(376,726)	-	(376,726)
Transfer to stage 1 ⁽²⁾	50,382	(50,382)	-
Transfer to stage 2	(80,034)	80,034	-
As at Sep. 30, 2022	23,826,104	1,791,838	25,617,942
	Stage 1	Stage 2	Total
ECL allowance as at Jan. 1, 2022	16,121	97,658	113,779
Additions	1,886	-	1,886
Change in risk parameters ⁽¹⁾	(1,850)	3,606	1,756
Change from lifetime (stage 2) to 12-month (stage 1) ECL ⁽²⁾	82	(959)	(877)
Change from 12-month (stage 1) to lifetime (stage 2) ECL	(490)	12,086	11,596
As at Sep. 30, 2022	15,749	112,391	128,140

⁽¹⁾ The change in the loss allowance is due to change in the Probability of Default ("PD"), Loss Given Default ("LGD") and exposure at default used to calculate the expected credit loss for the loans.

⁽²⁾ The change includes the impact of the revised definition of the criteria for significant increase in credit risk as disclosed in Note D3.

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D Financial Risk Management

D Credit risk (Continued)

Credit quality analysis (Continued)

Nonsovereign-backed loans

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount of loans and exposure of loan commitments as at Jan. 1, 2022	1,977,604	316,388	75,525	2,369,517
New loans and commitments originated	175,000	-	-	175,000
Repayments	(30,501)	(68,328)	-	(98,829)
Movement in net transaction costs, fees, and related income through EIR method	4,189	(1,559)	211	2,841
Derecognition and Cancellation	(15,000)	(6,714)	-	(21,714)
Foreign exchange movements	46,334	-	-	46,334
Transfer to stage 1 ⁽²⁾	172,542	(172,542)	-	-
Transfer to stage 2	(416,002)	416,002	-	-
As at Sep. 30, 2022	1,914,166	483,247	75,736	2,473,149
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at Jan. 1, 2022	5,956	19,022	44,018	68,996
Additions	1,009	-	-	1,009
Change in risk parameters ⁽¹⁾	(1,870)	(7,077)	5,211	(3,736)
Change from lifetime (stage 2) to 12-month (stage 1) ECL ⁽²⁾	798	(9,568)	-	(8,770)
Change from 12-month (stage 1) to lifetime (stage 2) ECL	(374)	147,877	-	147,503
Change from 12-month (stage 1) to lifetime (stage 3) ECL	-	-	-	-
Reverse of provisions for derecognized loan	(9)	(283)	-	(292)
As at Sep. 30, 2022	5,510	149,971	49,229	204,710
Total gross carrying amount of loans and exposure of loan commitments as at Sep. 30, 2022	25,740,270	2,275,085	75,736	28,091,091
Total ECL allowance as at Sep. 30, 2022	21,259	262,362	49,229	332,850

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D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

Sovereign-backed loans

	Stage 1	Stage 2	Total
Gross carrying amount of loans and exposure of loan commitments as at Jan. 1, 2021	13,329,978	1,569,127	14,899,105
New loans and commitments originated	5,602,528	-	5,602,528
Repayments	(22,162)	(2,674)	(24,836)
Movement in net transaction costs, fees, and related income through EIR method	(4,816)	78	(4,738)
Cancellation	(48,413)	(3,955)	(52,368)
Foreign exchange movements	(79,764)	-	(79,764)
Transfer to stage 1	-	-	-
Transfer to stage 2	(229,600)	229,600	-
As at Dec. 31, 2021	18,547,751	1,792,176	20,339,927
	Stage 1	Stage 2	Total
ECL allowance as at Jan. 1, 2021	31,155	81,408	112,563
Additions	13,785	-	13,785
Change in risk parameters ⁽¹⁾	(17,673)	(11,169)	(28,842)
Change from lifetime (stage 2) to 12-month (stage 1) ECL	-	-	-
Change from 12-month (stage 1) to lifetime (stage 2) ECL	(11,146)	27,419	16,273
As at Dec. 31, 2021	16,121	97,658	113,779

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D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

Nonsovereign-backed loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount of loans and exposure of loan commitments as at Jan. 1, 2021	1,150,828	354,301	-	1,505,129
New loans and commitments originated	910,779	-	-	910,779
Repayments	(28,289)	(12,720)	-	(41,009)
Movement in net transaction costs, fees, and related income through EIR method	3,328	275	-	3,603
Cancellation	(1,190)	(757)	-	(1,947)
Foreign exchange movements	(7,038)	-	-	(7,038)
Transfer to stage 1	24,711	(24,711)	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	(75,525)	-	75,525	-
As at Dec. 31, 2021	1,977,604	316,388	75,525	2,369,517
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at Jan. 1, 2021	6,922	40,804	-	47,726
Additions	2,708	-	-	2,708
Change in risk parameters ⁽¹⁾	(1,323)	(19,224)	-	(20,547)
Change from lifetime (stage 2) to 12-month (stage 1) ECL	173	(2,558)	-	(2,385)
Change from 12-month (stage 1) to lifetime (stage 2) ECL	-	-	-	-
Change from 12-month (stage 1) to lifetime (stage 3) ECL	(2,524)	-	44,018	41,494
As at Dec. 31, 2021	5,956	19,022	44,018	68,996
Total gross carrying amount of loans and exposure of loan commitments as at Dec. 31, 2021	20,525,355	2,108,564	75,525	22,709,444
Total ECL allowance as at Dec. 31, 2021	22,077	116,680	44,018	182,775

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D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

Bond investments	Stage 1	Stage 2	Stage 3	Total
Bond investments as at Jan. 1, 2022				
	2,401,627	98,016	-	2,499,643
New bond investments	2,122,237	-	-	2,122,237
Accrual and amortization	10,485	(227)	-	10,258
Transfer to stage 1 ⁽²⁾	59,890	(59,890)	-	-
Transfer to stage 3 ⁽¹⁾	(9,788)	(13,972)	23,760	-
Derecognition	(67,341)	(23,927)	(9,788)	(101,056)
As at Sep. 30, 2022	4,517,110	-	13,972	4,531,082
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at Jan. 1, 2022				
	699	3,825	-	4,524
Additions	72	-	-	72
Change in risk parameters	(187)	-	-	(187)
Change from lifetime (stage 2) to 12-month (stage 1) ECL ⁽²⁾	319	(2,161)	-	(1,842)
Change from 12-month (stage 1) to lifetime (stage 3) ECL	(12)	(1,166)	13,623	12,445
Reversal of provisions for derecognized bonds	(112)	(498)	(1,280)	(1,890)
As at Sep. 30, 2022	779	-	12,343	13,122

(1) The Bank held bonds from four issuers that were assessed as “credit impaired” and downgraded to Stage 3. As at Sep. 30, 2022, USD12.34 million of ECL allowance has been provided for the bonds.

(2) The change includes the impact of the revised definition of the criteria for significant increase in credit risk as disclosed in Note D3.

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D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

Bond investments	Stage 1	Stage 2	Total
Bond investments as at Jan. 1, 2021	411,316	61,510	472,826
New bond investments	4,408,642	-	4,408,642
Accrual and amortization	3,584	57	3,641
Transfer to stage 1	10,271	(10,271)	-
Transfer to stage 2	(63,021)	63,021	-
Derecognition	(2,369,165)	(16,301)	(2,385,466)
As at Dec. 31, 2021	2,401,627	98,016	2,499,643
	Stage 1	Stage 2	Total
ECL allowance as at Jan. 1, 2021	1,190	2,609	3,799
Additions	1,024	-	1,024
Change in risk parameters	(88)	(646)	(734)
Change from lifetime (stage 2) to 12-month (stage 1) ECL	13	(36)	(23)
Change from 12-month (stage 1) to lifetime (stage 2) ECL	(960)	1,916	956
Reversal of provisions for derecognized bonds	(480)	(18)	(498)
As at Dec. 31, 2021	699	3,825	4,524

D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

Change of accounting estimates in criteria for significant increase in credit risk

As part of its credit risk monitoring and model governance processes, the Bank periodically evaluates the performance of expected credit loss models and the appropriateness of critical inputs and assumptions in the expected credit loss models. This includes the assessment of significant increase in risk. In Q3 2022 the Bank has adopted the revised definition of significant increase in credit risk as follows:

Prior to Q3 2022:

- For investment grade financial assets, rating downgrade by 2 notches determined by comparing the current rating (incorporating forward looking information) with rating at origination.
- For noninvestment grade financial assets, rating downgrade by 1 notch determined by comparing the current rating (incorporating forward looking information) with rating at origination.
- AIIB's internal rating 1a-4, which mapped to S&P Rating BBB & BBB- and above, are categorized as investment grade.

Revised criteria in Q3 2022 and onward:

- Internal rating 8 (mapped to S&P rating B+) and above, rating downgrade by 3 notches determined by comparing the current rating (incorporating forward-looking information) with rating at origination.
- Internal rating 9 (mapped to S&P rating B) and below, rating downgrade by 2 notches determined by comparing the current rating (incorporating forward-looking information) with rating at origination.

The Bank considered amongst other factors:

- The alignment of the definition of significant increase in credit risk with the credit risk management and monitoring activities of the Bank,
- The appropriateness of the ECL model outputs, i.e., the number and frequency of loans migrating from Stage 1 to Stage 2, and
- A comparison of market observable PD differentials with those implied by the Bank's internal risk scorecards over tenors similar to the Bank's lending horizon.

The change in the definition of significant increase in credit risk is accounted for prospectively. It is not practicable to quantify the potential impact of this change in estimate on future periods.

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D Financial Risk Management

D3 Credit risk (Continued)

Credit quality analysis (Continued)

Change of accounting estimates in criteria for significant increase in credit risk (Continued)

In connection with this change in estimate, the Bank reviewed the portfolio of Stage 2 loans as of June 30, 2022, to evaluate whether, under the revised definition of significant increase in risk, any loans should transition from Stage 2 to Stage 1. Considering various quantitative and qualitative factors it was determined that any loans categorized as Stage 2 as of June 30, 2022 which subsequently experienced a deterioration in, or remain of weak credit quality should remain in Stage 2.

Asian Infrastructure Investment Bank
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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 nine months ended Sep. 30, 2022 (for the nine months ended Sep. 30, 2021: none).

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

- If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively.
- If not traded in active markets, fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models or discounted cash flow analysis using prices from observable current market transactions for similar instruments or using unobservable inputs relevant to the Bank's assessment.

Fair value hierarchy

The Bank classifies financial assets and financial liabilities into the following three 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.

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
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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 instruments not measured in the Statement of Financial Position at their fair value:

	Sep. 30, 2022		Dec. 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
- Term deposits	10,024,036	10,025,230	11,748,908	11,748,290
- Loan investments, at amortized cost	15,103,016	15,295,609	12,245,887	12,062,608
- Bond investments, at amortized cost	4,517,960	4,215,125	2,495,119	2,478,349
- Paid-in capital receivables	314,842	307,946	303,695	305,387
Total financial assets	29,959,854	29,843,910	26,793,609	26,594,634
Financial liabilities				
- Borrowings	1,205,178	1,203,935	700,418	701,514
Total financial liabilities	1,205,178	1,203,935	700,418	701,514

As at Sep. 30, 2022, 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 has been calculated using Level 3 inputs by discounting the cash flows at a current interest rate applicable to each loan and paid-in capital receivable.

The significant input used in the fair value of loan investments are risk-free rate, credit default swap spreads, expected recovery rate and foreign exchange rates. Management makes certain assumptions about the unobservable inputs to the model. These are regularly assessed for reasonableness and impact on the fair value of loans. An increase in the level of forecast cash flows in subsequent periods would lead to an increase in the fair value and an increase in the discount rate used to discount to forecast cash flow would lead to a decrease in the fair value of loans.

Fair value of bond investments held at amortized cost are generally based upon quoted market prices, if available. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Fair value of borrowings held at amortized cost are generally based upon quoted market prices, if available. If the market prices are not readily available, fair values are determined using discounted cash flow models.

Asian Infrastructure Investment Bank
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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 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 Sep. 30, 2022	Level 1	Level 2	Level 3	Total
Financial assets and financial liabilities				
Investments at fair value through profit or loss				
- External Managers Program	3,550,357	491,584	-	4,041,941
- Investment in Trust	-	-	48,687	48,687
- LP Funds and others	-	-	498,310	498,310
- Bond investments	4,199,613	112,955	-	4,312,568
- Certificates of deposit and commercial paper	-	2,220,130	-	2,220,130
- Investment Operations fixed-income portfolio	215,962	-	-	215,962
Money Market Funds	-	988,755	-	988,755
Derivative assets	-	525,749	-	525,749
Total financial assets	7,965,932	4,339,173	546,997	12,852,102
Borrowings	-	(16,095,838)	-	(16,095,838)
Derivative liabilities	-	(2,414,345)	-	(2,414,345)
Total financial liabilities	-	(18,510,183)	-	(18,510,183)
As at Dec 31, 2021				
Financial assets and financial liabilities				
Investments at fair value through profit or loss				
- External Managers Program	3,766,335	337,809	-	4,104,144
- Investment in Trust	-	-	54,417	54,417
- LP Funds and others	-	-	277,809	277,809
- Bond investments	2,650,327	60,450	-	2,710,777
- Certificates of deposit	-	3,143,959	-	3,143,959
- Investment Operations fixed-income portfolio	274,843	-	-	274,843
Money Market Funds	-	1,710,022	-	1,710,022
Derivative assets	-	248,371	-	248,371
Total financial assets	6,691,505	5,500,611	332,226	12,524,342
Borrowings	-	(18,567,433)	-	(18,567,433)
Derivative liabilities	-	(563,604)	-	(563,604)
Total financial liabilities	-	(19,131,037)	-	(19,131,037)

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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 table below provides a reconciliation of the fair values of the Bank's Level 3 financial assets for the nine months ended Sep. 30, 2022 and Dec. 31, 2021.

	Investment in Trust	LP Funds and others	Total
As at Jan. 1, 2022	54,417	277,809	332,226
Additions	-	247,626	247,626
Return of capital contributions	(852)	(32,949)	(33,801)
Fair value (loss)/gain, net	(4,878)	5,824	946
As at Sep. 30, 2022	48,687	498,310	546,997

	Investment in Trust	LP Funds and others	Total
As at Jan. 1, 2021	54,859	107,561	162,420
Additions	-	166,726	166,726
Return of capital contributions	(559)	(12,776)	(13,335)
Fair value gain, net	117	16,298	16,415
As at Dec. 31, 2021	54,417	277,809	332,226

The fair value gains or losses are attributable to the change in unrealized gains or losses relating to those financial assets held at the end of the reporting period. For the nine months ended Sep. 30, 2022, the realized gains arising from the Bank's Level 3 financial assets amounting to USD10.61 million (for the nine months ended Sep. 30, 2021: USD2.99 million).

The MMFs' shares are not traded in any market. The fair value of the MMFs is derived from that of the net assets value. Certificates of deposit, External Managers Program, bond investments and commercial paper have been valued at instrument level, adopting either discounted cash flow method based on observable market input, or obtained from market prices. Derivative instruments and borrowings have been valued using discounted cash flow methodology based on observable market inputs. Discounted cash flow valuation technique is mainly used for the valuation of the underlying assets of the LP Funds and others, and investment in trust. The unobservable inputs mainly include weighted average cost of capital, liquidity discount and projected cash flows. The fair value of the investment in the LP funds and others, and investment in trust is based on an adjusted net assets method.

There has been no transfer among Level 1, Level 2 and Level 3 during the nine months ended Sep. 30, 2022 (for the year ended Dec. 31, 2021: none).