

## **Audit and Risk Committee Annual Report to the Board of Directors 2024-2025**

### **1. Introduction**

- 1.1. The Annual Report covers the period from June 2024 to May 2025 and presents the activities of the Audit and Risk Committee (ARC or the Committee) of the Asian Infrastructure Investment Bank (AIIB). The ARC has played a critical role in overseeing AIIB's financial activities, risk management practices, internal controls, and governance processes. Through regular meetings, consultations, and comprehensive briefings aligned with its Terms of Reference<sup>1</sup> (ToRs), ARC ensured effective oversight and provided informed recommendations to AIIB's Board of Directors. The Committee Chair regularly provides the Board of Directors an update on the Committee's activities, fostering transparency and accountability. By maintaining a robust control environment, effectively managing risk, and adhering to best practices and international standards, the Committee plays a vital role in safeguarding AIIB's operations and upholding its commitment to high standards.

### **2. Terms of Reference**

- 2.1. In accordance with the ToRs, the responsibilities of ARC are as follows:
- (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, the internal audit work plan and the effectiveness of the internal audit function.
  - (iv) Review the adequacy and the effectiveness of the internal control system.
  - (v) Review AIIB's financial policies, including the Bank's borrowing and investment authorities, and the asset and liability management policy.
  - (vi) Review AIIB's risk-related policies; annually review the Bank's risk management framework and its risk appetite statement.
  - (vii) Receive reports on violations of the Prohibited Practices Policy (PPP) from the Managing Director of the Complaints-resolution, Evaluation and Integrity Unit (CEIU).
- 2.2. The review of the ARC's ToR has been an important exercise to ensure continued alignment with the Bank's policies and the Committee's evolving practices. The Board of Directors approved revisions to the Terms of Reference on Dec. 21, 2020. A subsequent effectiveness review was conducted in September 2021, followed by the most recent review in September 2023. These purposeful periodic reviews are essential to maintaining the relevance, clarity, and operational alignment of the Committee's mandate within the Bank's broader governance framework.

### **3. Committee Composition**

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<sup>1</sup> [Terms of Reference for the Audit and Risk Committee](#)

- 3.1. During the reporting period, the composition of the Audit and Risk Committee changed following the Board of Directors elections in mid-2024. All Committees were reconstituted in July–August 2024, with membership confirmed in August and the Chair and Vice Chair selected in September.
- 3.2. At the beginning of the reporting period (June 2024), the Committee was comprised of Fabrizio Costa (Chair), R.M.P. Rathnayake (Vice Chair), Ahmed Kouchouk, and Zhijun Cheng, along with External Members Teresa Lin and Elisabeth Stheeman.
- 3.3. As of the date of this report, the Committee is composed of Craig Murphy (Chair), Parjiono Cipto Widarto (Vice Chair), Arno Oudijn, Pavel Snisorenko, and the same two External Members, Teresa Lin and Elisabeth Stheeman.<sup>2</sup>

## 4. Areas of Focus

- 4.1. **Financial Oversight and Policy Stewardship.** The Committee exercised its financial oversight through regular consultations on the Bank’s quarterly and annual financial statements, with particular attention to provisioning policies, loan performance across sovereign and nonsovereign portfolios, interest rate impacts, unrealized losses, and the sustainability of operating income. In reviewing the 2024 financial results, the Committee acknowledged the Bank’s record operating profit of USD1.15 billion and emphasized the importance of prudent treasury management in a shifting interest rate environment. Discussions encompassed the cost-to-income ratio, borrowing cost margins, and the accounting treatment of equity investments.

In support of sound financial governance, the Committee reviewed and endorsed updates to key financial policies. This included the 2025 Global Borrowing Authority, authorizing up to USD11 billion in long-term borrowing and USD3 billion in short-term instruments. Members recognized continued progress in credit spread tightening, investor base diversification, and long-term maturity structuring. The Committee also reviewed revisions to the Asset and Liability Management (ALM) Policy, which enhanced provisions on refinancing risk and formalized Treasury’s debt redemption practices.

- 4.2. **Capital Adequacy and the 2025 Capital Review.** A major focus of the Committee’s work during the year was its review of the Capital Adequacy and Stress Testing (CAST) Policy and the Bank’s five-year Capital Review—an institutional assessment of capital adequacy required under the Articles of Agreement at intervals no longer than five years. The Capital Review provides a forward-looking evaluation of the Bank’s capital position to ensure it remains aligned with its strategic objectives and statutory lending capacity. The Committee endorsed the recognition of a prudent share of the Bank’s existing callable capital within the Bank’s capital adequacy framework, marking a measured enhancement consistent with G20 Capital Adequacy Framework (CAF) working group recommendations. In its deliberations, the Committee reviewed baseline and stress scenarios evaluating the Bank’s capital

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<sup>2</sup> Committee members’ biographies are available [here](#).

trajectory, resilience to shocks, and financial capacity to deliver on its mandate. Discussions addressed the role of retained earnings, the implications of recognizing callable capital, and the balance between statutory constraints and the Bank's ability to respond to future crises.

- 4.3. **Risk Governance and Appetite.** The Committee maintained quarterly oversight of the Bank's Risk Report Dashboard, monitoring key indicators such as sovereign and nonsovereign Weighted Average Credit Ratings (WACRs), Risk-Adjusted Return on Capital (RAROC), liquidity ratios, and concentration risks. Particular attention was given to the rise in Stage 2 nonsovereign exposures, with the Committee seeking assurance on mitigation measures in place. The Committee also focused on Expected Credit Loss (ECL) provisioning, especially for bullet loans and sovereign exposures, and received confirmation from Management that provisioning practices remained in line with IFRS 9 standards.

In its risk governance role, the Committee reviewed and approved the 2025 Risk Appetite Statement (RAS), which incorporated adjustments to equity duration limits and the removal of the legacy cost-to-income ratio. These revisions were informed by robust analysis under the CAST framework, which confirmed the Bank's resilience under adverse scenarios. Members underscored the importance of maintaining flexibility for sovereign borrowers and continuing to refine risk methodologies across the Bank's lending portfolios where appropriate.

- 4.4. **Climate Risk and ISSB Reporting.** Recognizing the strategic importance of climate-related financial risks, the Committee continued its oversight of preparations for AIIB's inaugural Sustainability Report, applying the International Sustainability Standards Board (ISSB) framework, scheduled for release in 2025. The Committee monitored progress on data infrastructure, Scope 3 emissions accounting, and alignment with peer multilateral development banks (MDBs). Discussions addressed key challenges, including materiality assessments, methodologies and data gaps, and the plan to initiate phased assurance processes.

The Committee welcomed the establishment of Management's Sustainability Report Steering Committee, and encouraged early clarity on data collection protocols to ensure consistency and audit readiness. Members also reviewed emerging scenario analysis methodologies and discussed the integration of environmental, social, and governance (ESG) factors into credit scoring practices. The Committee emphasized the importance of adopting high transparency standards and building internal capacity, encouraging AIIB to position the Bank as a leader among MDBs in the implementation of ISSB requirements.

The Committee noted the clarification of Environmental and Social Risk in the Bank's Risk Appetite Statement—specifically, its inclusion in the credit risk assessment of the borrower and its embedding within Business and Strategy Risk. This risk is managed by ensuring that projects comply with the Bank's Environmental and Social Framework.

- 4.5. Financial Innovation and Product Reform.** ARC reviewed and supported the introduction of Climate-Resilient Debt Clauses (CRDCs) and currency conversion options in sovereign-backed financing. These enhancements aim to improve borrower resilience while preserving the integrity of the Bank's balance sheet. Members probed the cost-recovery model, pricing competitiveness, FX execution risks, and the implications of deferral clauses on risk reporting and accounting classification.

The Committee recommended cautious implementation, supported by strong borrower engagement and monitoring. ARC also encouraged Management to provide regular updates following the product launch and welcomed the Board Briefings to ensure full alignment with governance expectations.

- 4.6. Internal Audit, Assurance and Controls.** ARC reviewed updates from the Internal Audit Office (IAO) on the IAO Terms of Reference, Internal Audit Strategy, the implementation of the 2024 audit plan, and the 2025 Risk Assessment and Annual Audit Plan and its implementation. The Committee supported enhancements in the audit methodology, introduction of the Audit Practice and Innovation function, and the proactive adoption of the Global Internal Audit Standards. Members expressed particular interest in audit foresight capabilities, audit issue closure timelines, and benchmarking with peer MDBs.

The Committee reviewed quarterly updates on internal control testing under the COSO/ICFR framework. Management reported no material weaknesses in H1 and H2 2024 testing, and the number of control exceptions continued to decline. ARC underscored the importance of remediating manual workarounds, enhancing system integration, and prioritizing high-risk areas in audit reviews.

- 4.7. IT Risk and Cybersecurity.** The Committee held dedicated briefings on AIIB's evolving IT landscape, including cybersecurity, data governance, and IT strategic plan review. Topics included role-based access controls, phishing mitigation, incident response processes, and IT resourcing. ARC emphasized the importance of embedding risk thinking into digital delivery and addressing gaps in manual processes through automation. The Committee also tracked implementation of internal recommendations related to data confidentiality, IT security audits, and ethical Artificial Intelligence (AI) governance frameworks.

In addition, the Committee received a briefing on the AIIB Client Portal designed to digitize the disbursement process of sovereign clients with improved data transparency.

- 4.8. External Audit Transition and Assurance Integrity.** As PwC entered the final phase of its 10-year audit term, ARC monitored preparations for the transition to a new external auditor in 2026. The Committee received and reviewed PwC's audit work plan for 2024, discussed ICFR testing approaches, control exception sampling, and audit conclusions. ARC held annual closed-door sessions with PwC to preserve independent oversight. Members also sought clarity on PwC's regional exposures and confirmed safeguards were in place to manage reputational risks.

## 5. Outlook for 2025-2026

5.1. Looking ahead, the Audit and Risk Committee (ARC) will maintain its strategic oversight across financial, risk, and assurance domains, with a continued focus on institutional resilience and forward-looking governance.

5.2. Key areas of focus for 2025–2026 include:

- **Financial Innovation and Product Monitoring:** ARC will track the implementation and performance of new financial products, including Climate-Resilient Debt Clauses (CRDCs) and currency conversion options. The Committee will continue to assess associated risks, monitor borrower uptake, and review pricing and accounting implications.
- **Sustainability Reporting and Climate Risk Governance:** The Committee will oversee the publication of AIIB's first ISSB-aligned Sustainability Report and continue monitoring the Bank's progress in developing robust ESG data infrastructure, scenario methodologies, and assurance readiness. ARC will also review Management's integration of environmental and social risk considerations into credit scoring and risk frameworks.
- **IT and Internal Control Enhancements:** ARC will continue its oversight of internal control testing under the COSO/ICFR framework and digital risk governance. Particular attention will be paid to resolving persistent manual workarounds, improving system integration, and embedding risk thinking into digital delivery.
- **Capital Adequacy and Policy Alignment:** The Bank's Financial and Risk Management Policy is scheduled for review in 2026, building on the version last approved in 2022. ARC will support policy revisions that incorporate international best practices—particularly those emerging from the G20 Capital Adequacy Framework (CAF) and multilateral development bank (MDB) collaboration—while ensuring alignment with AIIB's statutory framework and operational realities.
- **Second-Line Risk and ALM Capabilities:** ARC will work closely with the Risk Management Department to enhance second-line functions in Asset and Liability Management, including local currency offerings, in coordination with the newly established Product Development and Management Team. The Committee will also deepen its engagement on operational risk governance and the Bank's approach to supporting sustainable portfolio growth.
- **Institutional Risk Culture and Operational Readiness:** Further efforts will be made to embed operational risk awareness and reporting across the institution. While the Bank has maintained a low nonperforming loan ratio, the Committee will continue to oversee the development of enhanced credit and restructuring processes, including lessons learned modules.
- **Digital Transformation:** As part of a broader transition of quarterly reporting, the Committee will begin receiving enhanced reporting formats, including interactive dashboards and a standardized omnibus Management Report. These changes are designed to streamline the volume of documentation, improve access to time-series data, and enable more focused deliberation. The new approach is expected to support more effective engagement by ARC while reinforcing the quality and consistency of Management's reporting to the Board.

- 5.3. Through these efforts, ARC reaffirms its commitment to strong governance, accountability, and institutional integrity, thus contributing to AIIB's long-term credibility and maturity in financing sustainable infrastructure development.

## **Annex A: Agenda of the Audit and Risk Committee Meetings (June 2024–May 2025)**

### *Reporting Period*

The following is a comprehensive list of all formal meetings, consultations, and briefings undertaken by the Audit and Risk Committee during the reporting period from June 2024 to May 2025. These engagements reflect the Committee's oversight across financial reporting, risk management, internal audit, policy review, and institutional governance. The agendas below capture both standing items and thematic discussions aligned with ARC's mandate and evolving priorities throughout the year.

#### **June 10-11, 2024: ARC Meeting**

1. Audit and Risk Committee Annual Report for 2023-2024
2. Risk Report Dashboard
3. Briefing on Scenarios for Stress Testing
4. Equity Portfolio Review
5. Briefing on Sanctions
6. ISSB Reporting Update
7. Internal Audit Office Update
8. IT Strategic Plan Review: Scope and Initial Assessment
9. COSO/ICFR Implementation Update (circulation only)

#### **June 24, 2024: ARC Briefing**

1. Asset and Liability Management

#### **August 16, 2024: Financial Consultation and Briefing**

1. Q2 2024 Financial Statements
2. Treasury Portfolio Performance Report H1 2024
3. Update on the Selection of the External Auditor

#### **September 4-5, 2024: ARC Meeting**

1. Selection of Committee Chair and Vice Chair (closed session)
2. Risk Report Dashboard
3. Internal Audit Office Update
4. COSO/ICFR Implementation Update
5. Cybersecurity
6. PwC Audit Work Plan 2024
7. Update from PwC

#### **November 14, 2024: ARC Meeting and Financial Consultation**

1. Q3 2024 Financial Statements
2. Currency Conversions for Sovereign-backed Financing
3. Climate Resilient Debt Clauses in AIIB Financing Operations

#### **November 25-26, 2024: ARC Meeting**

1. 2025 Global Borrowing Authority
2. Revision of the Asset Liability Management Policy
3. ISSB Reporting Update
4. 2025 IT BPB and Manual Workarounds

5. Revision of the Capital Adequacy and Stress Testing Policy
6. Climate-related Financial Risks
7. Internal Audit Office Update
8. Discussion with the Chief Internal Audit Officer (closed session)
9. COSO/ICFR Implementation Update (circulation only)

**December 10, 2024: ARC Meeting**

1. Risk Report Dashboard
2. Risk Appetite Statement and Report on Stress Testing

**March 17-18, 2025: ARC Meeting**

1. 2024 Financial Statements
2. Treasury Portfolio and Asset Liability Management Report
3. COSO/ICFR Implementation Update
4. PwC Independent Auditor's Report and ICFR Opinion
5. Discussion with External Auditor's (closed session)
6. 2025 Capital Review
7. Risk Report Dashboard
8. Internal Audit Office Update

**May 13, 2025: Financial Consultation**

1. Q1 2025 Financial Statements
2. External Auditor's Selection

**Annex B: Summary of Audit and Risk Committee Recommendations  
to the Board of Directors (June 2024 to May 2025)**

Key Observations		Summary of ARC Recommendations to the Board
1	Capital Review	Endorsed the 2025 Capital Review findings and recommended their submission to the Board of Governors, highlighting long-term capital sustainability, statutory lending limits, and the role of callable capital in expanding lending headroom. The Review was supported by the Board of Directors on March 26, 2025, and by the Board of Governors on April 18, 2025. The next Capital Review, according to AIB's Articles of Agreement, must be completed no later than 5 years from Q1 2025 (i.e., Q1 2030)
2	Financial Reporting	Recommended Board approval of the 2024 Financial Statements, acknowledging robust performance, earnings sustainability, and prudent financial risk management despite market volatility. The Financial Statements were approved by the Board of Directors on March 26, 2025, and by the Board of Governors on April 18, 2025.
3	External Auditor	Supported the ongoing selection process for the next external auditor, recommending early onboarding in 2025 to ensure continuity and independence as PwC's term concludes in 2026.
4	Global Borrowing Authority (GBA)	Endorsed the 2025 GBA of up to USD11 billion in long-term borrowings and USD3 billion in short-term instruments, supporting the Bank's liquidity, refinancing, and funding strategy. The GBA was approved by the Board on Dec. 11, 2024.
5	Risk Appetite Statement (RAS)	Recommended approval of the revised RAS, including updates to equity duration limits and the removal of the cost-to-income metric, aligning with evolving financial and strategic priorities. The RAS was approved by the Board on Dec. 11, 2024.
6	Capital Adequacy and Stress Testing (CAST) Policy	Endorsed revisions to the CAST Policy to prudently recognize a portion of the Bank's existing callable capital, consistent with G20 guidance, and recommended its adoption to enhance lending headroom and institutional resilience. The CAST Policy was approved by the Board of Directors on an Absence of Objection Basis and deemed approved on Dec. 9, 2024, and shall be reviewed at least once every three years.
7	Asset and Liability Management (ALM) Policy	Supported the revised ALM Policy, endorsing clearer controls over funding sources, redemption limits, and risk management practices to reflect the Bank's growth and operational maturity. The ALM Policy was approved by the Board of Directors on an Absence of Objection Basis and deemed approved on Dec. 9, 2024, and shall be reviewed at least once every three years.
8	Currency Conversions	Endorsed the introduction of post-signing currency conversions for sovereign-backed financing, with periodic reviews to monitor implementation. Changes were made to the Operational Policy on Financing (OPF) and the Pricing Policy for Sovereign-Backed Products (Pricing Policy) approved by the Board on an Absence of Objection basis on Nov. 25, 2024, with a requirement to report back to the Committee on the product's performance following a two-year review.

9	Climate-Resilient Debt Clauses (CRDC)	Supported the inclusion of CRDCs in eligible sovereign loans, recognizing their value in building borrower climate resilience, and recommended approval with a planned review after initial rollout. Changes were made to the OPF/Pricing Policy approved by the Board on an Absence of Objection basis on Nov. 25, 2024, with a requirement to report back to the Committee on the product's performance following a two-year review.
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## **Annex C: Summary of Committee Recommendations to Management (June 2024 to May 2025)**

### **I. Risk Management**

- Strengthen timely reporting and capture of operational risk incidents across all business units, including departments that did not report incidents in 2024.
- Increase visibility of high- and medium-risk operational events and improve departmental engagement in strengthening risk culture.
- Ensure more granular scenario analysis for stress testing, including climate-linked scenarios and diversified data sources beyond the International Monetary Fund's World Economic Outlook.
- Clarify mitigation plans for Stage 2 non-sovereign loans and concentration risks.
- Consider codifying the callable capital activation process and clarify prudent recognition assumptions and impacts on lending headroom.

### **II. Climate Risk and Sustainability Reporting**

- Develop a structured repository of project-level climate and ESG risks to support ISSB compliance and internal decision-making.
- Begin ISSB-aligned data collection early, ensure quality and comparability, and build-up institutional readiness for future limited assurance.

### **III. Audit and Internal Controls**

- Enhance documentation of control rationale and resolve persistent manual workarounds in key areas such as Treasury and IT.
- Standardize the audit issue extension process, ensure clear rationale from issue owners, and consider limiting the number of extensions.
- Coordinate with BUs with open audit points to discuss challenges with the ARC.

### **IV. Finance and Treasury**

- Clarify how tighter spreads affect margins and borrowing cost pass-through to clients, especially in changing rate environments.
- Explain the Bank's position on the use of retained earnings and respond to Board requests on this matter.

## **Annex D: Indicative Committee Workplan (June 2025–May 2026)**

The following indicative workplan outlines the anticipated schedule of ARC engagements for the period June 2025 to May 2026. It reflects the Committee's expected focus areas, including quarterly financial oversight, risk reporting, internal audit, and the review of major financial and risk policies. This schedule is subject to change based on institutional developments, evolving priorities, and emerging risk or policy matters requiring ARC attention.

### **June 9-10, 2025: ARC Meeting**

- Conversation with CFO and CRO
- Risk Report Dashboard
- Internal Audit Office Update
- Scenarios for Stress Testing
- COSO/ICFR Implementation Update (circulation only)

### **August 13, 2025: ARC Consultation and Briefing**

- Q2 2025 Financial Statements
- Treasury Portfolio and Asset Liability Management Report (2025 H1 Results)
- AIIB Sustainability Report

### **September 8-9, 2025: ARC Meeting**

- Risk Report Dashboard
- Internal Audit Office Update
- COSO/ICFR Implementation Update
- PwC Audit Work Plan 2025

### **November 13, 2025: Financial Consultation**

- Q3 2025 Financial Statements

### **December 1-2, 2025: ARC Meeting**

- Risk Report Dashboard
- Risk Appetite Statement & Report on Stress Testing
- Internal Audit Office Update
- 2026 Global Borrowing Authority
- Discussion with the Chief Internal Audit Officer (closed session)
- COSO/ICFR Implementation Update (circulation only)

### **March 16-17, 2026: ARC Meeting**

- 2025 Financial Statements
- Treasury Portfolio and Asset Liability Management Report (2025)
- COSO/ICFR Implementation Update
- PwC Independent Auditor's Reports and ICFR Opinion
- Discussion with External Auditor (closed door session)
- Internal Audit Office Update
- Risk Report Dashboard
- Financial and Risk Management Policy

**May 13, 2026: ARC Consultation**

- Q1 2026 Financial Statements