

Asian Infrastructure Investment Bank

**Auditor's Review Report
Condensed Financial Statements (Unaudited)
for the Six Months Ended June 30, 2021**



羅兵咸永道

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying condensed interim statement of financial position of the Asian Infrastructure Investment Bank (the "Bank") as of June 30, 2021 and the related condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, China
August 18, 2021

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Asian Infrastructure Investment Bank
Condensed Statement of Comprehensive Income
For the six months ended June 30, 2021

| <i>In thousands of US Dollars</i> | Note | For the six months ended June 30, 2021 (unaudited) | For the six months ended June 30, 2020 (unaudited) |
|---|-------------|---|---|
| Interest income | C1 | 121,858 | 197,375 |
| Interest expense | C1 | (89,527) | (32,418) |
| Net interest income | | 32,331 | 164,957 |
| Net fee and commission income | C2 | 11,145 | 5,549 |
| Net gain on financial instruments measured at fair value through profit or loss | C3 | 112,672 | 103,321 |
| Net loss on financial instruments measured at amortized cost | C9 | (660) | (4,363) |
| Share of loss on investment in associate | C10 | (639) | (299) |
| Impairment provision | C4 | (10,720) | (105,823) |
| General and administrative expenses | C5 | (72,113) | (72,694) |
| Net foreign exchange (loss)/gain | | (21,069) | 65 |
| Operating profit for the period | | 50,947 | 90,713 |
| Accretion of paid-in capital receivables | C11 | 2,851 | 4,235 |
| Net profit for the period | | 53,798 | 94,948 |
| Other comprehensive income <i>Items will not be reclassified to profit or loss</i> | | | |
| Unrealized (loss)/gain on fair- valued borrowings arising from changes in own credit risk | C13 | (37,392) | 5,225 |
| Total comprehensive income | | 16,406 | 100,173 |
| Attributable to: | | | |
| Equity holders of the Bank | | 16,406 | 100,173 |

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

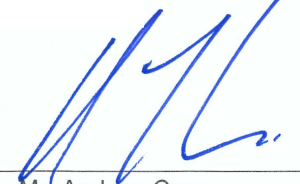
Asian Infrastructure Investment Bank
Condensed Statement of Financial Position
As at June 30, 2021

| <i>In thousands of US Dollars</i> | Note | June 30, 2021 (unaudited) | Dec. 31, 2020 (audited) |
|--|-------------|--------------------------------------|------------------------------------|
| Assets | | | |
| Cash and cash equivalents | C6 | 2,935,352 | 2,702,461 |
| Term deposits | C6 | 14,311,681 | 13,208,020 |
| Investments at fair value through profit or loss | C7 | 8,561,300 | 6,652,155 |
| Loan investments, at amortized cost | C8 | 9,967,598 | 8,275,932 |
| Bond investments, at amortized cost | C9 | 486,670 | 469,027 |
| Investment in associate | C10 | 33,420 | 26,559 |
| Paid-in capital receivables | C11 | 349,914 | 436,074 |
| Derivative assets | C14 | 253,889 | 271,870 |
| Property, plant and equipment | | 4,302 | 4,875 |
| Intangible assets | | 3,561 | 2,773 |
| Funds deposited for cofinancing arrangements | | - | 3,891 |
| Other assets | C12 | 178,139 | 27,943 |
| Total assets | | 37,085,826 | 32,081,580 |
| Liabilities | | | |
| Borrowings | C13 | 16,401,283 | 11,595,193 |
| Derivative liabilities | C14 | 201,878 | 37,690 |
| Prepaid paid-in capital | | 1,600 | 1,440 |
| Other liabilities | C15 | 318,707 | 303,500 |
| Total liabilities | | 16,923,468 | 11,937,823 |
| Members' equity | | | |
| Paid-in capital | C16 | 19,352,000 | 19,349,800 |
| Reserves | | | |
| Accretion of paid-in capital receivables | | (5,352) | (8,198) |
| Unrealized loss on fair-valued borrowings arising from changes in own credit risk | C13 | (61,095) | (23,703) |
| Retained earnings | | 876,805 | 825,858 |
| Total members' equity | | 20,162,358 | 20,143,757 |
| Total liabilities and members' equity | | 37,085,826 | 32,081,580 |

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



Mr. Jin Liqun
President



Mr. Andrew Cross
Chief Financial Officer

Asian Infrastructure Investment Bank
Condensed Statement of Changes in Equity
For the six months ended June 30, 2021

| <i>In thousands of US Dollars</i> | Note | Subscribed capital | Less: callable capital | Paid-in capital | Reserves | | Retained earnings | Total members' equity |
|--|------------|--------------------|------------------------|-------------------|--|--|-------------------|-----------------------|
| | | | | | Accretion of paid-in capital receivables | Unrealized (loss)/gain on fair-valued borrowings arising from changes in own credit risk | | |
| Jan. 1, 2020 | | 96,718,400 | (77,374,700) | 19,343,700 | (15,688) | - | 658,159 | 19,986,171 |
| Capital subscription and contribution | | 25,500 | (20,400) | 5,100 | - | - | - | 5,100 |
| Net profit for the period | | - | - | - | - | - | 94,948 | 94,948 |
| Other comprehensive income | | - | - | - | - | 5,225 | - | 5,225 |
| Paid-in capital receivables - accretion effect | | - | - | - | (66) | - | - | (66) |
| Transfer of accretion | C11 | - | - | - | 4,235 | - | (4,235) | - |
| June 30, 2020 (unaudited) | C16 | 96,743,900 | (77,395,100) | 19,348,800 | (11,519) | 5,225 | 748,872 | 20,091,378 |
| 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 | | 11,200 | (9,000) | 2,200 | - | - | - | 2,200 |
| Net profit for the period | | - | - | - | - | - | 53,798 | 53,798 |
| Other comprehensive income | | - | - | - | - | (37,392) | - | (37,392) |
| Paid-in capital receivables - accretion effect | | - | - | - | (5) | - | - | (5) |
| Transfer of accretion | C11 | - | - | - | 2,851 | - | (2,851) | - |
| June 30, 2021 (unaudited) | C16 | 96,760,100 | (77,408,100) | 19,352,000 | (5,352) | (61,095) | 876,805 | 20,162,358 |

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

Asian Infrastructure Investment Bank
Condensed Statement of Cash Flows
For the six months ended June 30, 2021

| <i>In thousands of US Dollars</i> | Note | For the six months ended June 30, 2021 (unaudited) | For the six months ended June 30, 2020 (unaudited) |
|---|-------------|---|---|
| Cash flows from operating activities | | | |
| Net profit for the period | | 53,798 | 94,948 |
| Adjustments for: | | | |
| Interest income from term deposits and certificates of deposit | | (36,193) | (137,127) |
| Interest expense for borrowings | | 88,348 | 32,438 |
| Issuance cost for borrowings | C5 | 4,535 | 4,384 |
| Accretion of paid-in capital receivables | C11 | (2,851) | (4,235) |
| Net gain on financial instruments measured at fair value through profit or loss | | (111,723) | (93,705) |
| Share of loss on investment in associate | | 639 | 299 |
| Impairment provision | C4 | 10,720 | 105,823 |
| Depreciation and amortization | | 997 | 514 |
| Increase in loan investments | C8 | (1,713,846) | (1,240,961) |
| Increase in bond investments | C9 | (17,046) | (13,507) |
| Decrease/(Increase) in funds deposited for cofinancing arrangements | | 3,891 | (3,736) |
| Net cash received from derivatives | | 51,309 | 22,324 |
| Increase in other assets | | (151,124) | (25,503) |
| Increase in other liabilities | | 26,071 | 222,525 |
| Net cash used in operating activities | | (1,792,475) | (1,035,519) |
| Cash flows from investing activities | | | |
| Investment purchases, net | C7 | (1,897,868) | (134,178) |
| Return of capital contributions | C7 | 7,137 | 542 |
| Increase in term deposits and certificates of deposit | | (1,123,548) | (2,425,000) |
| Increase in investment in associate | C10 | (7,500) | (27,000) |
| Interest received from term deposits and certificates of deposit | | 56,079 | 174,994 |
| Increase in intangible assets and PPE | | (284) | (1,534) |
| Net cash used in investing activities | | (2,965,984) | (2,412,176) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings, net | C13 | 4,959,337 | 3,940,237 |
| Interest payments on borrowings | C13 | (59,353) | (28,125) |
| Capital contributions received | C11 | 90,966 | 272,434 |
| Prepaid paid-in capital received | | 400 | 40 |
| Net cash from financing activities | | 4,991,350 | 4,184,586 |
| Net increase in cash and cash equivalents | | 232,891 | 736,891 |
| Cash and cash equivalents at beginning of period | | 2,702,461 | 3,113,763 |
| Cash and cash equivalents at end of period | C6 | 2,935,352 | 3,850,654 |

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

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the six months ended June 30, 2021
(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 June 30, 2021, the Bank’s total approved membership is 103, of which 86 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.

These financial statements were signed by the President and the Chief Financial Officer on Aug. 18, 2021.

B Accounting Policies

B1 Basis of preparation

These condensed interim financial statements for the six months ended June 30, 2021 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, 2020.

The accounting policies adopted are consistent with those used in the Bank’s annual financial statements for the year ended Dec. 31, 2020.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in its process of applying the Bank’s accounting policies. The financial statements have been prepared on a going concern basis.

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the six months ended June 30, 2021
(All amounts in thousands of US Dollars unless otherwise stated)

B Accounting Policies

B2 New accounting pronouncements

The new accounting pronouncements, amendments and interpretations issued during The six months ended June 30, 2021, 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.

The IASB issued “Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) in response to the potential effects that the interbank offer rate (IBOR) reform could have on financial reporting. The amendments have a mandatory adoption date for annual reporting periods beginning on Jan. 1, 2021 (Note D IBOR reform).

B3 Comparatives

The comparative date of the Condensed Statement of Financial Position is as at Dec. 31, 2020, 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, 2020 to June 30, 2020.

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the six months ended June 30, 2021
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C1 Interest income and expense

| | For the six months ended June 30, 2021 | For the six months ended June 30, 2020 |
|---|---|---|
| Interest income | | |
| Loan investments ⁽¹⁾ | 75,780 | 42,749 |
| Cash, cash equivalents, and deposits | 36,452 | 143,987 |
| Bond investments | 9,626 | 10,639 |
| Total interest income | 121,858 | 197,375 |
| Interest expense | | |
| Borrowings | (89,527) | (32,418) |
| Total interest expense | (89,527) | (32,418) |
| Net interest income | 32,331 | 164,957 |

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

C2 Net fee and commission income

| | For the six months ended June 30, 2021 | For the six months ended June 30, 2020 |
|--|---|---|
| Loan commitment fee and service fee | 11,269 | 6,742 |
| Special Funds administration fee (Note C20) | 112 | 35 |
| MCDF administration fee ⁽¹⁾ | 584 | - |
| Others | 7 | - |
| Total fee and commission income | 11,972 | 6,777 |
| Cofinancing service fee | (827) | (1,228) |
| Total fee and commission expense | (827) | (1,228) |
| Net fee and commission income | 11,145 | 5,549 |

⁽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. Therefore, the Bank charges an administration fee for costs associated with the work carried out in relation to the MCDF Finance Facility. The MCDF serves as a platform to foster high-quality infrastructure and connectivity investments for developing countries.

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the six months ended June 30, 2021
(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 six months ended June 30, 2021 | For the six months ended June 30, 2020 |
|---|---|---|
| Money Market Funds (Note C6) | 949 | 9,616 |
| Investments at fair value through profit or loss (Note C7) | 18,414 | 81,035 |
| Borrowings (Note C13) | 224,169 | (139,539) |
| Derivatives | (130,860) | 152,209 |
| Total | 112,672 | 103,321 |

C4 Impairment provision

| | For the six months ended June 30, 2021 | For the six months ended June 30, 2020 |
|--|---|---|
| Impairment provision/(reverse of provision) for | | |
| - Loan investments (Note C8) | 11,317 | 84,161 |
| - Bond investments (Note C9) | (597) | 21,662 |
| Total impairment provision | 10,720 | 105,823 |

C5 General and administrative expenses

| | For the six months ended June 30, 2021 | For the six months ended June 30, 2020 |
|--|---|---|
| Staff costs | 37,607 | 35,711 |
| Professional service expenses | 11,798 | 13,009 |
| IT services | 7,858 | 7,164 |
| Facilities and administration expenses | 6,608 | 6,655 |
| Issuance cost for borrowings | 4,535 | 4,384 |
| Travelling expenses | 713 | 2,418 |
| Others | 2,994 | 3,353 |
| Total general and administrative expenses | 72,113 | 72,694 |

Refer to Note C20 for details of key management remuneration.

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the six months ended June 30, 2021
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C6 Cash, cash equivalents, and deposits with banks

| | June 30, 2021 | Dec. 31, 2020 |
|---|----------------------|----------------------|
| Cash | - | - |
| Deposits with banks | | |
| - Demand deposits ⁽¹⁾ | 205,186 | 252,132 |
| - Term deposits with initial maturity of three months or less | 300,082 | 550,238 |
| Money Market Funds ⁽²⁾ | 2,430,084 | 1,900,091 |
| Total cash and cash equivalents | 2,935,352 | 2,702,461 |
| Add: term deposits with initial maturity more than three months ⁽³⁾ | 14,311,681 | 13,208,020 |
| Total cash, cash equivalents, and deposits with banks | 17,247,033 | 15,910,481 |

⁽¹⁾ USD56 million of demand deposits is segregated for the purpose of investing in externally managed portfolios (Dec. 31, 2020: USD39.35 million).

⁽²⁾ Money Market Funds

| | For the six months ended June 30, 2021 | For the year ended Dec. 31, 2020 |
|---------------------------------|---|---|
| As at beginning of period/year | 1,900,091 | 1,851,599 |
| Additions | 12,685,000 | 15,830,000 |
| Disposals | (12,155,956) | (15,792,913) |
| Fair value gain, net | 949 | 11,405 |
| Total Money Market Funds | 2,430,084 | 1,900,091 |

Money Market Funds (the “MMFs”) are rated triple-A equivalent and invest in a diversified portfolio of short-term high-quality assets. The objective of the investment is exclusively 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 June 30, 2021, USD14.01 billion of term deposits has remaining maturity within 12 months (Dec. 31, 2020: USD13.21 billion).

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the six months ended June 30, 2021
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C7 Investments at fair value through profit or loss

| | For the six months ended June 30, 2021 | For the year ended Dec. 31, 2020 |
|---|---|---|
| As at beginning of period/year | 6,652,155 | 4,096,263 |
| Additions | 1,897,868 | 2,452,554 |
| Return of capital contributions | (7,137) | (6,045) |
| Net gain of investments | 18,414 | 109,383 |
| Total investments at fair value through profit or loss | 8,561,300 | 6,652,155 |

Analysis of investments at fair value through profit or loss:

| | June 30, 2021 | Dec. 31, 2020 |
|---|----------------------|----------------------|
| External Managers Program (a) | 4,116,550 | 4,121,093 |
| Certificates of deposit (b) | 3,150,190 | 1,946,406 |
| Bond investments (c) | 771,955 | 422,236 |
| Investment operation fixed-income portfolio (d) | 292,609 | - |
| LP Funds and others (e) | 176,489 | 107,561 |
| Investment in Trust (f) | 53,507 | 54,859 |
| Total investments at fair value through profit or loss | 8,561,300 | 6,652,155 |

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 held for trading purposes and the securities are eligible for sale at any time. The following table sets out the amounts of the investment portfolio by asset categories.

| External Managers Program | June 30, 2021 | Dec. 31, 2020 |
|--|----------------------|----------------------|
| Investment grade corporate and financial bonds | 2,810,455 | 2,561,223 |
| Sovereign, Supranational and Agency bonds | 891,065 | 1,088,853 |
| Term deposits and certificates of deposit | 127,727 | 139,249 |
| Commercial paper | 82,676 | 132,409 |
| Treasury bills and notes | 77,893 | 111,474 |
| Other investment securities | 126,734 | 87,885 |
| Total | 4,116,550 | 4,121,093 |

C Disclosure Notes

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

- (b) The Bank invests in certificates of deposit which are actively managed within treasury portfolio and measured at fair value through profit or loss. The certificates of deposit are of high credit quality.
- (c) 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. In June 2021, the Bank invests in USD60 million of infrastructure asset-backed securities issued by the Special Purpose Vehicle sponsored by the associate that the Bank holds direct equity interests (Note C10).
- (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 (the "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 as of June 27, 2019. The Trust is managed by an investment manager who makes investment decisions on behalf of the Trust as per the Trust Deed and the Investment Management Agreement. The Trust does not have an expected maturity date within twelve months.

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the six months ended June 30, 2021
(All amounts in thousands of US Dollars unless otherwise stated)

C Disclosure Notes

C8 Loan investments, loan commitments and related ECL allowance

| Loan investments | June 30, 2021 | Dec. 31, 2020 |
|----------------------------|----------------------|----------------------|
| Gross carrying amount | 10,111,768 | 8,397,922 |
| ECL allowance | (144,170) | (121,990) |
| Net carrying amount | 9,967,598 | 8,275,932 |

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 June 30, 2021, USD5,220.10 million of the total carrying amount of the Bank’s loans are variable spread loans (Dec. 31, 2020: USD4,183.87 million).

As at June 30, 2021, USD216.44 million of the total carrying amount matures within 12 months (Dec. 31, 2020: USD162.89 million).

The following table sets out overall information about the credit quality of loan investments and loan commitments issued for effective contracts as at June 30, 2021. The gross amounts of loans are net of the transaction costs and fees that are capitalized through the effective interest method, or EIR method.

| | June 30, 2021 | Dec. 31, 2020 |
|---|----------------------|----------------------|
| Loan investments, gross carrying amount | 10,111,768 | 8,397,922 |
| Loan commitments | 9,024,332 | 8,006,312 |
| | 19,136,100 | 16,404,234 |
| Total ECL allowance (a) | (171,606) | (160,289) |
| | 18,964,494 | 16,243,945 |

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the six months ended June 30, 2021
(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 June 30, 2021, the total ECL related to loan commitments is USD27.44 million (Dec. 31, 2020: USD38.30 million), and is presented as a provision in Note C15.

For the six months ended June 30, 2021, the impairment losses on loan investments and loan commitments were USD11.32 million (For the six months ended June 30, 2020: USD84.16 million), as disclosed in Note C4.

C9 Bond investments at amortized cost

| Bond investments | June 30, 2021 | Dec. 31, 2020 |
|----------------------------|----------------------|----------------------|
| Gross carrying amount | 489,872 | 472,826 |
| ECL allowance | (3,202) | (3,799) |
| Net carrying amount | 486,670 | 469,027 |

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

For the six months ended June 30, 2021, USD0.66 million investment loss was recognized as a result of disposal of certain bonds in the portfolio (for the six months ended June 30, 2020: USD4.36 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 June 30, 2021, USD15.25 million of the gross carrying amount matures within 12 months (Dec. 31, 2020: USD39.58 million).

Asian Infrastructure Investment Bank
Notes to the Condensed Financial Statements
For the six months ended June 30, 2021
(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 June 30, 2021, the undrawn capital commitment is USD19.5 million (Dec. 31, 2020: USD27 million).

For the six months ended June 30, 2021, the associate recognized a loss of USD2.13 million (for the year ended Dec. 31, 2020: USD1.47 million). The Bank has recorded a net loss of USD0.64 million following the equity method (for the year ended Dec. 31, 2020: USD0.44 million).

| | For the six months ended June 30, 2021 | For the year ended Dec. 31, 2020 |
|--------------------------------------|---|---|
| As at beginning of period/year | 26,559 | - |
| Additions | 7,500 | 27,000 |
| Share of loss for the period/year | (639) | (441) |
| Total investment in associate | 33,420 | 26,559 |

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 designated as less developed countries, who may pay in ten installments. Paid-in capital receivables represent amounts due from members in respect of paid-in capital. These amounts are initially recognized at fair value and subsequently measured at amortized cost. The fair value discount is accreted through income using the effective interest method. For the six months ended June 30, 2021, a total discount of USD0.01 million (for the six months ended June 30, 2020: USD0.07 million) has been debited to the reserve. An amount of USD2.85 million (for the six months ended June 30, 2020: USD4.24 million) has been accreted through income in the current period.

As at June 30, 2021, overdue contractual undiscounted paid-in capital receivables amounting to USD139.51 million (Dec. 31, 2020: USD151.27 million) (Note C16) are not considered impaired. Of this amount, USD0.82 million (Dec. 31, 2020: USD0.78 million) has been collected by the date of signing of the financial statements for the six months ended June 30, 2021.

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C Disclosure Notes

C11 Paid-in capital receivables (Continued)

As at June 30, 2021, USD242.38 million (Dec. 31, 2020: USD287.82 million) of the paid-in capital balance is due within 12 months.

| | For the six months ended June 30, 2021 | For the year ended Dec. 31, 2020 |
|--|---|-------------------------------------|
| As at beginning of period/year | 436,074 | 748,267 |
| Paid-in capital receivables originated | 2,195 | 6,034 |
| Contributions received | (90,966) | (325,383) |
| Transfer from prepaid paid-in capital to contribution | (240) | (400) |
| Accretion to profit or loss | 2,851 | 7,556 |
| Total paid-in capital receivables | 349,914 | 436,074 |

C12 Other assets

| | June 30, 2021 | Dec. 31, 2020 |
|---------------------------------------|----------------|---------------|
| Cash collateral receivable (Note C14) | 171,400 | 24,500 |
| Prepayments | 5,070 | 2,922 |
| Others | 1,669 | 521 |
| Total other assets | 178,139 | 27,943 |

C13 Borrowings

| | June 30, 2021 | Dec. 31, 2020 |
|---|-------------------|-------------------|
| i) Borrowings carried at fair value | | |
| SEC-registered notes (a) | 11,537,536 | 8,673,495 |
| Global Medium-Term Notes (b) | 3,354,142 | 2,467,290 |
| Australian Dollar and New Zealand Dollar Bonds (c) | 549,058 | - |
| RMB Denominated Panda Bond (d) | 460,547 | 454,408 |
| Total borrowings at fair value | 15,901,283 | 11,595,193 |

| | June 30, 2021 | Dec. 31, 2020 |
|---|----------------|---------------|
| ii) Borrowings carried at amortized cost | | |
| Global Medium-Term Notes (b) | 500,000 | - |
| Total borrowings at amortized cost | 500,000 | - |

| | | |
|-------------------------|-------------------|-------------------|
| Total borrowings | 16,401,283 | 11,595,193 |
|-------------------------|-------------------|-------------------|

(a) As at June 30, 2021, the Bank has issued a total of USD11.5 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 |
| Total | 11,500 | 11,459.14 | | | |

- (b) As at June 30, 2021, the Bank has issued a total of USD3,290.02 million equivalent fixed rate notes and a total of USD500 million floating rate notes under its Global Medium-Term Note program through a combination of private and public placements.
- (c) For the six months ended June 30, 2021, the Bank has issued a total of USD566.40 million equivalent fixed rate notes under its Australian Dollar and New Zealand Dollar Debt Issuance program through a combination of private and public placements.
- (d) On June 15, 2020, the Bank issued Renminbi denominated bonds on China's interbank bond market ("RMB Denominated Panda Bond") in the aggregate amount of CNY3 billion, at a fixed interest rate of 2.4% p.a., payable annually, and a maturity date of June 15, 2023.

Borrowings that have swaps attached 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.

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 six months ended June 30, 2021, the fair value loss attributable to changes in the Bank's own credit risk included in the other comprehensive income amounted to USD37.39 million (for the six months ended June 30, 2020: USD5.23 million fair value gain).

C Disclosure Notes

C13 Borrowings (Continued)

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 six months ended June 30, 2021 and the year ended Dec. 31, 2020.

| | For the six months ended June 30, 2021 | For the year ended Dec. 31, 2020 |
|---|---|---|
| As at beginning of period/year | 11,595,193 | 2,557,324 |
| Changes arising from cash flows | | |
| - Proceeds from borrowings, net | 4,959,337 | 8,753,445 |
| - Interest payments | (59,353) | (63,589) |
| - Issuance cost for borrowings | 4,535 | 8,688 |
| Non-cash changes | | |
| - Accrued interest | 88,348 | 93,001 |
| - Changes in fair values included in the other comprehensive income | 37,392 | 23,703 |
| - Changes in fair values included in profit or loss (Note C3) | (224,169) | 222,621 |
| As at June 30, 2021/Dec. 31, 2020 | 16,401,283 | 11,595,193 |

C14 Derivatives

As at June 30, 2021, the Bank has entered into several interest rate swap and cross currency swap contracts. Swap contracts are derivative instruments and 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 swap contracts is included within the net gain on financial instruments.

The following table sets out the contractual notional amounts and fair values of the derivatives as at June 30, 2021 and Dec. 31, 2020. The payments under each of the swap contracts are subject to enforceable master netting arrangements.

| | As at June 30, 2021 | | |
|--------------------------|------------------------------------|-------------------|--------------------|
| | Contractual notional amount | Fair value | |
| | | Assets | Liabilities |
| Derivatives | | | |
| Interest rate swaps | 12,418,900 | 124,561 | 139,559 |
| Cross currency swaps | 4,995,133 | 129,328 | 62,319 |
| Total derivatives | 17,414,033 | 253,889 | 201,878 |
| | As at Dec. 31, 2020 | | |
| | Contractual notional amount | Fair value | |
| | | Assets | Liabilities |
| Derivatives | | | |
| Interest rate swaps | 9,370,132 | 167,784 | 24,829 |
| Cross currency swaps | 2,660,221 | 104,086 | 12,861 |
| Total derivatives | 12,030,353 | 271,870 | 37,690 |

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C Disclosure Notes

C14 Derivatives (Continued)

The table below presents the undiscounted cash flows in/(out) of the swaps the Bank has entered into as at June 30, 2021 and Dec. 31, 2020.

| As at June 30, 2021 | | | | | | |
|---|------------------------------|-----------------------|------------------------|----------------------|-------------------------|----------------|
| | Less than 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
| Derivatives | | | | | | |
| Interest rate swaps | 5,518 | (5,596) | 56,715 | (73,932) | 509 | (16,786) |
| Gross settling cross currency swaps - inflow | 4,792 | 193,252 | 121,874 | 5,007,007 | 33,113 | 5,360,038 |
| Gross settling cross currency swaps - outflow | (3,531) | (186,955) | (82,360) | (4,891,895) | (32,359) | (5,197,100) |
| Total derivatives | 6,779 | 701 | 96,229 | 41,180 | 1,263 | 146,152 |
| As at Dec. 31, 2020 | | | | | | |
| | Less than 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
| Derivatives | | | | | | |
| Interest rate swaps | - | (6,795) | 54,663 | 95,088 | 224 | 143,180 |
| Gross settling cross currency swaps - inflow | 4,343 | 3,293 | 292,145 | 2,587,618 | 36,763 | 2,924,162 |
| Gross settling cross currency swaps - outflow | (2,036) | (3,400) | (257,534) | (2,535,404) | (37,078) | (2,835,452) |
| Total derivatives | 2,307 | (6,902) | 89,274 | 147,302 | (91) | 231,890 |

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 June 30, 2021, the Bank has received cash collateral of USD221.90 million (Note C15) (Dec. 31, 2020: USD232.23 million) from the swap counterparties, and has paid cash collateral of USD171.40 million (Note C12) (Dec. 31, 2020: USD24.50 million) to the swap counterparties.

Due to the collateral arrangements in the Bank's derivatives contracts, the counterparty valuation adjustment and debt valuation adjustment do not have a material impact on the derivative valuations as at June 30, 2021 and Dec. 31, 2020.

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C Disclosure Notes

C15 Other liabilities

| | June 30, 2021 | Dec. 31, 2020 |
|--|----------------------|----------------------|
| Cash collateral payable (Note C14) | 221,900 | 232,230 |
| Deferred interest (Note C20) | 29,734 | 871 |
| Provision—ECL allowance (Note C8) | 27,436 | 38,299 |
| Accrued expenses | 18,977 | 24,607 |
| Payable for bond investments purchased | 11,987 | - |
| Staff costs payable | 7,863 | 6,568 |
| Deferred administration fee (Note C20) | 788 | 900 |
| Others | 22 | 25 |
| Total other liabilities | 318,707 | 303,500 |

C16 Share capital

| | June 30, 2021 | Dec. 31, 2020 |
|------------------------------------|----------------------|----------------------|
| Authorized capital | 100,000,000 | 100,000,000 |
| – Allocated | | |
| - Subscribed | 96,760,100 | 96,748,900 |
| - Unsubscribed | 1,791,400 | 1,802,600 |
| – Unallocated | 1,448,500 | 1,448,500 |
| Total authorized capital | 100,000,000 | 100,000,000 |
| Subscribed capital | 96,760,100 | 96,748,900 |
| Less: callable capital | (77,408,100) | (77,399,100) |
| Paid-in capital | 19,352,000 | 19,349,800 |
| Paid-in capital comprises: | | |
| – amounts received | 18,996,735 | 18,905,529 |
| – amounts due but not yet received | 139,505 | 151,271 |
| – amounts not yet due | 215,760 | 293,000 |
| Total paid-in capital | 19,352,000 | 19,349,800 |

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 |
| 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 |
| 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 |
| Ireland | 1,313 | 131,300 | 105,000 | 26,300 |
| Israel | 7,499 | 749,900 | 599,900 | 150,000 |

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C Disclosure Notes

C16 Share capital (Continued)

| Members | Total shares | Subscribed capital | Callable capital | Paid-in capital |
|-------------------------|---------------------|---------------------------|-------------------------|------------------------|
| Italy | 25,718 | 2,571,800 | 2,057,400 | 514,400 |
| Jordan | 1,192 | 119,200 | 95,400 | 23,800 |
| 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 |
| 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 |
| 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 |
| Turkey | 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 |
| Vietnam | 6,633 | 663,300 | 530,600 | 132,700 |
| Total | 967,601 | 96,760,100 | 77,408,100 | 19,352,000 |

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 June 30, 2021 are USD876.81 million (Dec. 31, 2020: USD825.86 million). For the six months ended June 30, 2021, USD2.85 million (for the six months ended June 30, 2020: USD4.24 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

Two 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 purpose of the Special Fund Window under COVID-19 Crisis Recovery Facility (Special Fund Window) is to reduce the burden of AIIB's lower-income members seeking financing under the Crisis Recovery Facility (the "Facility").

The resources of the Special Fund Window, which include amounts transferred by the Bank from its Project Preparation Special Fund, shall be used, on a grant basis, to buy down the interest due under sovereign-backed financings under the Facility (except for policy-based financings) to, or guaranteed by, eligible Bank members. Eligible Bank members are those that, at the time the decision to extend the relevant Facility financing is made, are eligible to receive financing from IDA and are determined as IDA-only.

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 June 30, 2021, the Project Preparation Special Fund has aggregate contributions received amounting to USD128 million (Dec. 31, 2020: the same). For the six months ended June 30, 2021, fees recognized as income amounted to USD0.11 million (for the six months ended June 30, 2020: USD0.035 million) (Note C2). As at June 30, 2021, deferred administration fees recognized as other liabilities amounted to USD0.79 million (Dec. 31, 2020: USD0.9 million) (Note C15).

As at June 30, 2021, interest rate buy-down for eligible sovereign-backed loans from Special Fund Window amounted to USD29.73 million (Dec. 31, 2020: USD0.87 million) (Note C15).

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.

Outstanding balances with related parties are as follows:

| | June 30, 2021 | | Dec. 31, 2020 | |
|--|--------------------------|-----------------------|--------------------------|-----------------------|
| | Key management personnel | Other related parties | Key management personnel | Other related parties |
| Loan investments ⁽¹⁾ | - | 707,480 | - | 670,120 |
| LP Fund ⁽²⁾ | - | 36,121 | - | 25,640 |
| Equity and bond investment in associate ⁽³⁾ | - | 93,450 | - | 26,559 |
| Staff loan | - | - | 14 | - |
| Other liabilities ⁽⁴⁾ | - | 30,522 | - | 1,771 |

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

| | For the six months ended June 30, 2021 | | For the six months ended June 30, 2020 | |
|---|---|-----------------------|---|-----------------------|
| | Key management personnel | Other related parties | Key management personnel | Other related parties |
| Income from loan investments | - | 10,466 | - | 4,664 |
| Net gain/(loss) on LP Fund | - | 467 | - | (4,395) |
| Net loss on equity and bond investment in associate | - | (610) | - | (299) |
| Income from Special Funds (Administration Fee) | - | 112 | - | 35 |

⁽¹⁾ Loan investments

The Bank approved loan facilities to two nonsovereign borrowers that are ultimately controlled by state-owned enterprises of China with a total effective amount of USD284 million as at June 30, 2021. The Bank entered into the agreement with the borrowers in the ordinary course of business under normal commercial terms and at market rates.

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C Disclosure Notes

C20 Related party transactions (Continued)

The Bank approved sovereign-backed facilities to China with a total effective amount of USD885 million, to strengthen its public health infrastructure in combating the outbreak of COVID-19 and to increase the availability of natural gas in order to reduce coal consumption and related emissions. AIIB's standard interest rate for sovereign-backed loans has been applied.

- (2) 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 of China 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 June 30, 2021, the fair value of the Bank's interest in the Fund is USD36.12 million (Dec 31, 2020: USD25.64 million).
- (3) 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). In June 2021, the Bank invests in USD60 million of infrastructure asset-backed securities issued by the associate (Note C7).
- (4) As at June 30, 2021, other liabilities relate to the deferred Project Preparation Special Fund administration fee of USD0.79 million and the interest rate buy-down of USD29.73 million from Special Fund Window (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, the President, the Vice Presidents, the General Counsel, the Chief Risk Officer and the Chief Financial Officer.

During the six months ended June 30, 2021 and the year ended Dec. 31, 2020, other than loans granted to key management personnel as disclosed above, the Bank has no other material transactions with key management personnel.

The compensation of key management personnel during the period comprises short-term employee benefits of USD1.83 million (for the six months ended June 30, 2020: USD2.17 million) and defined contribution plans of USD0.37 million (for the six months ended June 30, 2020: USD0.40 million).

C Disclosure Notes

C20 Related party transactions (Continued)

Use of office building

In accordance with Article 5 of the Headquarters Agreement, the Government of the PRC (the “Government”) will provide a permanent office building (the “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 the Headquarters Agreement disclosed on public domain of AIB 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 six months ended June 30, 2021, and June 30, 2020.

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

| Region ⁽¹⁾ | For the six months ended June 30, 2021 | | | For the six months ended June 30, 2020 | | |
|-----------------------|---|----------------------------------|---------------|---|----------------------------------|---------------|
| | Sovereign -backed loans | Nonsovereign -backed loans | Total | Sovereign -backed loans | Nonsovereign -backed loans | Total |
| Central Asia | 1,063 | 157 | 1,220 | 455 | - | 455 |
| Eastern Asia | 8,454 | 2,465 | 10,919 | - | 4,664 | 4,664 |
| Southeastern Asia | 9,880 | 4,633 | 14,513 | 3,620 | 513 | 4,133 |
| Southern Asia | 20,558 | 6,117 | 26,675 | 12,184 | 1,392 | 13,576 |
| Western Asia | 12,689 | 7,084 | 19,773 | 15,357 | 6,477 | 21,834 |
| Asia | 52,644 | 20,456 | 73,100 | 31,616 | 13,046 | 44,662 |
| Non-Asia | 727 | 13,222 | 13,949 | 375 | 4,454 | 4,829 |
| Total | 53,371 | 33,678 | 87,049 | 31,991 | 17,500 | 49,491 |

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

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

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, 2020.

Market risk

IBOR reform

AIIB is exposed to interest rate benchmarks such as interbank offered rates across various modalities. The majority of all loan investments issued by the Bank are subject to a floating base rate (6-month LIBOR for USD, 6-month EURIBOR for EUR and 3-month SHIBOR for CNY). The most significant are the LIBOR-based loans, which are AIIB's main sovereign lending product. AIIB also issues bonds in various currencies and previously swapped the receipt of these bond proceeds into USD LIBOR liabilities. During the six months ended June 30, 2021, AIIB has started swapping new issuances' bond proceeds to USD SOFR. 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 31 Dec. 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 30 June 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 Note C8 and C14, respectively.

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D Financial Risk Management

Market risk (continued)

IBOR reform (continued)

AiIB has established IBOR transition governance 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, which allow for standardized transition language. The revised General Conditions will be applied to all future sovereign loans and will also be introduced across the existing sovereign-backed loan portfolio by means of amendment agreements (in the form of omnibus amendments that will cover all of the current loan portfolio of a particular borrower with the Bank). The Bank will continue to collaborate with peer institutions and market participants to mitigate potential financial and operational risks, to determine details of new products and set the Bank's asset liability management strategy.

The greatest change will be amendments to the contractual terms of the Bank's LIBOR-based loans and derivatives products. However, the changes in reference rates may also affect other systems, processes, risk and valuation models, as well as having accounting consequences.

As at June 30, 2021, the Bank has USD500 million of SOFR reference rate notes under GMTN program (Note C13). The other IBOR exposures of the Bank have yet to transition to alternative benchmark interest rates.

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.

| | June 30, 2021 | | | Dec. 31, 2020 | | |
|---------------------------|-----------------------|------------------|------------------|-----------------------|------------------|------------------|
| | Gross Carrying amount | Commitments | ECL | Gross Carrying amount | Commitments | ECL |
| Sovereign-backed loans | 8,686,421 | 8,803,095 | (97,292) | 7,023,244 | 7,875,861 | (112,563) |
| Nonsovereign-backed loans | 1,425,347 | 221,237 | (74,314) | 1,374,678 | 130,451 | (47,726) |
| Loan investments | 10,111,768 | 9,024,332 | (171,606) | 8,397,922 | 8,006,312 | (160,289) |
| Bond investments | 489,872 | - | (3,202) | 472,826 | - | (3,799) |
| Total | 10,601,640 | 9,024,332 | (174,808) | 8,870,748 | 8,006,312 | (164,088) |

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D Financial Risk Management

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 | June 30, 2021 | | | Dec. 31, 2020 | | |
|-------------------------------|-------------------|------------------|-------------------|-------------------|------------------|-------------------|
| | Stage 1 | Stage 2 | Total | Stage 1 | Stage 2 | Total |
| Sovereign-backed loans | | | | | | |
| Central Asia | 1,486,291 | - | 1,486,291 | 1,364,562 | - | 1,364,562 |
| Eastern Asia | 987,344 | - | 987,344 | 983,668 | - | 983,668 |
| Southeastern Asia | 3,564,771 | 40,156 | 3,604,927 | 2,895,473 | 40,161 | 2,935,634 |
| Southern Asia | 7,358,147 | 659,975 | 8,018,122 | 5,656,799 | 663,955 | 6,320,754 |
| Western Asia | 2,158,112 | 865,124 | 3,023,236 | 2,079,883 | 865,011 | 2,944,894 |
| Asia | 15,554,665 | 1,565,255 | 17,119,920 | 12,980,385 | 1,569,127 | 14,549,512 |
| Non-Asia | 369,596 | - | 369,596 | 349,593 | - | 349,593 |
| Subtotal | 15,924,261 | 1,565,255 | 17,489,516 | 13,329,978 | 1,569,127 | 14,899,105 |

| Region | June 30, 2021 | | | Dec. 31, 2020 | | |
|----------------------|---------------|---------------|---------------|---------------|---------------|----------------|
| | Stage 1 | Stage 2 | Total | Stage 1 | Stage 2 | Total |
| ECL allowance | | | | | | |
| Central Asia | 900 | - | 900 | 1,073 | - | 1,073 |
| Eastern Asia | 589 | - | 589 | 846 | - | 846 |
| Southeastern Asia | 307 | 5,436 | 5,743 | 273 | 4,628 | 4,901 |
| Southern Asia | 21,429 | 50,800 | 72,229 | 26,418 | 58,685 | 85,103 |
| Western Asia | 2,038 | 15,490 | 17,528 | 2,385 | 18,095 | 20,480 |
| Asia | 25,263 | 71,726 | 96,989 | 30,995 | 81,408 | 112,403 |
| Non-Asia | 303 | - | 303 | 160 | - | 160 |
| Subtotal | 25,566 | 71,726 | 97,292 | 31,155 | 81,408 | 112,563 |

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D Financial Risk Management

Credit risk (Continued)

Credit quality analysis (Continued)

(i) Concentration of credit risk (Continued)

| Region | June 30, 2021 | | | | Dec. 31, 2020 | | |
|----------------------------------|-------------------|------------------|------------------------|-------------------|-------------------|------------------|-------------------|
| | Stage 1 | Stage 2 | Stage 3 ⁽¹⁾ | Total | Stage 1 | Stage 2 | Total |
| Nonsovereign-backed loans | | | | | | | |
| Central Asia | 33,814 | - | - | 33,814 | 33,794 | - | 33,794 |
| Eastern Asia | 227,605 | - | - | 227,605 | 237,525 | - | 237,525 |
| Southeastern Asia | 267,844 | - | 76,351 | 344,195 | 192,322 | - | 192,322 |
| Southern Asia | 192,706 | 47,579 | - | 240,285 | 193,101 | 49,193 | 242,294 |
| Western Asia | 59,680 | 277,539 | - | 337,219 | 61,247 | 278,996 | 340,243 |
| | 781,649 | 325,118 | 76,351 | | | | |
| Asia | | | | 1,183,118 | 717,989 | 328,189 | 1,046,178 |
| Non-Asia | 437,972 | 25,494 | - | 463,466 | 432,839 | 26,112 | 458,951 |
| Subtotal | 1,219,621 | 350,612 | 76,351 | 1,646,584 | 1,150,828 | 354,301 | 1,505,129 |
| Total | 17,143,882 | 1,915,867 | 76,351 | 19,136,100 | 14,480,806 | 1,923,428 | 16,404,234 |

| Region | June 30, 2021 | | | | Dec. 31, 2020 | | |
|----------------------|---------------|----------------|------------------------|----------------|---------------|----------------|----------------|
| | Stage 1 | Stage 2 | Stage 3 ⁽¹⁾ | Total | Stage 1 | Stage 2 | Total |
| ECL allowance | | | | | | | |
| Central Asia | 29 | - | - | 29 | 50 | - | 50 |
| Eastern Asia | 73 | - | - | 73 | 29 | - | 29 |
| Southeastern Asia | 982 | - | 39,868 | 40,850 | 3,760 | - | 3,760 |
| Southern Asia | 352 | 8,151 | - | 8,503 | 548 | 10,615 | 11,163 |
| Western Asia | 398 | 21,178 | - | 21,576 | 574 | 27,631 | 28,205 |
| Asia | 1,834 | 29,329 | 39,868 | 71,031 | 4,961 | 38,246 | 43,207 |
| Non-Asia | 1,281 | 2,002 | - | 3,283 | 1,961 | 2,558 | 4,519 |
| Subtotal | 3,115 | 31,331 | 39,868 | 74,314 | 6,922 | 40,804 | 47,726 |
| Total | 28,681 | 103,057 | 39,868 | 171,606 | 38,077 | 122,212 | 160,289 |

(1) A nonsovereign-backed loan was assessed as "credit impaired" and downgraded to Stage 3. As at June 30, 2021, USD39.87 million of ECL allowance has been provided for the loan.

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D Financial Risk Management

Credit risk (Continued)

Credit quality analysis (Continued)

(i) Concentration of credit risk (Continued)

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

| Sector | June 30, 2021 | | | Dec. 31, 2020 | | |
|-------------------------------|-------------------|------------------|-------------------|-------------------|------------------|-------------------|
| | Stage 1 | Stage 2 | Total | Stage 1 | Stage 2 | Total |
| Sovereign-backed loans | | | | | | |
| Economic resilience | 4,314,967 | - | 4,314,967 | 4,263,929 | - | 4,263,929 |
| Energy | 2,663,149 | 899,256 | 3,562,405 | 2,076,500 | 899,155 | 2,975,655 |
| Finance | 500,194 | - | 500,194 | 499,809 | - | 499,809 |
| Transport | 2,372,839 | 386,576 | 2,759,415 | 1,898,689 | 390,566 | 2,289,255 |
| Urban | 804,935 | 199,593 | 1,004,528 | 804,739 | 199,576 | 1,004,315 |
| Water | 2,321,524 | - | 2,321,524 | 1,951,349 | - | 1,951,349 |
| Finance/Liquidity | 1,028,496 | - | 1,028,496 | 499,050 | - | 499,050 |
| Public health | 1,836,151 | - | 1,836,151 | 1,253,906 | - | 1,253,906 |
| Others | 82,006 | 79,830 | 161,836 | 82,007 | 79,830 | 161,837 |
| Subtotal | 15,924,261 | 1,565,255 | 17,489,516 | 13,329,978 | 1,569,127 | 14,899,105 |

| Sector | June 30, 2021 | | | Dec. 31, 2020 | | |
|----------------------|---------------|---------------|---------------|---------------|---------------|----------------|
| | Stage 1 | Stage 2 | Total | Stage 1 | Stage 2 | Total |
| ECL allowance | | | | | | |
| Economic resilience | 12,007 | - | 12,007 | 26,214 | - | 26,214 |
| Energy | 1,010 | 32,617 | 33,627 | 2,116 | 34,619 | 36,735 |
| Finance | 688 | - | 688 | 755 | - | 755 |
| Transport | 581 | 16,083 | 16,664 | 641 | 21,412 | 22,053 |
| Urban | 209 | 14,622 | 14,831 | 117 | 18,330 | 18,447 |
| Water | 266 | - | 266 | 327 | - | 327 |
| Finance/Liquidity | 10,436 | - | 10,436 | 674 | - | 674 |
| Public health | 366 | - | 366 | 310 | - | 310 |
| Others | 3 | 8,404 | 8,407 | 1 | 7,047 | 7,048 |
| Subtotal | 25,566 | 71,726 | 97,292 | 31,155 | 81,408 | 112,563 |

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D Financial Risk Management

Credit risk (Continued)

Credit quality analysis (Continued)

(i) Concentration of credit risk (Continued)

| Sector | June 30, 2021 | | | | Dec. 31, 2020 | | |
|--|-------------------|------------------|---------------|-------------------|-------------------|------------------|-------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Total |
| Nonsovereign-backed loans | | | | | | | |
| Energy | 428,431 | 224,251 | - | 652,682 | 442,998 | 227,998 | 670,996 |
| Finance/Liquidity | 429,820 | - | - | 429,820 | 419,242 | - | 419,242 |
| Information and communication technology | 148,916 | 126,361 | 76,351 | 351,628 | 74,059 | 126,303 | 200,362 |
| Finance | 152,774 | - | - | 152,774 | 153,282 | - | 153,282 |
| Transport | 59,680 | - | - | 59,680 | 61,247 | - | 61,247 |
| Subtotal | 1,219,621 | 350,612 | 76,351 | 1,646,584 | 1,150,828 | 354,301 | 1,505,129 |
| Total | 17,143,882 | 1,915,867 | 76,351 | 19,136,100 | 14,480,806 | 1,923,428 | 16,404,234 |

| Sector | June 30, 2021 | | | | Dec. 31, 2020 | | |
|--|---------------|----------------|---------------|----------------|---------------|----------------|----------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Total |
| ECL allowance | | | | | | | |
| Energy | 1,779 | 25,143 | - | 26,922 | 2,245 | 32,741 | 34,986 |
| Information and communication technology | 59 | 6,188 | 39,868 | 46,115 | 2,524 | 8,063 | 10,587 |
| Finance/Liquidity | 635 | - | - | 635 | 1,291 | - | 1,291 |
| Finance | 244 | - | - | 244 | 288 | - | 288 |
| Transport | 398 | - | - | 398 | 574 | - | 574 |
| Subtotal | 3,115 | 31,331 | 39,868 | 74,314 | 6,922 | 40,804 | 47,726 |
| Total | 28,681 | 103,057 | 39,868 | 171,606 | 38,077 | 122,212 | 160,289 |

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D Financial Risk Management

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, 2021 | 13,329,978 | 1,569,127 | 14,899,105 |
| New loans and commitments originated | 2,674,312 | - | 2,674,312 |
| Repayments | (5,881) | - | (5,881) |
| Cancellation | (40,812) | (3,954) | (44,766) |
| Movement in net transaction costs, fees, and related income through EIR method | (4,189) | 82 | (4,107) |
| Foreign exchange movements | (29,147) | - | (29,147) |
| Transfer to stage 1 | - | - | - |
| Transfer to stage 2 | - | - | - |
| As at June 30, 2021 | 15,924,261 | 1,565,255 | 17,489,516 |
| | Stage 1 | Stage 2 | Total |
| ECL allowance as at Jan. 1, 2021 | 31,155 | 81,408 | 112,563 |
| Additions | 10,292 | - | 10,292 |
| Change in risk parameters ⁽¹⁾ | (15,881) | (9,682) | (25,563) |
| Change from lifetime (stage 2) to 12-month (stage 1) ECL | - | - | - |
| Change from 12-month (stage 1) to lifetime (stage 2) ECL | - | - | - |
| As at June 30, 2021 | 25,566 | 71,726 | 97,292 |

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D Financial Risk Management

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 | 150,000 | - | - | 150,000 |
| Cancellation | (1,190) | - | - | (1,190) |
| Repayment of loans | (13,627) | (3,661) | - | (17,288) |
| Movement in net transaction costs, fees, and related income through EIR method | 6,843 | (28) | - | 6,815 |
| Foreign exchange movements | 3,118 | - | - | 3,118 |
| Transfer to stage 1 | - | - | - | - |
| Transfer to stage 2 | - | - | - | - |
| Transfer to stage 3 | (76,351) | - | 76,351 | - |
| As at June 30, 2021 | 1,219,621 | 350,612 | 76,351 | 1,646,584 |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| ECL allowance as at Jan. 1, 2021 | 6,922 | 40,804 | - | 47,726 |
| Additions | 59 | - | - | 59 |
| Change in risk parameters ⁽¹⁾ | (1,342) | (9,473) | - | (10,815) |
| Change from lifetime (stage 2) to 12-month (stage 1) ECL | - | - | - | - |
| Change from 12-month (stage 1) to lifetime (stage 2) ECL | - | - | - | - |
| Change from 12-month (stage 1) to lifetime (stage 3) ECL | (2,524) | - | 39,868 | 37,344 |
| As at June 30, 2021 | 3,115 | 31,331 | 39,868 | 74,314 |
| Total gross carrying amount of loans and exposure of loan commitments as at June 30, 2021 | 17,143,882 | 1,915,867 | 76,351 | 19,136,100 |
| Total ECL allowance as at June 30, 2021 | 28,681 | 103,057 | 39,868 | 171,606 |

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

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D Financial Risk Management

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, 2020 | 4,916,648 | 1,250,216 | 6,166,864 |
| New loans and commitments originated | 8,702,672 | - | 8,702,672 |
| Repayments | (1,276) | - | (1,276) |
| Movement in net transaction costs, fees, and related income through EIR method | (9,082) | (658) | (9,740) |
| Foreign exchange movements | 40,585 | - | 40,585 |
| Transfer to stage 1 | - | - | - |
| Transfer to stage 2 | (319,569) | 319,569 | - |
| As at Dec. 31, 2020 | 13,329,978 | 1,569,127 | 14,899,105 |
| | Stage 1 | Stage 2 | Total |
| ECL allowance as at Jan. 1, 2020 | 2,916 | 53,527 | 56,443 |
| Additions | 27,953 | - | 27,953 |
| Change in risk parameters ⁽¹⁾ | 542 | (2,124) | (1,582) |
| Change from lifetime (stage 2) to 12-month (stage 1) ECL | - | - | - |
| Change from 12-month (stage 1) to lifetime (stage 2) ECL | (256) | 30,005 | 29,749 |
| As at Dec. 31, 2020 | 31,155 | 81,408 | 112,563 |

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D Financial Risk Management

Credit risk (Continued)

Credit quality analysis (Continued)

Nonsovereign-backed loans

| | Stage 1 | Stage 2 | Total |
|--|-------------------|------------------|-------------------|
| Gross carrying amount of loans and exposure of loan commitments as at Jan. 1, 2020 | 702,676 | 27,282 | 729,958 |
| New loans and commitments originated | 794,376 | - | 794,376 |
| Repayment of loans | (24,761) | (973) | (25,734) |
| Movement in net transaction costs, fees, and related income through EIR method | (2,390) | (197) | (2,587) |
| Foreign exchange movements | 9,116 | - | 9,116 |
| Transfer to stage 1 | - | - | - |
| Transfer to stage 2 | (328,189) | 328,189 | - |
| As at Dec. 31, 2020 | 1,150,828 | 354,301 | 1,505,129 |
| | Stage 1 | Stage 2 | Total |
| ECL allowance as at Jan. 1, 2020 | 4,000 | 6,482 | 10,482 |
| Additions | 10,272 | - | 10,272 |
| Change in risk parameters ⁽¹⁾ | (406) | (3,924) | (4,330) |
| Change from lifetime (stage 2) to 12-month (stage 1) ECL | - | - | - |
| Change from 12-month (stage 1) to lifetime (stage 2) ECL | (6,944) | 38,246 | 31,302 |
| As at Dec. 31, 2020 | 6,922 | 40,804 | 47,726 |
| Total gross carrying amount of loans and exposure of loan commitments as at Dec. 31, 2020 | 14,480,806 | 1,923,428 | 16,404,234 |
| Total ECL allowance as at Dec. 31, 2020 | 38,077 | 122,212 | 160,289 |

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D Financial Risk Management

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 | 100,129 | - | 100,129 |
| Accrual and amortization | 379 | (15) | 364 |
| Transfer to stage 1 | 10,223 | (10,223) | - |
| Transfer to stage 2 | (13,098) | 13,098 | - |
| Derecognition | (78,793) | (4,654) | (83,447) |
| As at June 30, 2021 | 430,156 | 59,716 | 489,872 |
| | | | |
| | Stage 1 | Stage 2 | Total |
| ECL allowance as at Jan. 1, 2021 | | | |
| | 1,190 | 2,609 | 3,799 |
| Additions | 190 | - | 190 |
| Change in risk parameters | (217) | (627) | (844) |
| Change from lifetime (stage 2) to 12-month (stage 1) ECL | 9 | (36) | (27) |
| Change from 12-month (stage 1) to lifetime (stage 2) ECL | (121) | 407 | 286 |
| Reversal of provisions for derecognized bonds | (184) | (18) | (202) |
| As at June 30, 2021 | 867 | 2,335 | 3,202 |

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D Financial Risk Management

Credit risk (Continued)

Credit quality analysis (Continued)

| Bond investments | Stage 1 | Stage 2 | Stage 3 | Total |
|--|----------------|----------------|----------------|----------------|
| Bond investments as at Jan. 1, 2020 | 427,956 | 55,536 | - | 483,492 |
| New bond investments | 115,679 | - | - | 115,679 |
| Accrual and amortization | (34) | (12) | - | (46) |
| Transfer to stage 1 | 29,778 | (29,778) | - | - |
| Transfer to stage 2 | (59,741) | 59,741 | - | - |
| Transfer to stage 3 | (15,049) | - | 15,049 | - |
| Derecognition | (87,273) | (23,977) | (15,049) | (126,299) |
| As at Dec. 31, 2020 | 411,316 | 61,510 | - | 472,826 |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| ECL allowance as at Jan. 1, 2020 | 1,635 | 2,090 | - | 3,725 |
| Additions | 313 | - | - | 313 |
| Change in risk parameters | 123 | (61) | - | 62 |
| Change from lifetime (stage 2) to 12-month (stage 1) ECL | 46 | (1,233) | - | (1,187) |
| Change from 12-month (stage 1) to lifetime (stage 2) ECL | (294) | 2,588 | - | 2,294 |
| Change from 12-month (stage 1) to lifetime (stage 3) ECL | (393) | - | 14,326 | 13,933 |
| Reversal of provisions for derecognized bonds ⁽¹⁾ | (240) | (775) | (14,326) | (15,341) |
| As at Dec. 31, 2020 | 1,190 | 2,609 | - | 3,799 |

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For the six months ended June 30, 2021
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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 six months ended June 30, 2021 (for the six months ended June 30, 2020: 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.

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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:

| | June 30, 2021 | | Dec. 31, 2020 | |
|---------------------------------------|------------------------|-------------------|------------------------|-------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets | | | | |
| - Term deposits | 14,311,681 | 14,312,167 | 13,208,020 | 13,208,020 |
| - Loan investments, at amortized cost | 9,967,598 | 9,880,895 | 8,275,932 | 8,329,071 |
| - Bond investments, at amortized cost | 486,670 | 504,747 | 469,027 | 488,428 |
| - Paid-in capital receivables | 349,914 | 353,874 | 436,074 | 443,209 |
| Total financial assets | 25,115,863 | 25,051,683 | 22,389,053 | 22,468,728 |
| Financial liabilities | | | | |
| - Borrowings | 500,000 | 501,192 | - | - |
| Total financial liabilities | 500,000 | 501,192 | - | - |

As at June 30, 2021, 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.

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E Fair Value Disclosures

Financial assets and financial liabilities measured at fair value on the Statement of Financial Position

The table below summarizes the fair values of the financial assets and financial liabilities measured in the Statement of Financial Position at their fair value:

As at June 30, 2021

| | Level 1 | Level 2 | Level 3 | Total |
|---|------------------|-------------------|----------------|-------------------|
| Financial assets and financial liabilities | | | | |
| Investments at fair value through profit or loss | | | | |
| - External Managers Program | 3,789,397 | 327,153 | - | 4,116,550 |
| - Investment in Trust | - | - | 53,507 | 53,507 |
| - LP Funds and others | - | - | 176,489 | 176,489 |
| - Bond investments | 711,925 | 60,030 | - | 771,955 |
| - Certificates of deposit | - | 3,150,190 | - | 3,150,190 |
| - Investment operation fixed-income portfolio | 292,609 | - | - | 292,609 |
| Money Market Funds | - | 2,430,084 | - | 2,430,084 |
| Derivative assets | - | 253,889 | - | 253,889 |
| Total financial assets | 4,793,931 | 6,221,346 | 229,996 | 11,245,273 |
| Borrowings | - | 15,901,283 | - | 15,901,283 |
| Derivative liabilities | - | 201,878 | - | 201,878 |
| Total financial liabilities | - | 16,103,161 | - | 16,103,161 |

As at Dec 31, 2020

| | Level 1 | Level 2 | Level 3 | Total |
|---|------------------|-------------------|----------------|-------------------|
| Financial assets and financial liabilities | | | | |
| Investments at fair value through profit or loss | | | | |
| - External Managers Program | 3,761,550 | 359,543 | - | 4,121,093 |
| - Investment in Trust | - | - | 54,859 | 54,859 |
| - LP Funds and others | - | - | 107,561 | 107,561 |
| - Bond investments | 422,236 | - | - | 422,236 |
| - Certificates of deposit | - | 1,946,406 | - | 1,946,406 |
| Money Market Funds | - | 1,900,091 | - | 1,900,091 |
| Derivative assets | - | 271,870 | - | 271,870 |
| Total financial assets | 4,183,786 | 4,477,910 | 162,420 | 8,824,116 |
| Borrowings | - | 11,595,193 | - | 11,595,193 |
| Derivative liabilities | - | 37,690 | - | 37,690 |
| Total financial liabilities | - | 11,632,883 | - | 11,632,883 |

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For the six months ended June 30, 2021
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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 six months ended June 30, 2021 and Dec. 31, 2020.

| | Investment in Trust | LP Funds and others | Total |
|---------------------------------|--------------------------------|--------------------------------|----------------|
| As at Jan. 1, 2021 | 54,859 | 107,561 | 162,420 |
| Additions | - | 70,938 | 70,938 |
| Return of capital contributions | (559) | (6,578) | (7,137) |
| Fair value gain/(loss), net | (793) | 4,568 | 3,775 |
| As at June 30, 2021 | 53,507 | 176,489 | 229,996 |

| | Investment in Trust | LP Funds and others | Total |
|---------------------------------|--------------------------------|--------------------------------|----------------|
| As at Jan. 1, 2020 | 48,160 | 29,664 | 77,824 |
| Additions | - | 92,839 | 92,839 |
| Return of capital contributions | (582) | (5,463) | (6,045) |
| Fair value gain/(loss), net | 7,281 | (9,479) | (2,198) |
| As at Dec. 31, 2020 | 54,859 | 107,561 | 162,420 |

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 and bond securities 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 six months ended June 30, 2021 (for the year ended Dec. 31, 2020: none).