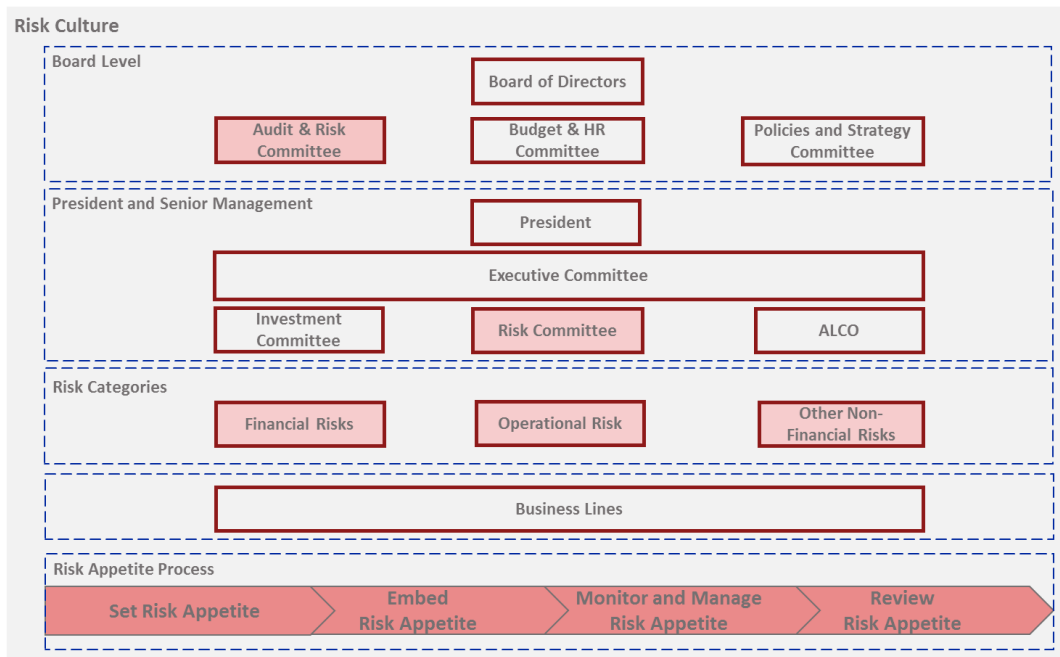


**AIIB Paper on
Risk Appetite Statement- Disclosure Document
September 2018**

1. Overriding Objectives

- 1.1. The Asian Infrastructure Investment Bank (“AIIB” or “the Bank”) is a Multilateral Development Bank (“MDB”) uniquely focused on financing gaps in infrastructure and other productive sectors, promoting economic interconnectivity, and promoting multilateral cooperation in Asia and emerging markets more broadly.
- 1.2. To ensure general adherence to sound banking principles and industry best practices, AIIB has constructed its Risk Appetite Statement (“RAS”). AIIB’s RAS fosters a culture of risk management across the organization, ensuring that risks are managed, monitored and reported in accordance within the level of Risk Appetite defined by AIIB’s President and Executive Senior Management (“ExCom”). Overall, AIIB’s RAS facilitates efficient capital management and enables the Bank to optimize its capital allocation in pursuit of its mandate.

Figure 1: AIIB’s Risk Governance



2. Risk Appetite

- 2.1. From an operational perspective, AIIB's RAS has two objectives. Firstly, it represents the formal articulation of the aggregate levels of risk the Bank is willing to accept in pursuit of its mandate. Secondly it provides the means for the identification, escalation and management of the financial and non-financial risks inherent in AIIB's strategy and operating model.
- 2.2. The key benefits of a comprehensive RAS include the development of conscious risk taking as well as a strong risk culture. The Bank's RAS identifies, quantifies and monitors the various financial, operational, and other non-financial risks taken in pursuit of its objectives. By identifying and measuring financial and non-financial risks, and holding the required capital against them, the Bank's Investment Operations can have certainty surrounding the amount of available capital required to support its core activities.
- 2.3. AIIB has determined three different levels of Risk Appetite based on (i) the impact individual risk events are likely to have on the capital position of the bank and (ii) the probability of such risk events occurring:
 - 2.3.1. Low appetite
The occurrence of individual risk events in this category have the potential to substantially damage the Bank, jeopardizing its ability to fulfill its mission.
 - 2.3.2. Medium appetite: The occurrence of these individual risk events will be significant but will not threaten the Bank in isolation. These risks are typically incurred during usual business activities – but which are not part of its strategy and goals. Such risks will be managed and minimized wherever possible.
 - 2.3.3. High appetite: The occurrence of these risk events is accepted, but closely managed. These are incurred due to the Bank's pursuit of its strategic goals and processes.
- 2.4. Finally, AIIB's RAS is monitored via a set of Key Risk Indicators ("KRIs") across the key risk categories and consists of both quantitative and qualitative metrics under baseline and stressed scenarios. Measurement against these metrics guides underlying business activities; enables the key underlying assumptions to be monitored and, where necessary, adjusted through subsequent business planning cycles; and identifies business decisions needed to mitigate risk.