

2018 BUSINESS PLAN AND BUDGET

SUMMARY

January 2018

1. The Asian Infrastructure Investment Bank (AIIB, the Bank) began operations in 2016 with an anticipated five-year start-up phase focusing on building the institution. During its initial two years, AIIB established its basic policy framework, financed its first operations and launched a first group of sectoral strategies. Membership grew from 57 to 84. Strategic partnerships with multilateral development banks (MDBs) and related organizations were established.

2. The work program outlined in the 2017 Business Plan was carried out successfully. The 2017 Business Plan Program was designed to support four strategic and institutional priorities:

- Sharpening the Bank's Strategic Focus and Shaping its Corporate Brand.
- Scaling-Up Support to Clients and Refining the Programming Approach.
- Bolstering Financial Sustainability and Paving the Way for Market Access.
- Continuing Institution Building.

3. Three thematic priorities (sustainable infrastructure, cross-border connectivity and private capital mobilization) shaped and guided AIIB's portfolio and business activities. The plan established 21 indicative performance milestones to track progress. A number of Milestones have been achieved and a few will carry over to 2018. In 2017, AIIB approved 15 projects totaling USD2.5 billion.

2020 Strategic Horizon

4. As AIIB enters its third year of operations, it has begun to sharpen its strategic vision as to what kind of institution it aspires to be at the end of 2020, the conclusion of its start-up phase. The vision will be deepened, refined and adjusted as AIIB gains additional operational experience; builds its sectoral knowledge and expertise; deepens its understanding of client needs and enhances its relationships with shareholders, partners and stakeholders.

5. At end-2020, AIIB's core infrastructure, policies, capacities and competencies required to deliver its strategy will all be in place and available to be deployed and developed as the Bank scales up its activities in the following five years. The first Corporate Strategy will be in place, providing a medium-term framework to chart the course for the Bank's subsequent growth phase. AIIB membership would be in the range of 85-95. The Bank's modern governance structure and lean operating model will be established and recognized as a positive innovation in MDB governance.

6. AIIB will continue its efforts to build a strong financial profile with continuing sound capital ratios. It will have an established presence in global capital markets, with an annual borrowing volume approaching USD3-5 billion. The Bank's organizational structure, staffing flexibility and efficient decision-making processes will position it to respond with agility to client demand and emerging needs. By end-2020, based on current plans, AIIB will be operating at a staffing level of 380-450, with a more balanced gender and nationality diversification.

7. Conditions permitting, AIIB will continue to scale up its operations to meet client needs and is projected to provide annual financing in the range of USD4.0-5.5 billion by end-2020. The three thematic priorities (sustainable infrastructure, cross-country connectivity and private capital mobilization) will increasingly shape the project pipeline, which will include operations that are likely to have transformative impacts in these three areas. AIIB's portfolio will demonstrate high quality with at least 80 percent of all projects under implementation/supervision classified as problem-free (<3 risk flags). The Project Prioritization and Quality Framework will be in full operation and there will be a strong focus on results. Finally, AIIB will actively create and broaden opportunities to engage with diverse groups of stakeholders.

2018 Business Plan

8. The 2018 program builds on and deepens the four strategic and institutional priorities outlined in the 2017 Business Plan and Budget: *Pursuing Strategic Directions, Serving Clients and Scaling-Up Operations, Bolstering Financial Sustainability and Building the Institution*. The Board approved the annual plan substantially in the form set out in the performance milestones listed below.

INSTITUTIONAL PRIORITY 1: PURSUING STRATEGIC DIRECTIONS Milestone 1: Finalize Transport and Sustainable Cities Strategies Milestone 2: Initiate and finalize a Strategy for Investment in Other Productive Sectors and a Strategy on Bank Investment in Funds and Equities
INSTITUTIONAL PRIORITY 2: SERVING CLIENTS AND SCALING-UP OPERATIONS Milestone 3: USD2.5-3.5 billion lending for 15-20 projects with a rolling pipeline Milestone 4: Implement the Project Prioritization and Quality Framework Milestone 5: Finalize energy sector results monitoring framework Milestone 6: Strengthen Operations Portfolio Monitoring System and Maintain a high-quality operations portfolio with at least 80 percent of all projects under implementation/supervision classified as problem-free (with <3 risk flags) Milestone 7: Approve at least four project preparation proposals from the Special Fund
INSTITUTIONAL PRIORITY 3: BOLSTERING FINANCIAL SUSTAINABILITY Milestone 8: Adopt comprehensive Risk Management Framework, establish the modeling foundation and initiate the tender for Phase III Milestone 9: Debut bond issue Milestone 10: Commence implementation of the Asset Liability Management and Liquidity Management Systems Milestone 11: (i) Develop and implement internal control framework, including internal financial management and (ii) strengthen the internal audit function
INSTITUTIONAL PRIORITY 4: BUILDING THE INSTITUTION Milestone 12: Finalize the Policy on Public Information by mid-2018 Milestone 13: Complete the Second Phase “Major Realization” of the IT Strategy Milestone 14: Finalize and start implementation of the Business Continuity Framework Milestone 15: Complete pilot “early learning evaluations” of at least two ongoing projects and incorporate learning into ongoing operations of the Bank Milestone 16: Establish a Complaints Handling Mechanism and outreach activities Milestone 17: Implement AIIB Internal Legal Framework and complete all major directives necessary for the operation of the Bank Milestone 18: Initiate the development of a multiyear culture building program to establish a commonly shared corporate culture and promote the behaviors and norms, including learning, that reflect these core values Milestone 19: Support new members in completing the membership process before the Dec. 31, 2018 deadline and secure letters of support from all remaining founding members of AIIB

9. **Priority 1: Pursuing Strategic Directions:** AIIB has put in place and is rolling out a program of sectoral strategies and is building a database of country infrastructure profiles to sharpen its sectoral competencies and develop business lines. In 2018, the Bank will finalize the strategies for Mobilizing Private Capital and Investment in Non-Regional Members. It will also finalize Transport and Sustainable Cities Strategies which will identify priorities, core business lines and areas for AIIB interventions. It will also prepare a Strategy on Investments in Other Productive Sectors and a Strategy on Bank Investment in Funds and Equities which will establish principles for future AIIB investments. The Energy Sector Results Monitoring Framework will also be finalized.

10. **Priority 2: Serving Clients and Scaling-Up Operations:** The key areas of focus in 2018 are: ensuring quality throughout the project life cycle through the implementation of the Project Priority and Quality Framework, ensuring portfolio screening and evaluation is in alignment with thematic priorities, strengthening operations monitoring and focusing on results, incorporating results of “early learning evaluations” into operations and deploying Project Preparation Special Fund Resources more effectively.

11. **Priority 3: Bolstering Financial Sustainability:** AIIB will continue to bolster its financial architecture by deepening the Risk Management Framework, continuing preparations to establish the Bank's presence on the international capital markets, sustaining its Triple-A credit ratings and implementing Asset Liability Management and Liquidity Management Systems.

12. **Priority 4: Building the Institution:** AIIB will continue to strengthen the interim administrative system, IT systems and other core systems as needed while concurrently accelerating the installation and operationalization of the permanent systems. It will roll out a three-year multiclustered phased program to enhance the efficiency and high performance of AIIB's human capital. It will also complete and implement its Internal Legal Framework and finalize the Policy on Public Information for Board approval. To sustain its lean business model, AIIB will continue to deepen relationships and explore concrete investment opportunities with multilateral, bilateral and other organizations.

13. An administrative budget of USD123.77 million has been approved to support the realization of the strategic and institutional priorities and the USD2.5-3.5 billion financing program outlined in the 2018 Business Plan.

14. The 2018 budget will allow AIIB to continue building its staff capacity and meet increased demand from clients in both scale and scope. Management will keep the Board informed of 2018 budget execution throughout the year and seek its approval should additional resources be needed. The 2018 proposed budget is fully consistent with Management's vision and commitment to operating a lean and cost-effective organization.