

**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.