



**ASIAN INFRASTRUCTURE  
INVESTMENT BANK**

**Annual Report of the Audit and Risk Committee  
of the Board of Directors for 2019-2020**

**July 10, 2020**

## **Background**

According to paragraph 24 of the Terms of Reference (TOR) for the Audit and Risk Committee (ARC or the Committee) of the Asian Infrastructure Investment Bank (AIIB or the Bank), the Committee shall prepare an annual report of its activities to the Board of Directors. The TORs of the Committee are attached as Appendix 1. This Annual Report covers the activities at the Committee events organized from July 2019 to May 2020.

An important addition to Management relevant to the ARC was that Andrew Cross joined AIIB as Assistant Chief Financial Officer (CFO) in May 2019 and took office as the Bank's CFO on Jan. 1, 2020, bringing with him significant financial services experience.

## **Composition and Succession Plan**

As of the date of this report, the membership of the Committee is as follows (bios of the Committee members are attached as Appendix 2):

- Ai Phing Cheng (External Member).
- Jan Engström (External Member).
- Sameer Kumar Khare (Vice Chair).
- Emil Levendoğlu (Chair).
- Suminto.
- Zhang Wencai.

Director Suminto was appointed to the ARC in December 2019 following the resignation of Director Andin Hadiyanto.

The Committee discussed succession planning of external members in July, September and December 2019, including the reappointments of the current external members, expertise criteria, selection procedure and timetable and shortlist of candidates for external member.

Chaly Mah left the Committee after his three-year term was completed. Jan Engström was reappointed for another term of one year. The Committee appreciated the significant contributions made by Mah and Engström over the past three years. As the first two external members of the ARC, they helped AIIB continuously enhance financial reporting and internal controls and improve the effectiveness of the ARC.

Ai Phing Cheng and Elisabeth Stheeman were appointed as external members of the ARC in April 2020. Both bring with them rich experience in financial reporting, risk management and internal controls. Cheng's term followed the end of the three-year term of Chaly Mah on April 13, 2020, while Stheeman will take office in April 2021 once Engström's term of office ends.

## **Meetings and Attendance Rate**

Five Committee meetings were convened during the reporting period—in July 2019, September 2019, December 2019, March 2020 and May 2020 (the agendas of the meetings are attached as Appendix 3). Three of the meetings took place physically alongside the Board of Directors meetings. Two meetings were convened virtually. ARC member attendance rate during 2019-2020 was 96.7 percent.

## **Key Responsibilities**

The responsibilities of the Audit and Risk Committee are as follows:

- Review AIB's financial statements and accounting, auditing and financial reporting practices, procedures and issues.
- Review the selection procedures for and the qualification and performance of the external auditors; review the reports from the external auditors and ensure appropriate action be taken in respect of major improvement areas identified.
- Review the scope of work and internal audit plan and the effectiveness of the internal audit function.
- Review the effectiveness of internal control system.
- Review AIB's financial and risk-related policies; annually review the Bank's risk management framework and its risk appetite statement.
- Receive reports on violations of the Prohibited Practices Policy (PPP) from the Managing Director of the Complaints-resolution, Evaluation and Integrity Unit (CEIU).

## **Activities in the Year**

### **1. Financial Reporting**

1.1 Annual Financial Statements. Committee Members reviewed the 2019 Financial Statements for the Bank and for the Special Fund (Financial Statements), with focus on the COVID-19 pandemic-related disclosures in Financial Statements and the impacts of the COVID-19 pandemic on the financial results. The ARC supported the 2019 Financial Statements and recommended that (i) the Board of Directors submit the audited 2019 Financial Statements of the Bank and the Special Fund to the Board of Governors with a recommendation for approval and (ii) the Board of Directors recommend to the Board of Governors to determine that the Bank's net income for financial year 2019 be allocated to retained earnings.

1.2. Quarterly Financial Statements. In August 2019, November 2019 and May 2020, Committee Members were consulted by Management on the Q2 2019, Q3 2019 and Q1 2020 quarterly financial statements as prepared for approval by the President.

## **2. External Auditor**

- 2.1. Committee Members were briefed by the Bank's external auditor PricewaterhouseCoopers (PwC) on the 2019 Audit Plan, which reflected changes to the AIIB's business and operations. PwC elaborated the external auditor's assessment on Key Audit Matters (KAMs). Committee Members were assured that the KAMs were comparable to other MDBs with globally listed debt securities.
- 2.2. The ARC was briefed by PwC on the audit of the 2019 Financial Statements. PwC's audits of the financial statements of the Bank and of the Special Fund were completed with unqualified opinions.
- 2.3. PwC updated Committee Members that the Bank's collective focus and effort to develop its Internal Controls over Financial Reporting (ICFR) enabled PwC to complete its work in a timely manner. PwC noted that, as AIIB continues to evolve and develop its business, continued focus is required to ensure that controls are maintained and updated timely.
- 2.4. The ARC planned to hold the annual close session with PwC at its meeting to be held in June 2020.

## **3. Internal Audit**

- 3.1 Committee Members were briefed by the Chief Internal Audit Officer on the status of the internal audit plan and the key audit findings on a quarterly basis, with focus on the audit plan to better cope with the operational development of the Bank and the adequacy of resources in the Internal Audit Office (IAO) for conducting audits specified in the plan.
- 3.2 Committee Members were briefed on the update of the Terms of Reference of IAO as part of its regular review, with the coordination function of IAO with the external auditors further clarified under the Oversight Mechanism.
- 3.3 The Committee was updated on the adjustments in the work plan to cope with the activation of the Business Continuity Plan (BCP) and the Remote Working Arrangements (RWA) due to the COVID-19 pandemic in January 2020.

## **4. Internal Controls**

- 4.1 In the reporting period, Committee Members were updated by Management on the ICFR/COSO implementation on a quarterly basis. The Committee closely monitored the process and inquired about the effectiveness of the controls, with special focus on the controls over new processes and products, data governance of the systems related to financial reporting, change management related to new IT systems, resource allocation to the ICFR team and the rectification of ineffective controls. Committee Members asked Management about the challenges posed by COVID-19 pandemic on

internal controls and supported Management on testing the effectiveness of controls under remote working arrangements.

4.2 It was briefed that PwC's attestation on Management's assessment that the Bank maintained effective ICFR at Dec. 31, 2019 was completed with unqualified opinion issued. Committee Members congratulated Management for the Bank's first ICFR certification and reminded that ICFR would be a continuous journey of which ongoing commitment is critical in ensuring long-term success.

## 5. Risk Management

5.1. In the reporting period, Committee Members were updated by Management on the level-one Key Risk Indicators (KRIs) on a quarterly basis, with focus on the credit quality of investment operations, the trend of credit quality of the investment pipeline, market and liquidity risk, operational risks as well as compliance risk.

5.2. Committee Members suggested the ARC play a role in the process of developing the Bank's corporate strategy by conducting quantitative and risk-based scenario analysis.

5.3. Committee Members were briefed on the initial risk assessment of the COVID-19 crisis, outlining potential future scenarios of the outcome of the crisis. They welcomed the scenario analysis on the Bank's risk position and capital adequacy and noted that as AIIB was still in its build-up phase, the Economic Capital Utilization Rate (ECUR) of Available Capital remained very low under stress conditions.

5.4. Committee Members were informed of the updates to the 2020 Risk Appetite Statement (RAS) for AIIB, with focus on the Bank's concentration exposure and the rationale of the scenarios chosen. The ARC agreed to recommend that the Board support the Risk Appetite Statement—2020 Update and approve its top-down allocation of risk. The ARC was briefed on the results of the stress testing of the 2020 Business Plan, with Management confirming that AIIB would maintain strong levels of capital adequacy and good adherence to the Bank's RAS over the projection period.

5.5. The ARC conducted the annual review of loan pricing and recommended that the Board of Directors approve the Recommendation in the President's Memorandum.

5.6. The ARC reviewed and discussed the proposed revision of *Financial and Risk Management Policy and Modification of Treasury Risk Limits* and recommended the Board approve the policies revision.

5.7. Committee Members were updated on the core findings of the 2019 capital adequacy year-end assessment. The ARC was informed that as the Bank was still in its build-up phase, it had a strong surplus of capital and all related metrics were within limits. The Committee noted the linkages to the earlier assessment of the COVID-19 stress

testing, and that the subsequent exercises would incorporate the market and the creditworthiness changes experienced during the COVID-19 pandemic.

## **6. Financial Activities**

6.1. In the reporting period, Committee Members were informed on the financial activities including updates on Changes of Rating Methodologies, LIBOR Transition, Treasury Mandatory Leave and Segregation of Duties, Libor Transition Implication to the Treasury Operation and Briefing on Treasury External Managers Program. Committee Members received answers to the questions on the updates.

## **7. Disclosure under IFRS9**

7.1. A two-day workshop was organized in June 2019 for the External Members of the ARC—Jan Engström and Chaly Mah—on how the Bank applies IFRS 9. Discussions between the external members and the Chief Risk Officer and the Acting Controller covered loan fair value, expected credit losses (ECL), loan lifecycle, sovereign loan credit rating and nonsovereign loan scorecard. The External Members recommended the Bank disclose more information on sovereign loan fair value and ECL in its financial reports to ensure all stakeholders, including those without knowledge of the operations of multilateral development banks, could clearly understand AIIB's financial results, particularly the basis for sovereign loan valuation and ECL.

7.2. A follow-up workshop was held in July 2019 to further discuss the disclosure of fair value of loan investments in the financial statements. The External Members of the ARC (Engström and Mah), provided inputs on the subject matter. It was agreed that the Bank would disclose additional information on its accounting policies in its 2019 financial statements.

7.3 In a separate workshop in July 2019, staff members briefed the ARC on the interpretation of the Bank's financial statements and responded to the ARC members' questions on how to define significant increase in credit risk.

## **8. Committee Governance**

8.1. The ARC retreat was organized in July 2019, with a dialogue on governance practices between peer counterparties European Investment Bank (EIB) and European Stability Mechanism (ESM). The ARC Chair presented AIIB's governance model, especially best practices of the ARC. The ARC Members learned from ESM and EIB respectively on how they structured their governance, their best practices and challenges they were facing with regard to governance.

8.2. The ARC conducted its first self-assessment during the retreat with a discussion on best practices of the Committee and identification of areas for improvement. Among the other follow-up actions, the succession plan of external members of the Committee had been developed and implemented in 2019-2020, with two new external members appointed.

## **9. Engagement Outside Meetings**

- 9.1. Committee Members were provided access to AIB staff members including information in areas of their respective interests. Outside of the ARC meetings, the Chair, the external members and the Director members of the ARC met Management and staff members informally to further understand how the Bank operates on a daily basis and how AIB's policies were implemented. The teams and Management that engaged with Committee Members include the Controller's Office, Treasury, Risk Management Department, the Information Technology team, the Office of General Counsel, the Complaints-resolution, Evaluation and Integrity Unit (CEIU), the Internal Audit Office, the Chief Financial Officer, the Chief Risk Officer and the Vice President and Corporate Secretary.
- 9.2. An induction program for Ai Phing Cheng, the new external member, was developed and implemented, with AIB information (especially in ARC-related areas) shared with her and one-on-one briefings or discussions arranged with Chaly Mah, Jan Engström, the ARC secretary, the Assistant General Counsel, the Controller, the Chief Internal Audit Officer and staff members from the Risk team and the IT team.

## **Looking Ahead**

The Committee will focus on the ongoing priorities that will continue into 2020-2021. Meanwhile, the ARC will further consider the impact of the COVID-19 pandemic on the Bank's financial reporting, the quality of the investments and internal control and scrutinize Management during its execution of the Bank's corporate strategy.

## **Appendixes**

1. Terms of References for the ARC
2. Bios of the ARC Members
3. Meeting Agendas
4. Summary Table of the ARC's Recommendations



## **A.1. Terms of References for the ARC**

**Terms of Reference  
for the Audit and Risk Committee**  
Adopted May 31, 2018 and amended July 10, 2019

### **SECTION A: PURPOSE**

1. The Audit and Risk Committee is a committee of the Board of Directors (Board) established pursuant to Article 26 (vi) of the Articles of Agreement and Section 5 (b) of By-Laws of the Asian Infrastructure Investment Bank (AIIB). Its function is to assist the Board in carrying out its responsibilities as they relate to AIIB's financial reporting and audits, including (1) internal controls and risk management and (2) external audit, as part of the Oversight Mechanism.

### **SECTION B: RESPONSIBILITY AND AUTHORITY**

2. The Committee shall:
  - (i) Review AIIB's financial statements and accounting, auditing and financial reporting practices, procedures and issues.
  - (ii) Review the selection procedures for and the qualification and performance of the external auditors; review the reports from the external auditors and ensure appropriate action be taken in respect of major improvement areas identified.
  - (iii) Review the scope of work and internal audit plan and the effectiveness of the internal audit function.
  - (iv) Review the effectiveness of internal control system.
  - (v) Review AIIB's financial and risk-related policies; annually review the Bank's risk management framework and its risk appetite statement.
  - (vi) Receive reports on violations of the Prohibited Practices Policy (PPP) from the Managing Director of the Complaints-resolution, Evaluation and Integrity Unit (CEIU).
3. The Committee:
  - (i) May seek briefings on relevant auditing, accounting, financial reporting and internal controls, and risk assessment and management matters by staff member(s) designated by the President, including those the Committee has suggested.

- (ii) May seek any pertinent information from the Bank as is necessary, and which shall not be unreasonably withheld.
  - (iii) May meet with the external and internal auditors as needed; meet the external and internal auditors without Management presence at least once a year.
  - (iv) Shall consider the independence of the external auditors, including the provision of non-audit services by the external auditors to the Bank.
4. The Committee members shall fully respect and observe the confidentiality of any information provided to them.

### **SECTION C: COMPOSITION, APPOINTMENT AND TERMS**

5. The Committee shall consist of at least three and up to four Directors of the Board and two external members, including at least one regional Director and one nonregional Director.
6. The Committee members shall be free from any relationship that, in the opinion of the President, would interfere or conflict with the exercise of their independent judgment as members of the Committee. The Committee members shall inform the President of any circumstances which reasonably may be perceived to interfere or conflict with the exercise of their independent judgment as members of the Committee.
7. The term of the Committee shall be the same as the two-year term of the Board.

#### **Chair and Vice Chair**

8. The Committee shall have a Chair and a Vice Chair, selected by the Committee from among its Director members.
9. In the absence of the Chair, the Vice Chair shall serve as Chair of the Committee. When a Chair or Vice Chair ceases to be a member of the Committee, a new Chair or Vice Chair shall be selected from among the members of the Committee. No Director shall serve more than two consecutive terms (full or partial) as Chair or Vice Chair of the Committee.

#### **Director Member**

10. The Board member appointment(s) shall be approved by the Board, based on proposals made by the President after consultations with Directors organized by the Corporate Secretary, whether for initial appointments or the filling of vacancies during the term.
11. A Director may serve on the Committee for up to two consecutive terms.
12. Each Director may be represented in his or her absence by their designated Alternate Director or Temporary Alternate Director.

## **External Member**

13. The external members of the Committee shall be chosen on the basis of merit from among persons having a qualification and proven experience in a field relating to the Committee's activities.
14. To ensure the application of the immunities and privileges under AIB's Articles of Agreement to the external Committee members, they should be hired as experts or consultants. The external members shall be appointed by the President, subject to no objection being received from the Board within 10 days of their being informed of the proposed appointment. The terms of their appointment shall incorporate the AIB Code of Conduct for Bank Personnel, and provide for such compensation as may be deemed appropriate.
15. External members of the Committee shall be appointed for a term of three years, and may be reappointed once for either a full term of three years or a shorter term of one to two years.

## **SECTION D: MEETINGS, DOCUMENTS AND PROCEDURES**

### **Meetings**

16. The Committee may have physical or electronic meetings. It is expected that the Committee shall meet at least four times a year, with physical meetings scheduled to the extent possible in connection with the quarterly meetings of the Board. A summary of the meeting shall be shared promptly afterwards with non-Committee-member Directors.
17. Meetings of the Committee are convened by the Chair, or in the Chair's absence, by the Vice Chair. If both of Chair and Vice Chair are absent, the remaining Committee members shall select an acting Chair from among its Director members.
18. Two Board members and one external member constitute a quorum for meetings of the Committee, and Alternate Directors or Temporary Alternate Directors duly designated to attend in the absence of a Director shall count for the purposes of a quorum.
19. A Director, or his designated Alternate Director, Temporary Alternate Director, or Advisor may attend a Committee meeting as observer with the approval of the Chair. Such observer will not normally have speaking rights, unless permitted by the Chair. The Chair may decide to hold a Committee meeting in executive session which shall be attended only by Committee members, designated staff from the Office of the Vice President, Corporate Secretary and the Office of the General Counsel to provide administrative support and advice to the Committee, and such other persons as are specifically invited by the Chair.
20. In addition to Committee members and observers, a Committee meeting shall be open to attendance only by such members of the Bank's staff as the President may designate and such other persons as the Chair may invite.

21. The Committee Secretary shall be the Corporate Secretary, or another member of staff appointed by the Corporate Secretary.

### **Documents and Reports**

22. The Chair shall circulate in advance the agenda for each meeting, as well as all relevant documents for the meeting. Minutes of Committee meeting shall be approved by the Committee, normally on a no-objection basis. Unless a particular matter is required to be treated on a confidential basis, Committee agendas, documents and minutes shall also be copied to Directors who are not Committee members at the same time as they are circulated to the Committee.
23. The Committee may also report to the Board on their deliberations, and such reports shall be circulated to the Board reasonably in advance of its consideration of the matter.
24. The Committee shall submit minutes of its formal meetings to the Board. Its Chair shall brief the Board on the work of the Committee at the conclusion of the annual audit.
25. The Committee shall prepare an annual report to the Board of its activities.

### **Procedures**

26. As far as practicable, an item of business shall be considered by only one committee of the Board, unless otherwise agreed between the respective committee chairs, or, if need be, by the Board.
27. The Committee is not a decision-making body, but provides advice to the Board and guidance to Management. There is no formal voting in Committee on matters under consideration. The Chair shall ascertain the sense of the meeting to be included in the minutes. Reports to the Board shall reflect the views of Committee members, including minority views.
28. Where the Committee is reporting on a matter to be considered by the Board, the Committee report shall be transmitted reasonably in advance of Board consideration. When the Committee needs to take a decision on procedural or administrative matters, the decision shall be taken by a simple majority of those present.
29. The external members of the Committee may attend Board discussions on matters within the remit of the Committee, if so requested by the Board.
30. The Committee shall review its terms of reference periodically and may recommend amendments for consideration and approval by the Board.

## **SECTION E: ADMINISTRATIVE ARRANGEMENTS**

31. The channel of communication between the Committee and Management and staff shall be through the Office of the Vice President, Corporate Secretary, which shall be responsible for providing the necessary administrative services for the functioning of the Committee including providing a secretariat for the Committee and maintaining its records.

## A.2. Bios of the ARC Members



### **Emil LEVENDOĞLU, Chair**

Emil Levendoğlu has been a member of the Board of Directors since June 2017. Levendoğlu serves as the Director of International Economics in the UK Cabinet Office and is the UK's G20 and G7 Sous-Sherpa. Prior to joining the Cabinet Office in 2019, he worked for 18 years at HM Treasury in a variety of roles focusing on international and financial services policy. Throughout his UK civil service career, Levendoğlu has also worked as a consultant on financial services and development issues, with a focus on Africa. He began his professional life working in the financial services industry in London.



### **Sameer Kumar KHARE, Vice Chair**

Sameer Kumar Khare is an Additional Secretary in the Department of Economic Affairs, Ministry of Finance in India. He joined the Indian Administrative Service in 1989. He has extensive experience in development administration and policy formulation across various sectors in the Government of India over the last three decades including in finance, defense, food and public distribution, urban and rural development etc. Khare's current work portfolio includes matters pertaining to the IMF, IMF-SARTATC, multilateral development banks (World Bank, ADB, AIIB, EBRD) and international financial institutions (IFAD, GCF, GEF, GFATM, GAVI, UNDP). He was Indian Sous Sherpa in G20 and officiated as Co-chair in the G20 Framework Working Group in 2016-2017. He was Indian Director in SAARC Development Fund in 2016-2017 and currently Indian Director in AIIB. He is Government Nominee Director in United Bank of India and NIIF Trust Limited. Khare holds a B.Tech degree from Indian Institute of Technology, Mumbai and has a postgraduate degree in Business Finance.



**Wencai ZHANG, Director Member**

Dr. Wencai Zhang has been a member of the Board of Directors since February 2019. He has significant experience in the public sector, including with international financial institutions and the Ministry of Finance of China. He currently holds the position of Director General of the Department of International Economic and Financial Cooperation at China's Ministry of Finance and also represents China as Alternate Governor at the International Fund for Agricultural Development and as Director at the NDB. He previously served at the Ministry of Finance of China in various senior capacities since 1989, including as the Director General of the Department of External Economic Cooperation from 2012 to 2013 and as Deputy Director General for the International Department from 2004 to 2012. He worked on various bilateral dialogues, multilateral initiatives and cooperation with international financial institutions, including the Strategic and Economic Dialogue between China and the US, the G-20, the ASEAN+3, the Asia Pacific Economic Cooperation, the World Bank and the Asian Development Bank (ADB). Zhang served as Vice President of ADB from 2013 to 2018 and as Director for China at ADB from 2007 to 2009. From 1993 to 1996, he was Advisor to the Executive Director for China at the World Bank.



**Suminto, Director Member**

Dr. Suminto joined Indonesia's Ministry of Finance in 1996. He currently serves as Assistant Finance Minister for Macro Economy and International Finance of Indonesia. Previously, he was the Assistant Finance Minister for Government Expenditure (2018-2019), before which he served as Director of Islamic Financing (2014-2018) and Acting Director of Loans and Grants (2017-2018). He currently also serves on the Board of Directors of Indonesia Eximbank and is Commissioner of the National Social Security Council. Prior to these roles, Suminto held a variety of positions in the Directorate General Budget, Directorate General Treasury, Secretariat General and Directorate General Debt Management/Directorate General Budget Financing and Risk Management departments of Indonesia's Ministry of Finance. He earned a Bachelor of International Relations degree from Airlangga University. He holds an M.Sc. in Development Finance from Hiroshima University and a Ph.D. in Development Economics from Ritsumeikan Asia Pacific University, Japan.



**Jan ENGSTRÖM, External Member**

Jan Engström served, from 2004 to 2014, as a member of the International Accounting Standards Board (IASB), the independent international standard-setting body for financial reporting. In this position, he engaged with investors, regulators, accountancy professionals, analysts, stakeholders and others and was the primary liaison for Scandinavia, European industry and Latin American countries. He previously worked for the Volvo Group, for over 30 years in a variety of positions including Chief Financial Officer. He holds extensive experience in financial reporting, treasury, risk, planning and restructuring functions, among others. Engström is currently engaged on a non-executive basis in business in Sweden. He received his bachelor's degree from the School of Business, Economics and Law at the University of Gothenburg. He is a national of Sweden.



**Ai Phing Cheng, External Member**

Cheng was previously a Senior Partner in Assurance at Deloitte & Touche LLP for 36 years, where she served large listed and non-listed domestic and international clients in industries ranging from real estate to banking and complex financial instruments. She was also Chair of the Firm's Governance Committee for several years before her retirement from the Firm in August 2015. Currently, Cheng sits on various governmental bodies and professional associations in Singapore. She is a member of the Accounting Standards Council of Singapore and a member of the Financial Reporting Committee of the Institute of Singapore Chartered Accountants. Cheng is also an independent non-executive director of Fortune Real Estate Trust (Fortune REIT) and Prime US Real Estate Trust (Prime US REIT) listed in Hong Kong, China and Singapore, respectively. She is the Chair of the Audit Committee of Fortune REIT and a member of the Audit Committee of Prime US REIT. She is also an independent non-executive director of Citibank Singapore Ltd, one of the Domestic Systemically Important Banks in Singapore.

Cheng is a Fellow Chartered Accountant of the ISCA and a Fellow of CPA Australia. She holds a bachelor's degree in Accountancy from the University of Singapore.



### **A.3. Meeting Agendas**

#### **July 9, 2019:**

1. COSO/ICFR Implementation Update
2. Risk Reporting Dashboard
3. Update on Changes of Rating Methodologies
4. Internal Audit Updates
5. Annual Report of the ARC for 2018-2019

#### **Sep. 24, 2019:**

1. COSO/ICFR Implementation Update
2. IT Security and Risk Management Update
3. Risk Reporting Dashboard
4. PwC Communication of 2019 Audit Plan
5. Internal Audit Updates
6. External Auditors' Performance Assessment (closed session)

#### **Dec. 9, 2019:**

1. COSO/ICFR Implementation Update
2. PwC Audit Updates
3. LIBOR Transition Update
4. Revision of Financial and Risk Management Policy
5. Risk Appetite Statement and Stress Testing Results of the 2020 Business Plan
6. Review of Loan Pricing
7. Risk Reporting Dashboard
8. Internal Audit Office Updates
9. Shortlist of the Candidates for the ARC External Member

**March 30, 2020:**

1. COSO/ICFR Implementation Update
2. 2019 Financial Statements
3. Risk Reporting Dashboard
4. Modification of Treasury Risk Limits
5. 2019 Capital Adequacy Year-end Assessment
6. Internal Audit Office Updates

**For circulation, no discussion**

- a. Information Technology Update
- b. Update on Treasury Mandatory Leave and Segregation of Duties

**May 19, 2020:**

1. CFO Update
2. CRO Update
  - 2.1 Risk Reporting Dashboard
  - 2.2 Loss Given Default (LGD) Methodology Update
  - 2.3 Stress Testing

**For circulation, no discussion**

- a. Interim Update on LIBOR Transition Implications
- b. Update on the External Asset Management Program

#### A.4. Summary Table of the ARC's Recommendations

	<b>Key Observations:</b>	<b>Audit and Risk Committee's Recommendations to the Board of Directors:</b>
1	Financial Reporting	The ARC supported the 2019 Financial Statements and recommended that (i) the Board of Directors submit the audited 2019 Financial Statements of the Bank and the Special Fund to the Board of Governors with the recommendation for approval and (ii) the Board of Directors recommend to the Board of Governors to determine that the Bank's net income for financial year 2019 be allocated to retained earnings.
2	External Auditor	Committee Members recognized that PwC had been maintaining the high professionalism and reported to the Board of Directors.
3	Risk Policies	The ARC reviewed and discussed the proposed revision of <i>Financial and Risk Management Policy</i> and <i>Modification of Treasury Risk Limits</i> and recommended the Board approve the policies revision.
4	Loan Pricing	The ARC conducted the annual review of loan pricing and recommended the Board of Directors to approve the Recommendation in the President's Memorandum.
5	Risk Appetite Statement	The ARC agreed to recommend that the Board should support the Risk Appetite Statement—2020 Update and approve its top-down allocation of risk.
	<b>Key Observations:</b>	<b>Audit and Risk Committee's Recommendations to AIIB Management:</b>
1	Financial Reporting	The ARC recommended AIIB to disclose more information on sovereign loan fair value and ECL in its financial reports to ensure all stakeholders, including those without knowledge of MDBs' operations, would clearly understand the Bank's financial results, particularly the basis for sovereign loan valuation and ECL.
2	Financial Activities	Committee Members inquired as to whether there was sufficient segregation of duties within the treasury function and suggested Management consider establishing requirement of mandatory leave and consider whether the current measures of segregation of duties would be enough.
3	Risk Management	Committee Members suggested the ARC play a role in the process of developing AIIB's corporate strategy by conducting quantitative and risk- based scenario analysis.
4	Internal Control	Committee Members advised to closely monitor the IT controls which might have pervasive impact across the financial system. Committee Members advised AIIB to strike a good balance between efficiency and security while enforcing strong controls.

5	Internal Audit	Committee Members recommended that the Investment Operations Departments and the Strategy, Policy and Budget Department should be the priorities of the audit plan due to the importance of these functions to the Bank.
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