2024 AIIB SUSTAINABILITY REPORT

ASIAN INFRASTRUCTURE INVESTMENT BANK

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2024 AIIB
SUSTAINABILITY REPORT

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ABBREVIATIONS

Abbreviation	Description
AGT	Act Green Together
AIIB	Asian Infrastructure Investment Bank
BB	Building Block
BHRC	Budget and Human Resources Committee
CO_2e	Carbon dioxide equivalent
CRA	Climate-related Financial Risk Assessment
CRF	COVID-19 Crisis Recovery Facility
E&S	Environmental & Social
EAD	Exposure at Default
ECL	Expected Credit Loss
ESEL	Environmental and Social Exclusion List
ESF	Environmental and Social Framework
ESG	Environmental, Social and Governance
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESP	Environment and Social Policy
ESS	Environmental and Social Standard
FV	Fair Value
GDP	Gross Domestic Product
GDP PPP	Gross Domestic Product based on Purchasing Power Parity
GHG	Greenhouse Gas
GVA	Gross Value Added
HQ	Headquarters
i4t	Infrastructure for Tomorrow
ICEM	Institutional Carbon Emission Management Plan
IFRS	International Financial Reporting Standards Foundation

Abbreviation	Description
IO	Investment Operations
ISSB	International Sustainability Standards Board
MA	Materiality Assessment
MDB	Multilateral Development Bank
NSBF	Nonsovereign-Backed Financing
PA	Paris Agreement
PAA	Paris Agreement Alignment
PCAF	Partnership for Carbon Accounting Financials
S&P	Standard & Poor's
SBF	Sovereign-Backed Financing
SDG	Sustainable Development Goal
UN	United Nations
UNFCC	United Nations Framework Convention on Climate Change
USD	US Dollar

The Vinci Climate Fund Project finances the construction of solar photovoltaic plants in Brazil.

MESSAGE
FROM THE PRESIDENT

The global response to climate change cannot succeed through isolated efforts. It necessitates coordinated action that strategically aligns resources, mobilizes capital and accelerates transformation at a seemingly daunting scale.

Yet at the Asian Infrastructure Investment Bank (AIIB), we remain encouraged. Since its inception, AIIB has been steadfast in its mission to foster sustainable development across its diverse membership. Sustainability is the foundation of AIIB's operations, a point clearly articulated in AIIB's Articles of Agreement as well as in key operational policies such as the Environment and Social Framework and our Corporate Strategy. Our Corporate Strategy makes clear our commitment to sustainability for all our operations. As of July 1, 2023, all new investment operations have been aligned with the goals of the Paris Agreement. In 2024, AIIB allocated 67% of our regular financing to climate-related investments, surpassing our 2025 target of 50% stated in our Corporate Strategy for the third consecutive year. Looking toward 2030, we reaffirm our commitment to climate action with an aim to maximize climate benefits in all investments and a target to exceed a 50% share of climate finance every year.

We have also expanded our toolkit to better serve the climate transitions of our clients. Our Climate-Focused Policy-Based Financing instrument supports Member-led climate reforms to unlock financing from both the public and private sectors. The introduction of the Climate Resilient Debt Clause strengthens our clients' capacity to respond to and recover from disasters. Additionally, our successful accreditation to the Green Climate Fund enhances our ability to mobilize resources and maximize impact through flexible funding mechanisms. AIIB has also taken proactive steps to reduce the environmental footprint of our own operations, underscoring our belief that institutions must lead by example.

AIIB is taking an active role in advancing joint action to build a more resilient future. We work closely with our peer multilateral development banks, both through cofinancing projects that support our shared vision and through driving the global agenda for climate action and inclusive growth.

Financing alone is not enough. For sustainability to take root, it must be embedded in decision-making processes at every level—across institutions, investments and governance frameworks. Transparency is at the heart of this effort. This inaugural Sustainability Report represents a pivotal step in this regard. By voluntarily applying the International Sustainability Standards Board disclosure requirements, AIIB is committed to transparently reporting our assessment of the impact of sustainability- and climate-related risks and opportunities on our financial performance.

The report reaffirms our commitment to supporting sustainable development, fostering collaboration with stakeholders and inspiring transformative change for the communities and ecosystems we serve. We recognize that this is an evolving endeavor. As such, we invite you to review our progress, reflect on our lessons and join us in raising our aspirations for a more resilient, inclusive and sustainable future for all.

Jin Liqun
President and Chair of the Board of Directors
Asian Infrastructure Investment Bank

MESSAGE
FROM THE CHIEF FINANCIAL OFFICER AND THE CONTROLLER

Andrew Cross
Chief Financial Officer
Asian Infrastructure Investment Bank

Hui Fong Lee
Controller
Asian Infrastructure Investment Bank

The publication of the Asian Infrastructure Investment Bank's (AIIB) inaugural Sustainability Report marks a pivotal moment in our institutional evolution, reflecting an enduring commitment to sustainability and a dedication to transparent communication on how we manage climate and environmental risks and opportunities.

This report is guided by three strategic imperatives: reinforcing our mandate, engaging with the global capital markets and meeting the evolving expectations of our stakeholders.

Sustainability is central to our mission. Promoting sustainable infrastructure requires us to operate as a sustainable institution. This report demonstrates how we integrate climate into our operations and hold ourselves accountable.

Capital mobilization is essential and our ability to finance the "Infrastructure for Tomorrow" depends on collaboration and attracting capital at scale. Investors are increasingly considering sustainability in their investment decisions. By aligning our disclosures with global standards, we enhance our credibility, reduce perceived risk, and support our debt programs and credit rating.

Our stakeholders—including AIIB Members, investors and communities—expect leadership and clarity on climate challenges, and we believe this report delivers consistent, comparable and transparent information to meet those expectations.

While we are proud of our progress, we recognize that challenges remain. Methodology development, data consistency and the quantification of Scope 3 emissions are complex areas requiring sustained attention. We are committed to continuously improving the breadth and quality of our disclosures.

We extend our sincere appreciation to AIIB's management and staff for their leadership and professionalism, and to our stakeholders for their continued trust and engagement. We look forward to the discussions ahead and to the continued evolution of our sustainability reporting.

01

The Türkiye: TSKB Sustainable Energy and Infrastructure On-lending Facility project finances eligible climate mitigation, climate adaptation and climate industry projects in Türkiye's energy, infrastructure and other productive sectors.

INTRODUCTION

1.1 AIIB's Sustainability and Climate Credentials

AIIB's mission of financing Infrastructure for Tomorrow (i4t) underscores its firm commitment to sustainability and aligns with its thematic priorities from climate resilience to connectivity. By investing in sustainable infrastructure, AIIB unlocks new capital, new technologies and new approaches to address climate change while further connecting Asia and the world to foster economic growth and improve people's lives.

AIIB upholds the use of high international standards and principles. The Bank's operational policies govern all projects financed by AIIB, especially the Environmental and Social Framework (ESF), which incorporates the Environmental and Social Policy (ESP), Standards (ESSs) and Exclusion List (ESEL). The ESP and ESSs establish the mandatory environmental and social requirements applicable to all projects, while the ESEL sets forth the activities and items excluded from financing. Combined, the ESP, ESSs and ESEL encapsulate the Bank's environmental and social management approach. Through their compliance with the ESF, AIIB's projects adhere to good international practices and align with the standards and principles of peer multilateral development banks (MDBs).

The vision of AIIB's ESF outlines the Bank's sustainability aspirations and its role in addressing the challenge of sustainable development. Consistent with the Sustainable Development Goals (SDGs)[1], the Bank recognizes the need to address the three dimensions of sustainable development—economic, social and environmental—in a balanced and integrated manner.

The ESF outlines the Bank's commitment to mitigate and adapt to the impacts of climate change. Aligning with the Paris Agreement and with the nationally determined contributions of its Members is a crucial element of the Bank's ESF. Through the Bank's financing and policies, it supports the formulation of long-term, low greenhouse gas (GHG) development strategies for its clients. This includes the support of Members' specific policy and institutional reform actions to address their climate mitigation and adaptation.

[1] More information on AIIB's portfolio and project results, mapped to the SDGs, can be found in the annual Impact Reports. (https://www.aiib.org/en/news-events/impact-reports/sustainability-bond-impact/overview/index.html).

The Kazakhstan: Shokpar 100 MW Wind Power Project is helping turn the country's 2050 renewable energy plans into an achievable reality. It is AIIB's second wind power project in Kazakhstan, after the Zhanatas 100 MW Wind Power Plant.

To this end, in 2020, the Board approved its first Corporate Strategy i4t,[2] requiring that all investments be:

- Financially and economically sustainable in terms of financial returns and economic impact, which generate positive economic returns and do not exacerbate a country's debt sustainability.
- Socially sustainable and inclusive in terms of addressing direct and indirect impacts, especially on displaced people, vulnerable groups and community health and safety.
- Environmentally sustainable in terms of addressing direct and indirect impacts on the physical and biological environment, such as water and air quality, biodiversity, local pollution, climate change and water use.

In addition, the Bank's focus on sustainability is demonstrated by requiring all its investments across infrastructure and other productive sectors to ordinarily add value through one or more of AIIB's four thematic priorities:

- **Green Infrastructure.** Encompasses projects that deliver local environmental improvements, including biodiversity and nature-based solutions, and investments dedicated to climate mitigation and adaptation actions.
- **Connectivity and Regional Cooperation.** Encompasses projects that facilitate better domestic and cross-border infrastructure connectivity within Asia and between Asia and the rest of the world. It also supports projects that complement cross-border infrastructure connectivity by generating direct and measurable benefits in enhancing regional trade, investment, and digital and financial integration across Asian economies and beyond.
- **Technology-Enabled Infrastructure.** Encompasses projects where the application of technology delivers better value, quality, productivity, efficiency, resilience, sustainability, inclusion, transparency or better governance throughout the full project life cycle.
- **Private Capital Mobilization.** Encompasses projects that mobilize private financing into sectors within AIIB's mandate.

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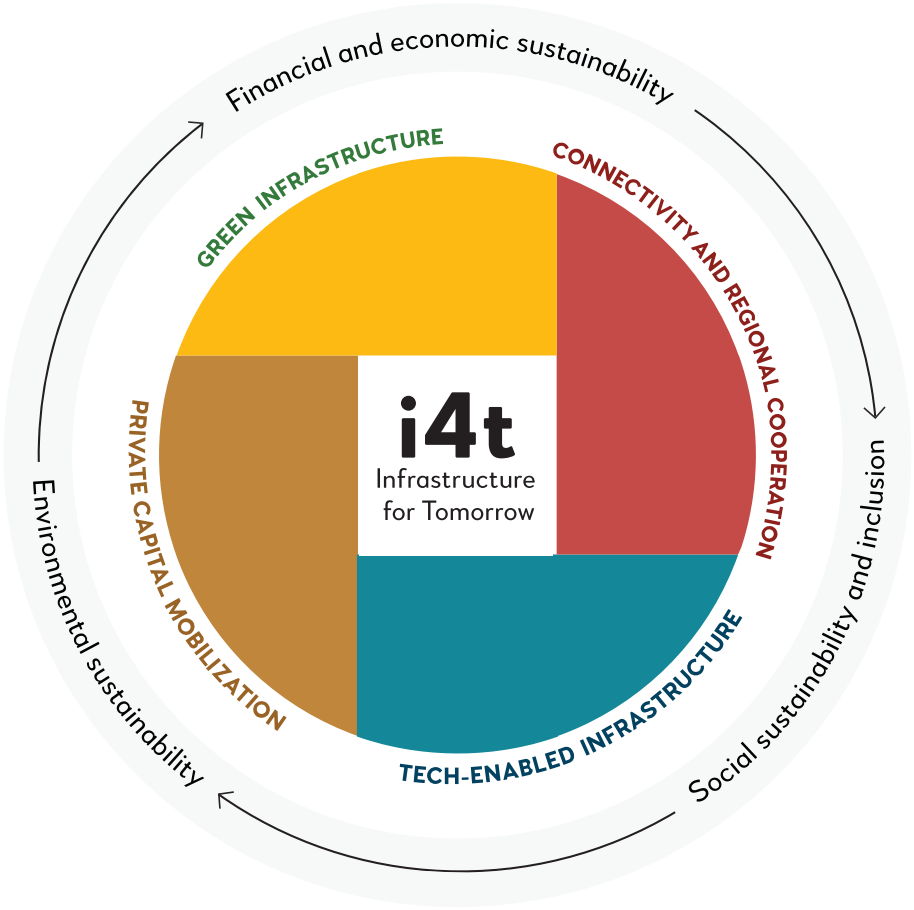
[2] More information on AIIB's Corporate and Sector Strategy can be found on AIIB's website (https://www.aiib.org/en/policies-strategies/strategies/corporate-strategy.html). More information on progress reporting can be found in the Bank's Annual Report (https://www.aiib.org/en/news-events/annual-report/overview/index.html).

Figure 1: Encompassing the Bank's Thematic Priorities—AIIB's "Sustainability Wheel"



To monitor and report its progress in realizing this mission, AIIB has identified three corporate strategy targets:

- **Climate Financing.** Maximizing climate benefits in all investments, aiming to exceed a 50% share of climate finance in its actual financing approvals every year until 2030.
- **Cross-Border Connectivity.** Reaching by 2030 a 25% to 30% share in actual approved financing.
- **Private Sector Financing.** Reaching by 2030 a 50% share in the Bank's actual approved financing plus private direct capital mobilization.

The Bank's existing initiatives on climate action (including the climate finance target mentioned above, aligning new investment operations with the Paris Agreement since July 1, 2023, the carbon neutral target on institutional operations and related institutional carbon footprint disclosures, as well as the issuance of sustainable bonds and impact reports) provide a robust foundation for developing the inaugural 2024 Sustainability Report, by applying the requirements of the International Sustainability Standards Board (ISSB) (see Table 1).

AIIB, alongside other MDBs, welcomes the work of the ISSB and supports the creation of a meaningful global baseline for climate- and sustainability-related financial disclosures, providing transparency to all the Bank's Members, investors, clients, personnel and stakeholders. The inaugural 2024 Sustainability Report affirms the Bank's long-standing commitment to sustainability and its strong accountability in its investment operations.

Table 1: AIIB's Sustainability (Including Climate) Action Highlights

Year	Highlight
2015	57 founding Members sign AIIB's Articles of Agreement requiring the Bank's operations to comply with operational and financial policies, including, without limitation, policies addressing environmental and social impacts
2016	AIIB launches its Environmental and Social Framework (ESF): including the Environmental and Social Policy, Standards and Exclusion List
2018	AIIB receives its first environmental, social and governance (ESG) ratings by Sustainalytics and ISS-ESG, and from 2019 by Moody's (ex-Vigeo Eiris)
	AIIB develops its first SDG-mapping approach linking its operations with the SDGs
2019	AIIB issues its inaugural USD Sustainable Development Bond
	AIIB achieves its first carbon neutral Annual Meeting, as disclosed at UNFCCC
2020	AIIB launches 2030 Corporate Strategy (i4t, 50% Climate Finance target by 2025 and commitment to alignment with the Paris Agreement)
	AIIB participates in the launch of the Joint Report on MDBs' Climate Finance
2021	AIIB publicly commits to align with the goals of the Paris Agreement for all new investment operations by July 1, 2023
	AIIB adopts its Sustainable Development Bond Framework
	AIIB releases its inaugural Sustainable Development Bond Impact Report
2022	AIIB releases its first carbon footprint report for its internal operations in accordance with ISO 14064-1:2018
2023	AIIB's new financing investment operations are aligned with the Paris Agreement from July 1, 2023
	AIIB, alongside other MDBs, welcomes the work of the ISSB and the use of the ISSB disclosure requirements by certain jurisdictions
	AIIB publishes its Climate Action Plan
	AIIB creates a Bank-wide Sustainability Report Steering Committee to facilitate disclosure efforts towards the first Sustainability Report
2024	AIIB publicly commits to release its first Sustainability Report in 2025, voluntarily applying the ISSB disclosure requirements
	AIIB Headquarters in Beijing is completely powered by renewable sources
	AIIB Annual Meeting in Uzbekistan receives ISO 20121 Sustainable Event Certification
2025	AIIB updates its Corporate Strategy and reaffirms its commitment to climate finance, setting an ambitious target to exceed a 50% share of climate finance of total financing every year until 2030
	AIIB launches its ESG Investment Framework for its treasury liquidity portfolios to amplify its dedication to responsible investing strategies
	AIIB publishes its inaugural Sustainability Report

1.2 Reporting Scope and Framework

With this inaugural Sustainability Report, AIIB voluntarily discloses sustainability- and climate-related information by applying the ISSB Standards.[3]

This report aims to cover the climate risks and opportunities that could reasonably be expected to affect AIIB's prospects, financial position, financial performance and value chain over the financial reporting period from Jan. 1 to Dec. 31, 2024.

In this report, climate risks and opportunities are considered from two distinct dimensions:

- Climate risks and opportunities from the Bank's operational and policy perspective (see Sections 3.2-3.4, 4.1.1 and 4.2).
- Climate-related financial risks, such as those driven by climate events that manifest financially through traditional risk areas; under current AIIB practices, these are mostly observed through credit and market risks. The definition adopted in this case is aligned with the Basel Committee's *Principles for the effective management and supervision of climate-related financial risk*.[4] For more detailed analysis, see Sections 3.1, 4.1.2 and 4.3.

To support its inaugural reporting efforts, the Bank used the transition relief measures provided by the ISSB, including:

- **"Climate-first" reporting.** The disclosures provided throughout this report focus on climate-related risks and opportunities, in line with IFRS S2 disclosure requirements.
- **Timing of reporting.** The inaugural 2024 AIIB Sustainability Report is published together with the mid-year financial report for the second quarter of 2025.
- **Comparative disclosures.** Considering that this report is the first publication of its kind, no comparative information is provided with respect to any previous financial reporting year.
- **Financed emissions.** The Bank has initiated a project to develop its internal capabilities for calculating Scope 3 Category 15 "financed emissions", both for its lending (investment operations) and liquidity management (treasury investment) portfolios. For the inaugural 2024 Sustainability Report, AIIB has voluntarily made available several disclosures (see Section 5). Additional disclosures may be introduced progressively, being mindful of the efforts required to develop meaningful results.

[3] For more information, see *Voluntarily applying ISSB Standards—A guide for preparers* (https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/issb-voluntary-application-preparers.pdf)

[4] Basel Committee on Banking Supervision (2022) Principles for the effective management and supervision of climate-related financial risks (https://www.bis.org/bcbs/publ/d532.pdf)

02

AIIB Boardroom

GOVERNANCE

2.1 Governance at the Board Level

All powers of AIIB are vested in the Board of Governors, the highest decision-making body under the Bank's Articles of Agreement, representing all its Members. The Board of Governors delegates the exercise of much of its authority to the Board of Directors (Figure 2).

The Board of Directors, comprising 12 members, is responsible for guiding the strategic direction of AIIB's operations. This includes formulating policies and strategies, as well as overseeing their implementation. Quarterly Board meetings, supplemented by other formal and informal meetings, when necessary, ensure regular engagement with AIIB's management.

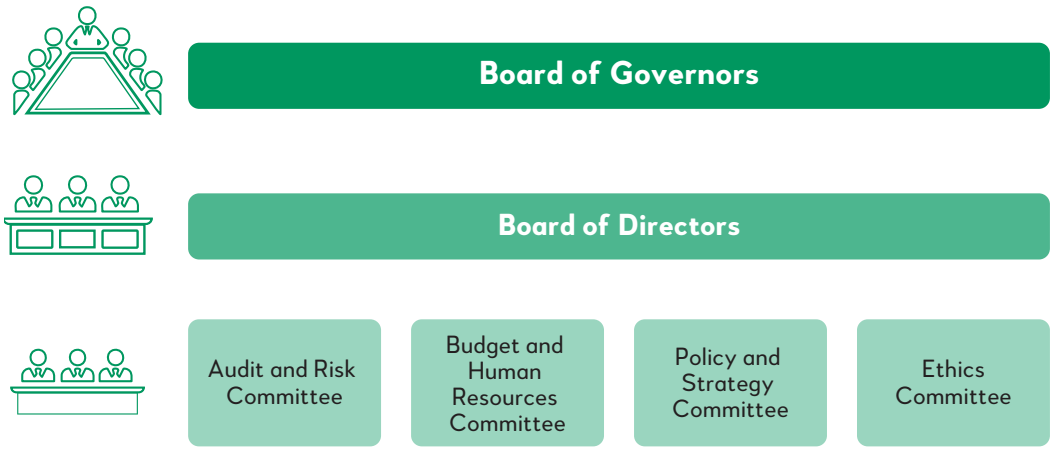
The Board of Directors established four committees to support its work: the Audit and Risk Committee, the Budget and Human Resources Committee, the Policy and Strategy Committee and the Ethics Committee.

Given the distributed nature of climate risks and opportunities, including their impact on AIIB's financing operations, investment activities, risk management processes and reporting, oversight of climate-related matters is divided at the board level between the Audit and Risk Committee and the Policy and Strategy Committee:

- The Audit and Risk Committee reviews AIIB's climate-related financial risk management and reporting. Since December 2023, the Committee has been monitoring the Bank's progress in gradually implementing ISSB requirements, receiving semi-annual updates from the Sustainability Report Steering Committee, and examining the Sustainability Report before publication.
- The Policy and Strategy Committee reviews AIIB's operational policies (other than financial- or risk-related policies), including but not limited to environmental, social and procurement policies, and advises on the development of the Bank's climate and sustainability business strategic approach and reports to the board accordingly.

The Board of Directors provides oversight of climate-related risks and opportunities, ensuring that AIIB's strategic direction and policies appropriately address these considerations. In implementing Board-approved policies and strategies, AIIB management is responsible for the timely identification, assessment and management of climate-related risks and opportunities. It is also responsible for integrating climate-related risks and opportunities into AIIB's operations, investment decisions, risk management processes and reporting processes.

Figure 2: Board Governance at AIIB



2.2 Governance at the Management Level

The Board of Governors elects the President, who acts as the legal representative of the Bank and oversees its day-to-day business operations, including any climate- or sustainability-related financing.

Table 2 presents the list of management-level committees responsible for overseeing climate-related risks and opportunities at AIIB, their primary roles and responsibilities, as well as the frequency of their meetings. All management-level committees are accountable to the President.

AIIB has publicly disclosed its policy on compensation and benefits.[5] While the compensation of AIIB's Board of Directors and Executive Committee members is not directly linked to specific sustainability- or climate-related targets, all actions of the Board of Directors and senior management are fundamentally motivated by the goal of promoting sustainable economic and social development. All AIIB personnel are mandated to always comply with the Bank's policies and procedures.

[5] AIIB's policy on compensation and benefits (https://www.aiib.org/en/about-aiib/who-we-are/role-of-law/.content/index/_download/AIIB-Policy-on-Compensation-and-Benefits_Revision_January-2022.pdf)

AIIB Headquarters in Beijing, China

Table 2: AIIB's Governance Framework at the Management Level on Climate-related Risks & Opportunities

Management Committee	Chair	Roles and responsibilities	Meeting frequency
Executive Committee	President	Advises the President on all matters of Bank-wide interest and significance, including those related to climate and sustainability.	Fortnightly
Management Committee	Alternating Chair, depending on agenda	Serves as a formal consultative body for AIIB's policies, strategies and any ad hoc matters of Bank-wide interest, including those related to climate and sustainability.	Ad hoc
Investment Committee	Chief Investment Officer	Reviews selected operations, inclusive of climate, environmental and social considerations, prior to their submission for approval by the Board of Directors or the President.	Ad hoc
Risk Committee	Chief Risk Officer	Principal forum where all matters related to key risks are considered, ensuring that AIIB's Financial and Risk Management Framework is implemented across the Bank. Responsibilities extend to the management of climate-related factors in credit and market risks.	Monthly
Sustainability Report Steering Committee	Chief Financial Officer Vice President, Investment Solutions	Spearheads and orchestrates Bank-wide efforts to develop the Sustainability Report, including defining the scope and content of the disclosures.	Bimonthly


03

STRATEGY

3.1 Materiality Assessment

3.1.1 Identification of Climate Risks

As an MDB, AIIB acknowledges that its primary climate risks reside in the lending and investment portfolio (Table 3).

To identify and understand the significant climate-related risks and opportunities that could materially impact its business, AIIB conducted a comprehensive materiality assessment.

Table 3: IFRS S2 Definitions of Climate-related Physical and Transition Risks

Climate-related physical risks	Climate-related transition risks
Chronic climate-related physical risks arise from longer term climate shifts, including changes in precipitation and temperature, which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity. **Acute climate-related physical risks** arise from weather-related events such as storms, droughts, floods or heatwaves.	**Climate-related transition risks** are a result of the adjustment toward a low-carbon economy, which includes stricter emissions regulations, shifting consumer preferences and technological advancements. These may result in adjustments in means of production, asset values, investments and business models.

The climate-related risks above could impact the Bank's value chain through both microeconomic and macroeconomic channels, generating a financial impact on its clients and, consequently, on its financial performance.

The climate-related physical risks at the individual location level could damage AIIB or its counterparties' properties directly or cause business disruptions. On a macro level, physical risks can contribute to capital depreciation, divert investment to mitigation and adaptation, and influence key economic factors such as output, government revenues, interest rates and exchange rates. These micro and macro transmission channels could manifest in credit, market, operational and liquidity risks.

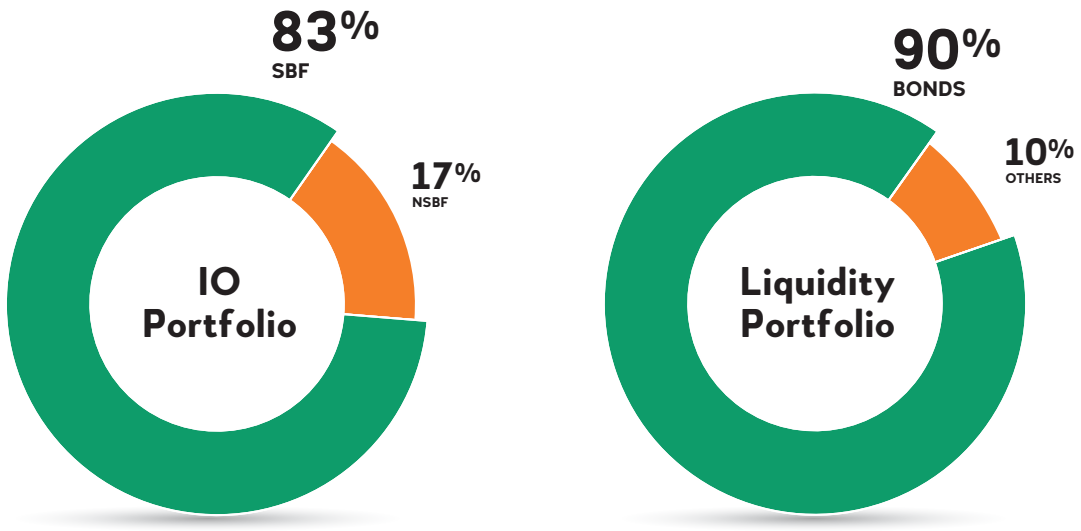
Climate-related transition risks could strand assets, necessitate new capital expenditures, and lead to legal liability claims due to a failure to mitigate or adapt to climate change at the individual business level. On a macro level, transition risks could lead to changes in a country's industry structure, trade balance and inflation rate, as well as impact different groups of people. These micro and macro transmission channels could manifest in credit, market, operational and strategic risks.

3.1.2 AIIB's Overall Exposure to Climate Risk

AIIB's total portfolio exposure under the scope of the materiality assessment is USD72.1 billion as of Dec. 31, 2024, comprising the investment operations (IO) portfolio and treasury liquidity portfolio. The exposure at default (EAD) for the materiality assessment of the IO portfolio is proxied by the net signed amount,[6] excluding prepaid, closed, matured and cancelled loans. The EAD under materiality assessment for the liquidity portfolio is proxied by the notional amount, excluding derivative instruments.

The IO portfolio is largely made up of sovereign exposures[7] (83%), followed by nonsovereign exposures[8] (17%) with diverse financing types. The treasury liquidity portfolio skews heavily towards bonds (90%), with issuers being sovereigns, financial institutions, supranationals and government agencies. Figure 3 summarizes the composition of the portfolios in the scope of the materiality assessment.

Figure 3: AIIB's IO Portfolio and Liquidity Portfolio in the Scope of the Materiality Assessment



IO = Investment Operations, NSBF = Nonsovereign-backed Financing, SBF = Sovereign-backed Financing

3.1.3 Approaches to Assess the Materiality of Climate-related Risks

To identify climate risk hotspots within its IO and liquidity portfolios, the Bank assesses both physical and transition risks.

6 Reflecting both exposure outstanding and committed undrawn amount with binding obligations
7 Referred to as Sovereign-backed Financing at AIIB
8 Referred to as Nonsovereign-backed Financing at AIIB

Physical Risk Assessment Approach
Since a significant proportion of the Bank's lending portfolio relates to SBF, the climate-related physical risk assessment evaluates country-level vulnerability to physical risks triggered by climate change. Specifically, the assessment examines both acute and chronic physical risks, measured through factors such as exposure, sensitivity and adaptive capacity, as well as a country's climate readiness (ability of a country to leverage investments and convert them to adaptation actions). The physical risk level is evaluated using the 'Country of Primary Exposure' location data provided by the Notre Dame Global Adaptation Initiative (ND-GAIN) country index,[9] which offers proxies for vulnerability and adaptation across 45 indicators. In this framework, a lower ND-GAIN score signifies higher vulnerability and reduced readiness to strengthen resilience against climate change.

Physical risk materiality for the Bank's portfolios is determined based on country-level ND-GAIN score tiers, where the top 20% of countries are considered to be at low risk, the middle 60% at medium risk and the bottom 20% at high risk.

Transition Risk Assessment Approach
AIIB assesses the exposure of obligors and issuers to climate transition risks using a comprehensive evaluation framework. High transition risk is determined using a proxy based on industry classifications informed by expert insights and supported by AIIB's business unit assessment, along with reference data from Moody's Environmental Heat Map. This framework evaluates multiple dimensions of transition risk, including government policy changes, technological evolution and modifications in consumer behavior as outlined in the Network of Central Banks and Supervisors for Greening the Financial System scenarios, as well as key market factors like GHG emissions and inherent risk/leverage levels.

For the IO nonsovereign and treasury liquidity portfolios, transition risk is evaluated based on the industry of the project obligor or bond issuer, with each entity's risk level directly aligned to its industry classification.

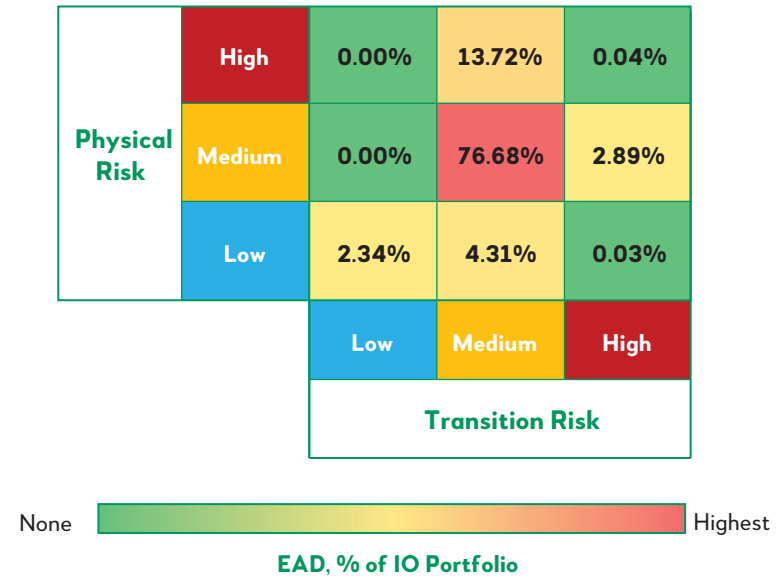
For the IO sovereign portfolio, transition risk is assessed by examining how a Member's shift toward a low-carbon economy exposes it to risks associated with its primary industries. The evaluation considers the Member's economic structure, with a higher risk in economies that rely heavily on high GHG-emitting sectors. Using the Gross Value Added (GVA) index from Fitch Solutions as a proxy for industry composition, the overall risk is determined as follows: high risk if over 39.3% of GVA comes from high-risk industries, medium risk if between 9.3% and 39.3% comes from high-risk industries, and low risk if less than 9.3% does (reflecting the top 20%, middle 60% and bottom 20% of the distribution, respectively).

3.1.4 Materiality Assessment Results

Summary of the Results
Overall, the IO portfolio (including both sovereign and nonsovereign exposures) exhibits medium-to-high inherent climate risk, with a high concentration in emerging and developing economies. A small portion of the IO portfolio is exposed to low climate risk, mostly consisting of bonds and tradable financial assets within the nonsovereign portfolio. This is reflected in Figure 4, which presents a matrix of materiality assessment results for AIIB's investment operations portfolio, where each cell represents the exposure level in the IO portfolio.

[9] ND-GAIN Methodology, 2024 (https://gain.nd.edu/our-work/country-index/methodology/)

Figure 4: Country-level Materiality Assessment Matrix of the IO Portfolio as of Dec. 31, 2024



EAD = Exposure at Default, IO = Investment Operations

Conversely, the treasury liquidity portfolio consists of highly liquid, investment-grade assets in economies that are generally more resilient to climate risks. It consequently exhibits low overall climate-related physical and transition risks.

Physical Risk Assessment Result

For the IO Portfolio (both sovereign and nonsovereign), 79.57% of exposure is in countries classified as medium physical risk, and 13.76% is in countries with high physical risk. Most of the exposure is concentrated in developing economies. Although the overall exposure is medium to high, the Bank's mandate, as reflected in the Corporate Strategy and the mission of Financing i4t, remains to support Members, even when vulnerabilities are present. In keeping with that mandate, the Bank remains committed to supporting these Members rather than reducing its involvement. In doing so, the Bank will continue its efforts in minimizing climate risks at the project level by conducting thorough climate-related due diligence to ensure high project quality.

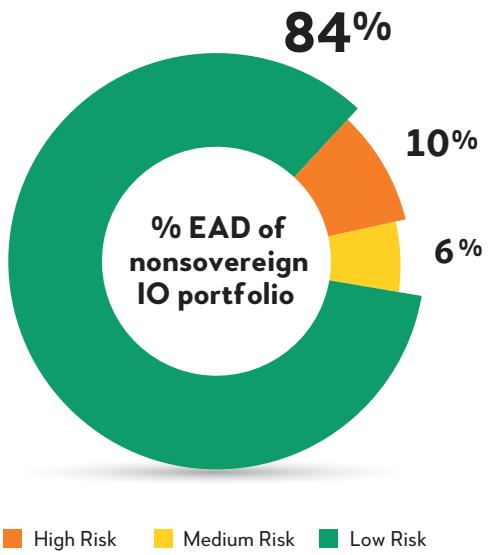
For the liquidity portfolio, almost all of the exposure (95%) is in countries with low physical risk, rendering the physical risk component immaterial for this portfolio.

Transition Risk Assessment Result

For the IO sovereign portfolio, 94.71% of exposure is in countries with medium transition risk, with 2.96% in countries classified as having high transition risk. This risk profile is primarily driven by developing economies (which rely heavily on industries such as transportation and agriculture that are especially vulnerable to transition risks), which form the core of the IO portfolio. By investing in infrastructure and other productive sectors, the Bank supports its Members' sustainable transition toward a low-carbon economy.

For the IO nonsovereign and treasury liquidity portfolios, transition risk is assessed based on the industry of the underlying obligor or issuer. The nonsovereign IO portfolio has limited exposure to industries with high or medium transition risk, comprising only 16% of its total exposure (see Figure 5). Notable high-risk exposures include conventional power generation, aviation/airport and natural gas facilities, while most investments are concentrated in industries with low transition risk, such as renewable power generation, financial institutions or diversified sectors. Similarly, the

Figure 5: Industry-level Transition Risk in the IO Nonsovereign Portfolio as of Dec. 31, 2024



EAD = Exposure at Default, IO = Investment Operations

liquidity portfolio has low industry transition risk exposure, with 90% of its holdings in bonds from issuers classified as low risk, and the remaining instruments either falling under low risk or being outside the scope of the climate materiality assessment.

The materiality assessment provides an initial qualitative view of transition and physical risk hotspots within AIIB's portfolios, which serves as an ongoing hypothesis to be further validated through the quantitative Climate-related Financial Risk Assessment (CRA). (See Section 4.1.2).

3.2 AIIB's Strategic Approach to Climate Action

3.2.1 Overview of AIIB's Climate-related Strategy

Providing financing for climate action is a central component of the Bank's strategy. AIIB's dedication to climate and sustainability is reflected in its Corporate Strategy, Environmental and Social Framework and Climate Action Plan, which guide climate-conscious investment practices and decision-making.

As part of AIIB's mission to finance i4t, Green Infrastructure is one of the Bank's four thematic priorities, enabling the Bank to support its Members in achieving climate and sustainable development goals by financing projects that mitigate climate change, enhance resilience and deliver co-benefits such as biodiversity conservation and improved local environmental conditions. In 2024, 50 out of 51 (98%) of AIIB's newly approved projects were aligned with the Green Infrastructure thematic priority. Climate finance accounted for 67% of total AIIB financing approvals in 2024, up from 60% in 2023.

AIIB has surpassed a 50% share of financing approvals for climate finance for the last three consecutive years, a target originally set in the Corporate Strategy to be achieved by 2025. To further drive climate action, the Bank reaffirmed its commitment to maximizing climate benefits in all investments, aiming to exceed a 50% share of climate finance in its actual financing approvals every year until 2030. This also supports the broader goal set by parties under the United Nations Framework Convention on Climate Change to mobilize USD300 billion annually by 2035.

By the end of 2024, AIIB had approved a cumulative USD19.77 billion in climate finance, out of USD39.40 billion in total regular financing approvals. Of the total climate financing in 2024, 73% was for climate mitigation, while 27% supported climate adaptation. The number of projects contributing to climate finance also grew steadily, reaching 178 (76% of the total number of regular financing projects). AIIB estimates that cumulative climate finance approvals will exceed USD50 billion over the strategy period 2021-2030.

Since July 1, 2023, AIIB has ensured that all new investments are aligned with the Paris Agreement, embedding climate considerations into project design, preparation and implementation. More specifically, its "Energy Sector Strategy" reinforces this commitment by aligning energy investments with both climate mitigation and adaptation goals, imposing strict limits on fossil fuel financing while prioritizing low-carbon solutions. AIIB also supports Members' just transitions to low-carbon pathways, including efforts to mitigate the adverse socioeconomic impacts of energy transition, particularly in Members where the fossil-fuel sector constitutes a significant share of economic activities. In these instances, there may be support for conventional energy companies as they seek to diversify and reorient their businesses into clean energy.

3.2.2 Climate-related Opportunities

As an MDB, AIIB considers climate financing a significant opportunity to meet its strategic objectives while enhancing financial performance. The four guiding principles of AIIB's Climate Action Plan[10]—Client Focus, Impactful, Catalytic and Innovative—have been developed based on the Bank's understanding of evolving member needs in the climate transition and its assessment of the opportunities to create the greatest impact.

CLIENT FOCUS

AIIB delivers tailored solutions adapted to meet the diverse needs and circumstances of its Members through long-term engagement and customized financing. For instance, AIIB's Climate-Focused Policy-Based Financing instrument aims to strengthen policy and regulatory frameworks and accelerate Members' transition towards a low-carbon and climate-resilient future.

The Climate Resilient Debt Clause further enhances resilience by allowing temporary debt deferral for sovereign Members facing climate shocks, with a pilot phase from 2025 to 2027.

AIIB also leverages concessional resources through global partnerships such as the Green Climate Fund, enabling blended finance solutions to attract private capital. Additionally, AIIB is advancing multi-year sovereign financing pipelines and fostering collaboration with MDBs and national stakeholders to drive systemic climate action and investment at scale.

IMPACTFUL

AIIB prioritizes high-impact investments that mitigate climate change, enhance adaptation, and deliver co-benefits for nature and biodiversity. Given Asia's high exposure to climate hazards, AIIB assists Members in adjusting and preparing for the current and projected impacts of climate change through infrastructure solutions. Recognizing the untapped

[10] For more details, see AIIB's Climate Action Plan (https://www.aiib.org/en/how-we-work/paris-alignment/_download/AIIB-Climate-Action-Plan.pdf)

potential in climate adaptation, AIIB aims to demonstrate long-term value and attract private capital by enabling adaptation investments, with a particular focus on urban resilience, water management, and, where feasible, the integration of nature-based solutions.

On mitigation, AIIB supports the clean energy transition and GHG reduction across infrastructure and hard-to-abate sectors, emphasizing energy efficiency, sustainable resource use and circular economy principles. The Energy Sector Strategy underscores AIIB's commitment to renewable energy and low-carbon technologies while strictly limiting fossil fuel financing.

Nature-based solutions are integral to AIIB's approach, treating natural ecosystems as critical infrastructure. The Bank continues to explore the promotion of forest conservation and innovative financing structures like nature bonds and debt-for-nature swaps to mobilize private capital.

CATALYTIC

To unlock more private capital for climate, AIIB sees promising opportunities through diverse financial tools and structures, including securitization to attract institutional investors, green and climate bonds with sovereign partners to lower perceived risks, and infrastructure asset trusts to increase investor confidence while scaling investments. Derisking mechanisms, such as longer tenor loans, first-loss products and local currency financing, further encourage private sector participation.

Through its Sustainable Development Bond Framework, the Bank also raises climate-specific funding, including Asia's first Climate Adaptation Bond.

By blending internal or external concessional finance with private investment, the Bank can create large-scale investment vehicles, improving project bankability and accelerating the flow of climate finance across Asia.

INNOVATIVE

AIIB also sees an opportunity to accelerate the pace of innovation and the deployment of effective solutions to meet net-zero and resilience goals. Through its thematic focus on technology-enabled infrastructure, AIIB supports the development, commercialization and large-scale adoption of climate technologies. It prioritizes both early-stage support and large-scale deployment of proven solutions.

AIIB is addressing the gap in climate technology investment by channeling capital into venture investments and strategic partnerships, such as the Venture Capital Investment Program for Green and Technology-enabled Infrastructure, which continues to mobilize capital to accelerate the commercialization of high-potential climate tech solutions. The InfraTech Portal catalyzes opportunities by bridging the information gap between technology providers and infrastructure stakeholders.

Beyond early-stage investments, AIIB also sees opportunities in financing the large-scale adoption of proven technologies, such as clean hydrogen, transport electrification, offshore wind and energy storage, which are essential for the long-term decarbonization of the economy.

3.3 Impacts of Climate-related Risks on AIIB's Strategy and Business Model

In alignment with its mission, AIIB expects to operate in and provide financing to projects in countries with medium to high physical risk. Strategically, AIIB has accepted this climate-related risk in the SBF portfolio. Considering the results of the materiality assessment and CRA, the financial impact of such climate-related risks on the Bank's financial performance is currently immaterial. The Bank's current strategies, policies and business model prove highly relevant in delivering its mandate and supporting sustainability; therefore, AIIB does not anticipate any changes so far. In an update to the Corporate Strategy in June 2025, AIIB reaffirmed its commitment to climate sustainability and set a target to exceed a 50% share of climate finance in actual financing approvals every year until 2030.

3.4 Climate Transition Plans

3.4.1 Climate Transition for Investment Operations

The Bank's Paris Agreement Alignment (PAA) commitment not only supports the climate transitions of clients by financing projects aligned with low-carbon, climate-resilient development pathways, but also progresses the Bank's own journey towards managing its financed emissions.

AIIB's PAA approach is guided by the framework developed jointly by the MDBs. Following the adoption of the Paris Agreement in 2015, the MDB group began working on a joint methodological framework to align with the goals of the treaty.[11] Over the past few years, MDBs have been collaborating to develop a common understanding of what PAA entails operationally. The framework defines six core areas of work, known as building blocks (BBs), as presented in Figure 6.

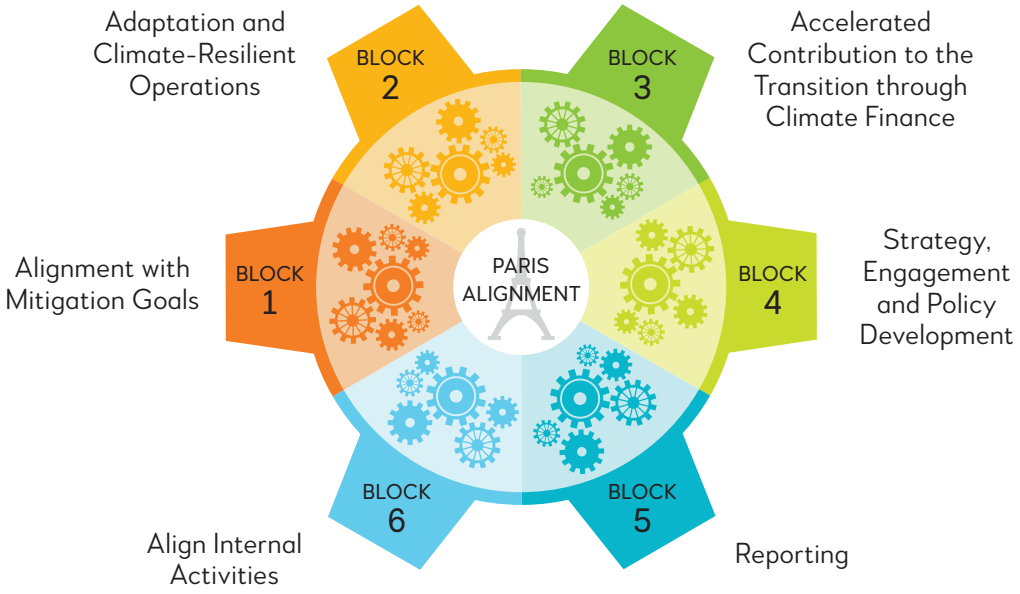
The two building blocks related to the alignment of investment operations are BB1 (for mitigation) and BB2 (for adaptation/resilience). To be considered PA-aligned, an investment operation must be aligned with both.

The Bank has made significant efforts to ensure the smooth operationalization of the PAA commitment:

- Several focused training sessions and capacity building initiatives have been developed on AIIB's Paris Agreement methodology.
- Paris Agreement considerations are now fully integrated throughout the entire project cycle.
- Potential issues are proactively identified as early as at the project screening stage, wherever possible. A climate specialist is fully integrated into the project teams to ensure rigorous climate-related due diligence.

[11] See COP24 (2018) *The MDBs' alignment approach to the objectives of the Paris Agreement: working together to catalyse low-emissions and climate-resilient development* (https://www.aiib.org/en/about-aiib/who-we-are/partnership/_download/alignment-approach-paris-agreement.pdf)

Figure 6: The Six Core Areas of the MDB Joint Methodological Framework for PAA



Source: MDB Paris Alignment Working Group (2019).

Paris Agreement operationalization does not stop at the project approval level. It also involves significant effort during project implementation (e.g., following up on the climate risk management system to ensure relevant climate covenants are delivered in a high-quality and timely manner). The process and results are reflected in Project Implementation Monitoring Reports.

3.4.2 AIIB Internal Operations Transition Plan

In 2021, AIIB announced the Institutional Carbon Emission Management (ICEM) Plan to support its aim of achieving carbon neutrality by 2025 and aligning its internal activities with the Paris Agreement. The ICEM Plan presented a five-year overview of AIIB's institutional GHG management strategy (2021–2025), which prioritized emission tracing, management and information disclosure, as well as decarbonization and offsetting. As part of the ICEM, AIIB has undertaken multiple initiatives to manage its carbon footprint, as outlined below.

Disclosure
AIIB has measured, monitored and managed its carbon footprint since 2020. The Bank has published institutional GHG emissions reports since 2022, starting with 2021 emissions, in accordance with the ISO 14064-1:2018 standard, which is generally consistent and compatible with the GHG Protocol.

Sustainability Improvement
Part of AIIB's mitigation efforts include ongoing initiatives to improve energy efficiency and reduce GHG emissions from its buildings and facilities by decreasing energy consumption. Following these energy-saving initiatives, AIIB achieved LEED EBOM (Existing Building Operations and Maintenance) Platinum certification for the AIIB Headquarters (HQ) facility management in 2022, and ISO 9001 and ISO 41001 certifications for AIIB HQ sustainability in 2024. Other sustainability-related efforts included achieving ISO 14001 environmental management systems certification and ISO 45001 health and safety management systems certification for AIIB HQ property management in early 2025.

Electricity from Renewable Sources

In 2024, the AIIB HQ began sourcing office electricity from renewable and green energy sources. AIIB aims to cut indirect emissions, with renewable electricity sources eventually covering 100% of the electricity needs of its offices. In 2024, approximately 2% of electricity consumption was directly supplied by solar panels installed on the headquarters' roof, while approximately 88% was purchased from solar and wind power plants in nearby cities. This approach differed from that in 2023 and previous years, when all electricity was purchased from the state grid. These electricity sources have been verified by a third-party organization and recognized as a valid way to reduce the carbon footprint associated with office electricity use. Compared to 2023, emissions from electricity use reduced by around 3,700 tonnes of carbon dioxide equivalent (tCO_2e) in 2024.

Sustainable Mobility

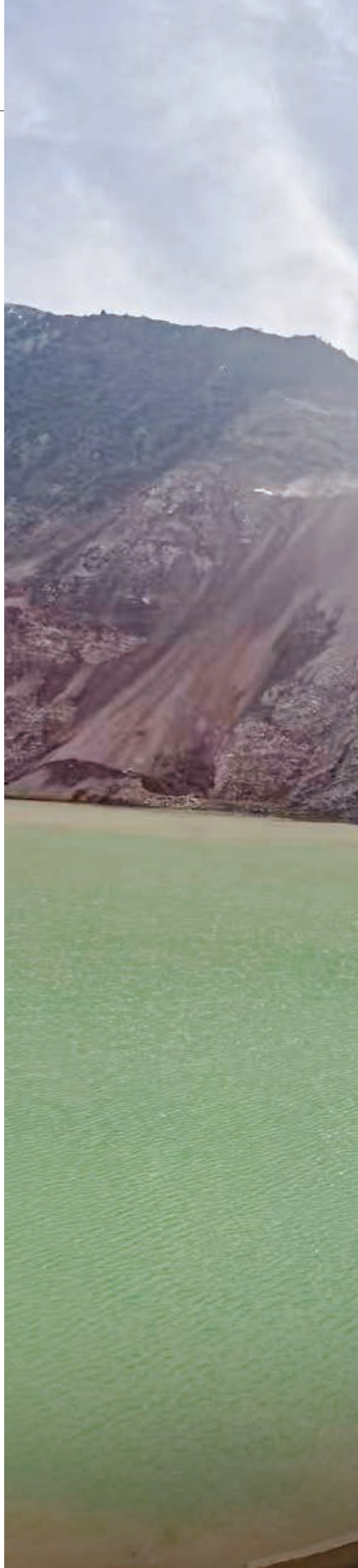
AIIB encourages the use of videoconferencing and consolidating multiple business missions into single trips as part of its efforts to reduce business travel emissions. The Bank also encourages low-carbon commuting. Furthermore, it offers remote work options to minimize the need for daily commuting, supporting broader sustainability goals.

Staff Engagement

Since 2018, AIIB personnel and their families have planted around 3,000 trees annually. The new trees planted each year are estimated to absorb about 791 kilograms of CO_2 over their lifetime.

Annual Meeting

The Act Green Together initiative has been AIIB's sustainable event management framework for its Annual Meetings since 2019. It includes strengthening sustainable meeting designs and enhancing a framework for measuring carbon emissions. During the Annual Meeting in Uzbekistan (2024), the initiative successfully aligned with ISO 20121 Sustainable Event standards. More about the AIIB's work to make its annual meetings more sustainable can be found here.



The Tajikistan: Rogun Hydropower Development Project – Phase 1 provides renewable energy to meet growing domestic demands at an affordable cost.

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The Thailand: GULF Renewable Power Project will promote clean energy generation in Thailand through the development of a portfolio of solar photovoltaic power plants and the installation of battery energy storage systems.

RISK MANAGEMENT

4.1 Risk Management of Climate-related Risks

4.1.1 Transaction-level Risk Assessment

Sustainability- and Climate-related Policy Risk
The Bank's Environmental and Social Framework (ESF) supports the environmental and social (E&S) soundness as well as the sustainability of its projects, integrating E&S assessments into every project to ensure they follow AIIB's high environmental and social standards.

The Environmental and Social Policy (ESP) is an integral part of the ESF, comprising mandatory E&S requirements for projects and is accompanied by:

- Three associated mandatory Environmental and Social Standards (ESSs) setting out requirements applicable to Bank Clients on, respectively, E&S Assessment and Management; Land Acquisition and Involuntary Resettlement; and Indigenous Peoples; and
- An Environmental and Social Exclusion List (ESEL).

The ESP, together with the ESSs and ESEL, provides a process for E&S screening, categorization and due diligence. The screening and categorization of each project is performed at the outset to determine the nature and level of the required E&S assessment, information disclosure and stakeholder engagement required by the client. The categorization takes into consideration the type, nature, location, sensitivity and scale of the project, informing the E&S requirement as well as the level of E&S due diligence that the client must conduct to address significant project-level E&S risks and impacts. E&S due diligence is undertaken following the Bank's screening and categorization of the project. The due diligence informs the Bank's financing decision as well as how the identified risks and impacts will be addressed during the planning and implementation phases of the project.

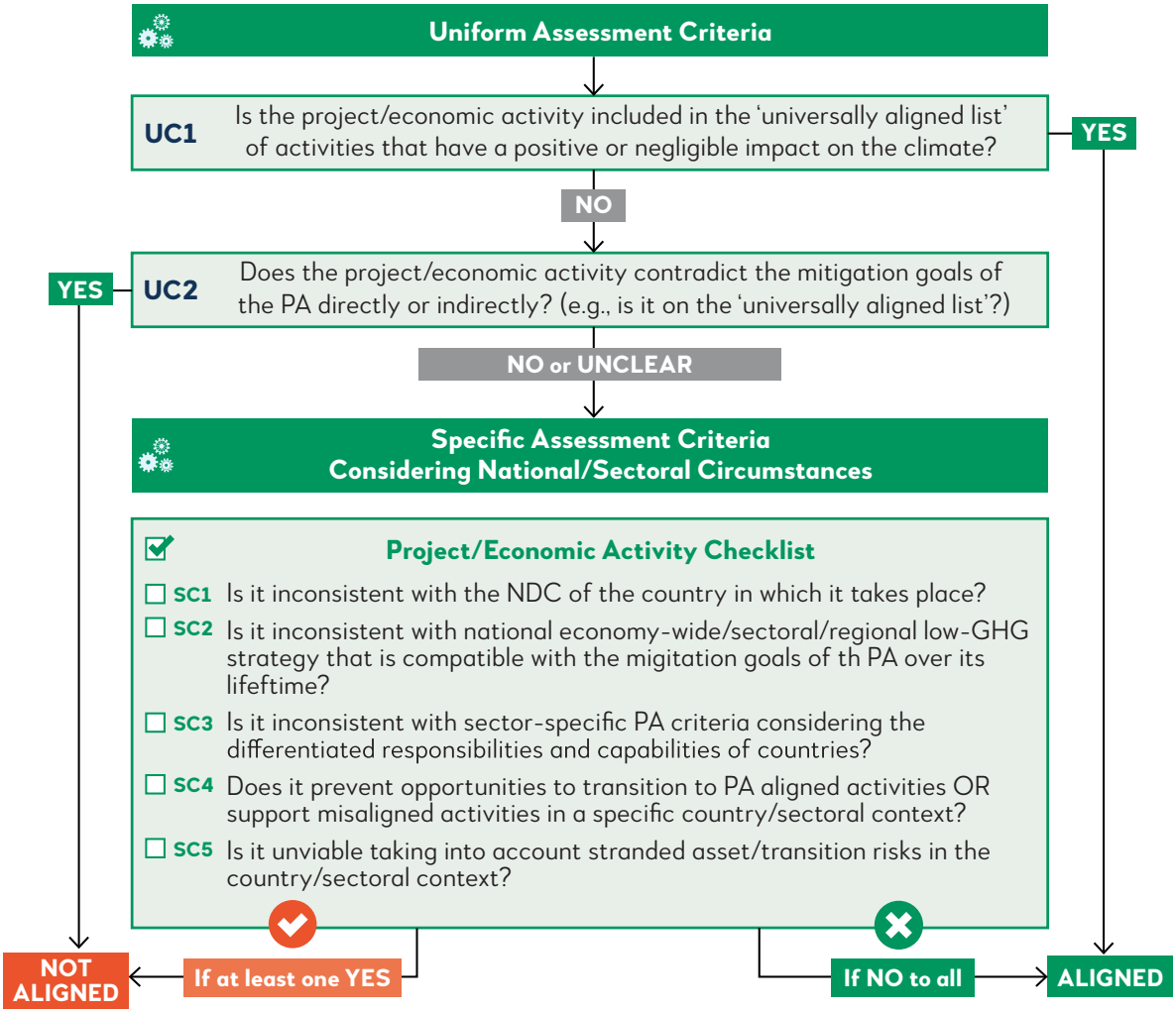
In addition, based on the Joint MDB Methodology for PAA, the Bank has developed detailed guidance to ensure that both the objectives of climate mitigation (Building Block 1) and adaptation (Building Block 2) are met.[12]

[12] The detailed methodological assessment is documented extensively in Chapter 2 and Chapter 3 of *Assessing the alignment of AIIB investment operations with the Paris Agreement* (https://www.aiib.org/en/about-aiib/who-we-are/partnership/_download/Methodology-for-Assessing-the-Alignment-of-AIIB-Investment-Operations-with-the-Paris-Agreemement.pdf)

For direct finance operations (operations in which the use of proceeds is known ex-ante), the project is labelled into three groups under the BB1 (mitigation) assessment:

(i) Activities that are considered 'Universally Aligned'. In this case, the activity is considered aligned with the mitigation goals of the Paris Agreement.
(ii) Activities that are considered 'Universally Non-Aligned'. In this case, the activity is considered non-Paris Aligned.
(iii) Activities that are neither universally aligned nor universally non-aligned. In this case, the activity must undergo a Specific Criteria Assessment, in which the project is evaluated against five criteria (SC1-SC5). The decision tree is described in Figure 7 below.

Figure 7: Specific Criteria Assessment for BB1 PAA in Investment Operations Projects

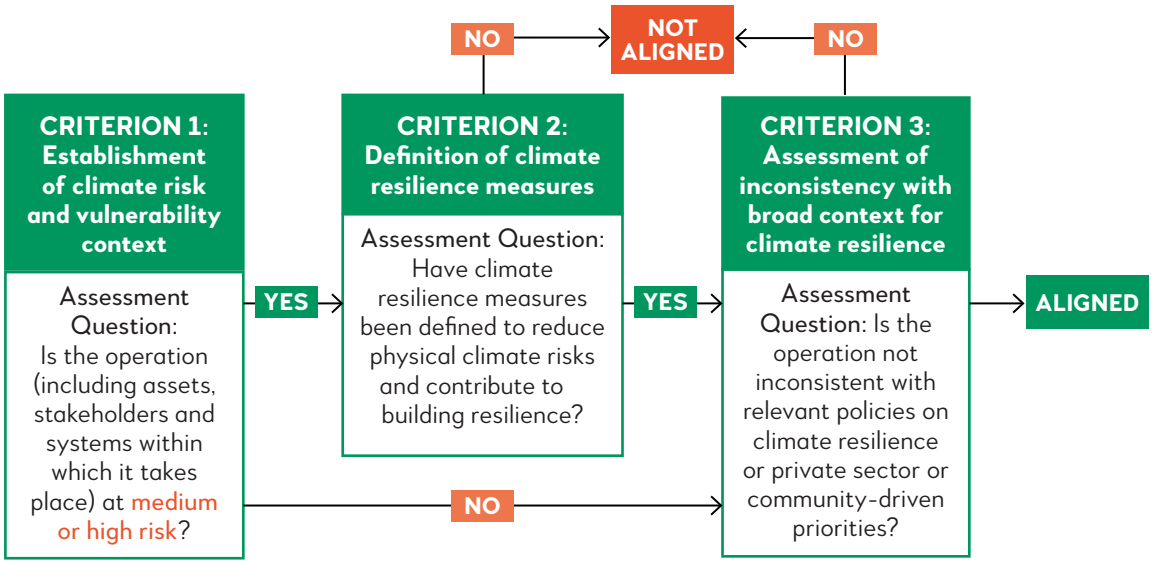


Source: Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations – Direct Investment Lending Operations

Under the BB2 Assessment, the project is assessed against three criteria as described in Figure 8. Only if the project complies with all three is it considered aligned with the adaptation goals of the Paris Agreement.

For indirect finance (operations in which the use of proceeds is not known ex-ante), the methodology differs. In these cases, the assessment follows a counterparty-based approach, whereby the Bank evaluates the client's climate risk management systems, their capacity to perform climate assessments and the client's commitment to the Paris Agreement.

Figure 8: Criteria for BB2 PAA in Investment Operations Projects



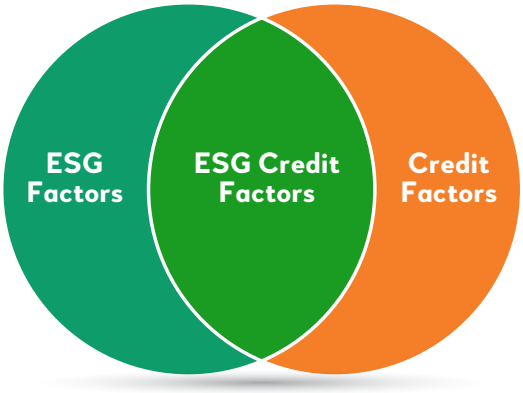
Source: AIIB

Sustainability-related Financial Risk Management

AIIB applies the credit rating scorecards developed by Standard & Poor's (S&P) to rate nonsovereign clients. The S&P scorecard assigns ratings that incorporate explicit ESG criteria, which include a client's susceptibility to both physical and transition climate-related risks within the environmental factors. ESG factors typically incorporate an entity's effect on and impact from the natural and social environment as well as the quality of its governance. However, not all ESG factors materially influence creditworthiness, and ESG credit factors are defined as those ESG factors that can materially impact the creditworthiness of a rated entity (as shown in Figure 9).

S&P defines ESG credit factors as environmental, social or governance factors that influence an obligor's capacity and willingness to meet its financial commitments. This influence could be reflected through changes in the size and relative stability of an obligor's current or projected revenue base, its operating requirements, profitability or earnings, cash flows or liquidity, or the size and maturity of its financial commitments. Therefore, the S&P scorecards only consider ESG credit factors that have sufficient visibility and certainty.

Figure 9: Intersection Between Material ESG and Credit Factors



ESG = Environmental, Social and Governance

4.1.2 Climate-related Financial Risk Assessment (CRA)

Building on the materiality assessment (see Section 3.1), AIIB performed a top-down scenario analysis of climate driven transition and physical risks, both at the Member level as well as at the industry level,[13] assessing the sensitivity of AIIB's IO and liquidity portfolios to climate risks and the subsequent incremental financial impact in the form of credit and market risks. This method evaluates aggregated portfolio-level risks using industry-standard scenarios, assuming a static balance sheet, in line with practices among regulators and commercial banks for climate-related stress testing.

CRA Methodology

- **For the IO sovereign portfolio**, the Bank's climate-related risk assessment for its sovereign portfolio begins by using the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) climate scenarios to capture both transition and physical risks, generating macroeconomic variables under climate scenarios. These variables are then applied as economic strength factors to derive climate-adjusted sovereign credit ratings. The Bank compares the climate-adjusted rating with the baseline rating and applies the differences to the financial impact through Expected Credit Loss (ECL) calculations. This establishes a forward-looking and robust framework for assessing and managing the potential impacts of climate change on sovereign exposures.
- **For the IO nonsovereign portfolio**, the Bank starts by conducting an industry-level quantitative assessment of transition risk using NGFS climate scenarios that incorporate decarbonization variables and industry benchmarks. The model stresses the climate impact and produces company rating projections for those in high- and medium-risk industries identified in the Bank's materiality assessment. To capture physical climate risk, a sovereign rating overlay (from the sovereign portfolio CRA) is applied to the obligor. The rating change is then translated into a financial impact through ECL, which is similar to that used for assessing the sovereign portfolio.

[13] While the materiality assessment classified financial institutions as a low risk industry, these institutions have significant exposure in both IO and liquidity portfolios, thus transition risk is explicitly included in the model. Financial institutions are assessed following a similar approach with nonsovereign IO portfolios.

Multicountry: Alcazar Energy Partners II SL ("the Fund") targets to invest renewable energy projects in Middle East, North Africa and Türkiye ("MENAT") and Eastern Europe and Central Asia ("EECA"), primarily in solar and onshore wind technologies.

- **For the treasury liquidity portfolio**, transition risk is assessed using a top-down approach based on instrument type, applying factors from NGFS scenarios through a credit sensitivity analysis to estimate the potential financial impact on Fair Value (FV) losses. Physical climate risk is incorporated through a sovereign rating overlay (like the IO nonsovereign portfolio) for the relevant bond issuer.

The short-, medium- and long-term timeframes of the CRA are aligned with AIIB's risk profile and strategic financial planning horizons, as shown in Table 4 below.

Table 4: Time Horizons for the CRA

Timeframe	Definition	Rationale
Short-term	By 2027	Informs the Bank's capacity to face immediate and short-term risks
Medium-term	By 2030	Informs the Bank's strategic financial planning
Long-term	By 2050	Informs the Bank's capacity to achieve alignment with the Paris Agreement

AIIB employs two extreme NGFS[14] scenarios to stress-test the portfolio and assess its sensitivity to climate-related risks. These scenarios represent opposite ends of the spectrum in terms of climate policy, emissions and temperature trajectories, offering a comprehensive view of potential climate stresses. The NGFS scenarios are grounded in the latest climate science and projections. They incorporate findings from the Intergovernmental Panel on Climate Change and other authoritative sources, which provide a robust foundation for understanding the potential future impacts of climate change.

The two contrasting NGFS scenarios, as presented in Table 5, are:

- **Net Zero 2050**
- **Current Policies**

[14] The NGFS is an alliance of central banks and supervisors, many of which are from markets in which AIIB operates, that focuses on climate-relate research and climate scenarios development, that map out GHG emissions to different levels of climate action.

Both scenarios are widely used by central banks, commercial banks and other MDBs as part of their climate risk stress testing process:

Table 5: Summary of the Climate Scenarios Applied for the CRA

	Scenario 1: Net Zero 2050	Scenario 2: Current Policies
Description	This is part of the NGFS' Orderly Transition scenarios category and aligns with net zero emissions by 2050, limiting an increase in global temperatures to around 1.5°C above pre-industrial levels by 2050. This scenario is PA-aligned and assumes high climate-related transition risk through immediate, stringent climate policies to limit emissions, and subsequently mild climate-related physical risk.	In the Current Policies scenario, the currently implemented climate policies are preserved, and no new climate policies are introduced, resulting in limited transition risks. Subsequently, net zero is not reached this century, resulting in a global temperature increase of around 2.9°C above pre-industrial levels by 2050, and significant climate-related physical risk.
Key assumptions	Immediate, swift decarbonization; a high carbon tax is introduced to curb emissions; relative mild physical risk due to lower temperature and fast transition.	CO_2 emissions remain at the current level; no additional carbon price is introduced; the higher average temperature increase introduces irreversible changes like higher sea level rise; results in overall the highest physical risks of any of the NGFS scenarios.
Temperature target	1.4–1.6°C	2.9°C
Policy reaction	Immediate	None
Technology change	Fast change	Slow change
CO_2 removal	Medium-high use	Low use
Regional policy variation	Medium variation	Low variation

CRA Results

Sovereign Portfolio

The climate risk impact is crystallized into a maximum one-notch sovereign rating downgrade for both climate-stressed scenarios. Under the Current Policies scenario, 22% of AIIB's sovereign portfolio will suffer a one-notch credit rating downgrade by 2050 compared with just 16% of the sovereign portfolio under the Net Zero 2050 scenario. The rating downgrades only manifested from 2035 to 2040 onwards for both scenarios due to the delayed physical climate impacts.

- The impact of transition risks under both scenarios is muted. Under the Net Zero 2050 scenario, the negative impact on demand from higher carbon prices and consequent energy costs is partially offset as governments boost their revenues through carbon taxes. Over the longer term, the cost savings from decarbonization (e.g., lower energy prices) would more than offset the initial short-term negative impact from the transition risks.

- The CRA analysis reveals that while some countries face medium to high physical risks due to their vulnerability and potential financial losses from climate events, these risks do not automatically result in sovereign rating downgrades because government responses can vary across scenarios. Under the Current Policies scenario, rising CO_2 emissions without additional carbon pricing led to more severe long-term economic impacts on sovereigns from climate-driven catastrophes and higher expected credit losses. In contrast, the Net Zero 2050 scenario, which assumes rapid decarbonization and strong carbon pricing, results in milder physical risk impacts and lower financial effects on sovereign credit metrics.

Nonsovereign Portfolio

Nonsovereign investments are more negatively impacted under the Net Zero 2050 scenario compared to the Current Policies scenario. AIIB has identified high- and medium-transition risk industries in the nonsovereign IO portfolio. Modeling results indicate that, under the Net Zero 2050 scenario, these industries could experience credit deterioration, particularly toward the end of the scenario timeframe. This significant increase is driven by a rapid transition to a low-carbon economy, heavily influenced by government policies and transformative narratives. Emissions-intensive industries are particularly vulnerable, as their high emission profiles and limited ability to pass through costs expose them to higher carbon taxes and necessitate substantial investments in abatement measures.

Liquidity Portfolio

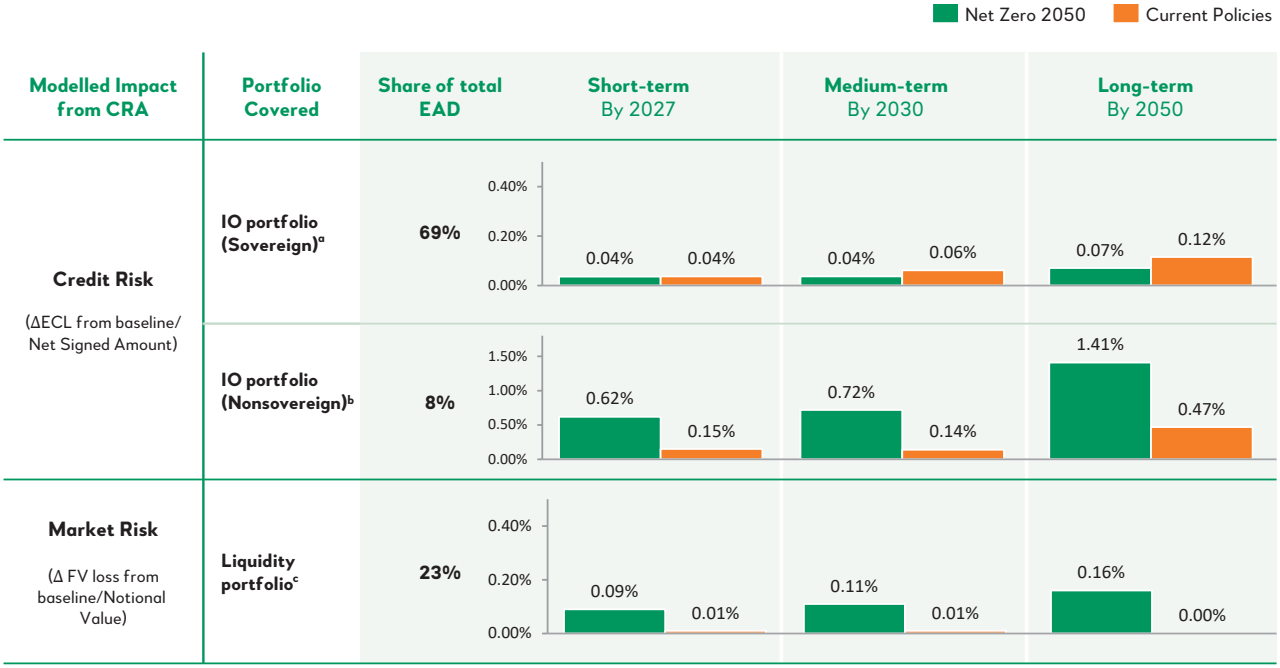
For the liquidity portfolio, the majority of the bond issuers are either financial institutions (FIs) or sovereigns, supranationals and government agencies. The FIs industry transition risk is the main driver of estimated climate impacts on FV loss. For sovereign governments, industry-level transition risk is low due to diversification. Most government agencies would benefit from their sovereign sponsor's support to finance spending aimed at mitigating transition or physical climate risks.

Summary Outcome of the CRA

Under both the Net Zero 2050 and Current Policies scenarios, the climate impact on AIIB's portfolios (as measured by ECL and FV loss) is not expected to be material. Moreover, the climate-driven non-performing loan (NPL) ratio monitored under the Bank's Risk Appetite also remains well below the threshold for both sovereign and nonsovereign loans in the IO portfolio. The detailed results under the two scenarios are as follows (see also Figure 10):

- **Under the Net Zero 2050 scenario,** the financial impact above baseline at the end of the scenario analysis period (2050) as measured by ECL for the sovereign IO portfolio is estimated to be USD26.52 million, and USD59.57 million for the nonsovereign IO portfolio (as of Dec. 31, 2024). The nonsovereign portfolio has a higher ECL impact under the Net Zero scenario due to higher transition risk. The liquidity portfolio is estimated to experience climate-driven market risks, resulting in USD19.36 million FV loss.
- **Under the Current Policies scenario,** the ECL for the sovereign IO portfolio in 2050 is expected to be USD43.30 million above the baseline ECL (as of Dec. 31, 2024), while for the nonsovereign IO portfolio the ECL increase is USD19.81 million over the same period above the baseline. The sovereign portfolio has a higher ECL increase under the Current Policies scenario, due to more severe physical risk impacts resulting from a delayed climate transition. On the other hand, for the liquidity portfolio, the climate impacts under the Current Policies scenario are negligible due to the portfolio's limited exposure to countries with high and medium climate risks.

Figure 10: Summary Outcome of the CRA on AIIB's IO and Treasury Liquidity Portfolios Presented by Risk Type and Time Horizons



CRA = Climate-related Financial Risk Assessment, EAD = Exposure at Default, ECL = Expected Credit Loss, FV = Fair Value, IO = Investment Operations

[a] The net signed amount is referred as EAD in this analysis. The scope for IO portfolio excludes prepaid and closed, matured, and cancelled loans. The effective EAD also excluded signed not effective and uncommitted loans.

[b] In addition, the EAD in scope for IO portfolio (nonsovereign portfolio) excludes equity investment (equity fund and private equity) and exposure that is measured at FV which is out of scope for ECL calculation.

[c] The notional value of liquidity portfolio is referred as EAD in this analysis. The scope for treasury book excludes derivatives, money market funds, cash and term deposits. The bonds measured at amortized cost are also out of scope for FV loss calculation.

4.2 Integration into the Risk Management Process

AIIB views climate-related risks, as reflected in existing financial risks—particularly credit risk—and manages them within the current risk management framework. In this context, specific climate-related considerations have been adopted in the internal risk management processes:

- Since Q3 2024, ECL provisioning incorporates climate-related considerations by quantifying climate risk as an additional shock in the downside scenarios for countries vulnerable to climate change.
- S&P scorecards for all nonsovereign backed financing obligors, which are used to evaluate creditworthiness at the obligor level, explicitly include credit-related ESG factors.

4.3 Management of Climate-related Opportunities

Climate considerations are incorporated into the Bank's business development and decision-making process. As illustrated in Figure 11, the key stages and actions throughout the project cycle are designed to capture and maximize climate opportunities while simultaneously identifying and mitigating climate risks.

Climate opportunities, as identified in the Climate Action Plan (refer to Section 3.2.2), are evaluated through the lens of AIIB's operational and strategic priorities. These opportunities are proactively explored and assessed not only on their own merits but also in alignment with Members' climate policies and priorities. This includes Nationally Determined Contributions, Long-term Strategies, decarbonization and energy transition plans, as well as their national adaptation plans and other climate adaptation strategies. By aligning projects with these frameworks, AIIB ensures that its investments contribute to both the Bank's sustainability objectives and the climate-related goals of its Members.

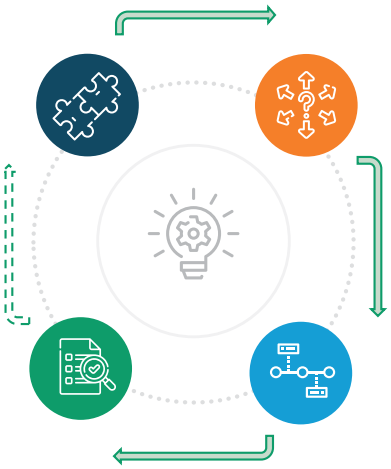
Figure 11: Climate Considerations Within AIIB's Project Lifecycle

Pre-screening stage

1. Investments teams are proactively seeking climate investment opportunities in discussion with clients, including SBF and NSBF

Appraisal and Board approval stage

1. All PA alignment and climate finance documentation needs to be complete
2. Responses required to be prepared for Board Q&A session related to PA and Climate Finance
3. Necessary legal documentation should include PA and CF covenants/conditions



Screening stage

1. Climate Finance (CF) potential assessment
2. Paris Alignment (PA) assessment
3. Physical climate risks initialassessment

Concept stage

1. Main due diligence assessments under way, including GHG calculations, climate risk assessments, and assessments against national climate policies
2. CF numbers estimated and confirmed
3. Clients' existing system and processes reviewed against AIIB PA requirements

AIIB = Asian Infrastructure Investment Bank, GHG = greenhouse gas, NSBF = nonsovereign-backed financing, SBF = sovereign-backed financing

05

China: Liaoning Green Smart Public Transport Demonstration Project.

METRICS AND TARGETS

This section outlines the metrics that AIIB employs to manage greenhouse gas (GHG) emissions associated with its operations (refer to Section 5.1) and investment activities (refer to Section 5.2).

5.1 Institutional Emissions (Own Operations and Value Chain)

AIIB takes responsibility for understanding and managing its carbon footprint. The Bank's target for internal operations is to achieve institutional carbon neutrality and align its internal operations with the Paris Agreement by 2025. As disclosed in AIIB's Carbon Footprint Reports,[15] the sources of greenhouse gases stemming from the Bank's internal operations are identified and categorized in accordance with ISO 14064-1:2018, which is generally consistent and compatible with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard 2004 (GHG Protocol).

Scope 1 (direct) GHG emissions include self-generated energy emissions from AIIB's operations, including from the emergency generator, gas cookers, company vehicle fleet, air conditioners, refrigerators, fire extinguishers and septic tanks.

Scope 2 GHG emissions include emissions related to AIIB's business activities, such as electricity purchased from the grid, municipally supplied heating, hot water and cooling. This includes the municipal cooling sources for the Tianjin backup office and Abu Dhabi Hub. The Bank follows a location-based approach to calculate Scope 2 emissions.

Scope 3 upstream GHG emissions include emissions related to all purchased goods and services, waste processing and transportation generated from internal operations, business travel (rail, air travel, accommodation) and staff commuting.

Table 6 summarizes AIIB's own institutional emissions for 2024, covering Scope 1 and Scope 2, and own operations emissions, covering Scope 3.

[15] AIIB Carbon Footprint Reports (https://www.aiib.org/en/what-we-do/carbon-footprint/overview/index.html)

Table 6: AIIB's Own Operations GHG Emissions Data in 2024

Absolute GHG emissions [tCO_2e]	
Total Scope 1	143
Total Scope 2 – location-based method	7,394
Total Scope 2 – market-based method	3,445
Total Scope 3 – own operations emissions	16,283
Total own operations emissions: Scope 1, 2 and 3 – location-based method	23,820
Total own operations emissions: Scope 1, 2 and 3 – market-based method	19,871
Own operations emissions intensity	
Per average headcount – location-based method [tCO_2e/FTE]	20.69
Per average headcount – market-based method [tCO_2e/FTE]	17.26
Per m^2 of office space – location-based method [tCO_2e/m^2]	0.28
Per m^2 of office space – market-based method [tCO_2e/m^2]	0.23
Energy consumption per average headcount [kwh/FTE]	12,961.57
Water consumption per average headcount [m^3/FTE]	24.29

From January to December 2024, AIIB selected high-quality solar and wind electricity to power its Headquarters, rather than purchasing all its electricity needs from the local power grid. According to the GHG Protocol, AIIB uses the location-based accounting method to attribute emissions tied to its actual physical electricity consumption, using the average emission intensity of the local power grid. AIIB also uses the market-based accounting method to reflect emissions associated with the electricity it purchases.

5.2 Financed Emissions (Scope 3, Category 15)

The measurement of Scope 3 financed GHG emissions is performed under the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011), using the operational control approach to allocate the share of AIIB's emissions. In particular, the methodology for calculating financed emissions is based largely on the Partnership for Carbon Accounting Financials (PCAF) Standard, Part A: Financed Emissions. Interpretations and ad hoc solutions have been developed internally to account for the different nature of the portfolios under assessment.

Considering the distinct nature of investment operations (i.e., project-related operations) and the liquidity portfolio, the results obtained are discussed separately.

5.2.1 Financed Emissions of Investment Operations

Financed emissions for AIIB's investment operations represent AIIB's Scope 3 Category 15 GHG emissions associated with its loans and investment portfolio, reflecting the share of emissions generated by counterparties and projects we support. Following PCAF guidelines,

AIIB attributes a portion of its counterparties' Scope 1 and Scope 2 emissions proportional to its exposure relative to the counterparties' total value or other relevant proxy measures.

This section covers AIIB's outstanding loan and investment portfolio as of the end of 2024, excluding the COVID-19 Crisis Recovery Facility (CRF)—a one-off financing measure introduced during the pandemic. The CRF operations account for 54% of the outstanding amount but do not represent AIIB's regular operations; therefore, they are not considered in the financed emissions calculations. At this stage, counterparties' Scope 3 emissions are not included in AIIB's financed emissions due to limited data availability and methodological considerations.

Methodologies and Data Sources
The Bank's loan and investment portfolio aligns with the three asset classes as described below:

- **Project Finance.** Emissions calculations are based on activity-based or economic proxy data. For instance, Oil, Gas & Consumable Fuels projects rely on activity-based proxies, whereas Independent Power & Renewable Electricity Producers typically use economic proxies derived from S&P data.
- **Sovereign Loans.** Emissions are determined using S&P's sovereign production emissions (excluding Land Use, Land-Use Change and Forestry) validated by PCAF, combined with Gross Domestic Product based on Purchasing Power Parity (GDP PPP) data from the World Bank.
- **Corporate Loans, Bonds, Funds and Equity.** For corporate loans, equity and direct bond investments, the most recent emissions figures reported by S&P are used. In the case of managed fund and bond portfolio investments, emissions data are provided directly by the respective fund managers.

Based on these approaches and the mix of reported versus proxy data, the overall PCAF data quality score for AIIB's 2024 financed emissions is 2.5, indicating moderate reliance on proxy data in certain asset classes.

Results
Table 7 provides a detailed breakdown of the outstanding amounts in each asset class and industry segment, the portion of the portfolio for which AIIB calculates financed emissions and the resulting emissions (in tCO_2e). The Bank's calculated financed emissions are 724,063 tCO_2e, emitted by 27% of the total outstanding portfolio value of USD13.50 billion.

Within these asset classes:

- **Project Finance** accounts for the largest share of financed emissions in AIIB's portfolio, as it has prioritized reporting on high-transition-risk industries, including Oil, Gas & Consumable Fuels and Independent Power Producers. By focusing on these sectors, the Bank captures a substantial share of financed emissions, even though they may represent a smaller portion of the total outstanding amount.
- **Sovereign Loans** contribute significantly to financing emissions. This is primarily due to the relatively high emissions intensity attributed at the national level under the PCAF approach, which allocates a proportion of a country's total emissions to AIIB based on the Bank's financing exposure and the GDP PPP of the country.
- **Corporate Loans, Bonds, Funds and Equity** contribute a smaller share of total financed emissions because a significant portion of these investments is directed toward lower-emission sectors, resulting in their overall GHG intensity being notably lower compared to other more carbon-intensive industries.

China: Liaoning Green Smart Public Transport Demonstration Project.

Avoided Emissions[16]

AIIB discloses an ex-ante estimate of the greenhouse gas emissions that its energy projects will avoid, based on the International Financial Institution Framework for a Harmonized Approach to Greenhouse Gas Accounting.

In 2024, newly approved renewable energy projects, combined with various infrastructure modernization measures that generate energy savings, are estimated to reduce 5.7 million tCO_2e of GHG emissions per year. This brings the total avoided GHG emissions impact of AIIB's energy portfolio to 28.5 million tCO_2e per year.

Continuous Improvement

AIIB acknowledges that GHG accounting methodologies and data availability continue to evolve. It continues to refine the scope, accuracy and comprehensiveness of its financed emissions reporting for investment operations in line with emerging best practices and enhanced data sources. The Bank aims to provide transparent and robust disclosure of the climate impact associated with its portfolio.

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16 For more details on avoided emissions, see also AIIB's Sustainable Development Bonds Impact Reports (https://www.aiib.org/en/news-events/impact-reports/sustainability-bond-impact/overview/index.html)

Table 7: Financed Emissions for AIIB's Investment Operations in 2024[a]

PCAF asset class and GICS (sub-) industry	Outstanding amount [USD million]	Share of total amount [Percentage]	Outstanding amount for which financed emissions are calculated [USD million]	Share of outstanding amount for which financed emissions are calculated [Percentage]	Absolute financed emissions [tCO_2e]	Share of total financed emissions [Percentage]	Economic emission intensity [tCO_2e/ USD million invested]
Project Finance	**8,919.76**	**66%**	**1,083.97**	**12%**	**409,485**	**57%**	**377.76**
Transportation Infrastructure	3,112.97	23%	38.44	1%	22,474	3%	584.64
Highways & Rail Tracks	2,688.73	20%	0.00	0%	0	0%	-
Airport Services	176.32	1%	1.18	1%	73	0%	61.54
Marine Ports & Services	247.92	2%	37.26	15%	22,401	3%	601.23
Independent Power & Producers	855.04	6%	183.02	21%	126,847	18%	693.09
Oil, Gas & Consumable Fuels	1,390.51	10%	862.51	62%	260,164	36%	301.63
Other Industries	3,561.24	27%	0.00	0%	0	0%	-
Sovereign Loans	**1,515.10**	**11%**	**1,515.10**	**100%**	**306,000**	**42%**	**201.97**
Corporate Loans, Bonds, Funds and Equity	**3,064.77**	**23%**	**986.48**	**32%**	**8,578**	**1%**	**8.70**
Total[b]	**13,499.64**	**100%**	**3,585.55**	**27%**	**724,063**	**100%**	**201.94**

[a] The outstanding amount data is as of Dec. 31, 2024. The remaining data for the financed emissions calculations is taken as of Mar. 31, 2025.
[b] Due to rounding, the numbers in the table may not sum up to the total.

5.2.2 Financed Emissions from the Treasury Liquidity Portfolio

The treasury liquidity portfolio serves the primary objective of meeting the Bank's day-to-day liquidity needs. The liquidity portfolio mainly consists of bonds from both sovereign and nonsovereign issuers. The treasury liquidity portfolio has adopted a comprehensive ESG investment framework that considers climate risk in daily trading decisions by:

- Incorporating environmental factors as a key element of ESG performance assessment.
- Excluding investments which derive more than 5% of annual turnover from thermal coal mining, coal-fired power and heating plants or projects functionally related to coal. Projects functionally related to coal include associated facilities dedicated to the mining and use of coal or projects that would not be carried out without a dedicated coal-based power supply.
- Sourcing climate-related data from leading independent organizations, which are selected based on data quality, research methodology and coverage.

According to PCAF's methodology, held-to-maturity instruments, with a tenor greater than one year, fall under the scope of the GHG emissions calculations for the treasury liquidity portfolio. AIIB collects the latest GHG emission data from both public data sources and third-party data providers to compute the financed emissions, using proxies when reported emissions are unavailable. The input data for GHG emission computation were selected using a waterfall approach, based on the data quality ranking in the PCAF guidance.

Table 8 presents AIIB's financed emissions associated with PCAF's asset classes of sovereign debt, as well as listed equity and corporate bonds held in the treasury liquidity portfolio. The data indicates that the majority of financed emissions originate from the sovereign bond holdings, primarily due to the specific methodology applied to calculate sovereign-financed emissions.

5.3 Carbon Price

To account for the externality cost of GHG emissions, a shadow carbon price is used in the economic analysis of projects. AIIB's guidelines require such analysis be conducted for all SBF and those NSBF with large climate externalities (defined as an NSBF project with gross GHG emissions exceeding 100,000 tCO_2e per year). AIIB Investment Operations project teams are advised to apply the principles and values established in the Report of the High-Level Commission on Carbon Prices (Stern and Stiglitz, 2017), a common practice among multilateral development banks. Keeping abreast of advancements in carbon pricing research, AIIB periodically refines its methodology to better measure our carbon footprint and the impact of its projects.

Table 8: AIIB's Financed Emissions from Treasury Liquidity Portfolio in 2024[a]

Investment type	Gross exposure for which financed emissions are calculated [USD million]	Gross exposure covered by financed emissions calculations [USD million]	Gross exposure covered by financed emissions calculations [Percentage]	Absolute financed emissions [tCO_2e]	Economic emission intensity [tCO_2e/USD million invested][b]	Average PCAF data quality score [Number][c]
Sovereign	3,267.23	3,267.23	100%	673,961	206.28	2.0
Nonsovereign	5,087.95	4,567.93	90%	1,151	0.25[d]	3.2
Total	**8,355.18**	**7,835.16**	**94%**	**675,112**	**86.16**	**2.7**

[a] Holding value analysis date is as of Dec. 31, 2024. The emission effective date, on which emissions and Enterprise Value Including Cash (EVIC) data is reported and provisioned by the third party data provider is Mar. 31, 2025.
[b] The Weighted Average Carbon Intensity (tCO_2e/USD million of revenue) for the treasury liquidity portfolio is 99.34.
[c] The average PCAF data quality score for the whole portfolio corresponds to the notional weighted average of the investments type above.
[d] Only Scope 1 and Scope 2 emissions are included due to data quality challenges on Scope 3 for nonsovereign issuers.

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The Egypt: Round II Solar PV Feed-in Tariffs Program, consisting of 11 photovoltaic solar plants in the Benban Solar Park near Aswan, has an aggregate renewable power generation capacity of 490MWac and helps the country move to a more balanced and environmentally sustainable energy mix.

LOOKING FORWARD

AIIB reaffirms its commitment to continue enhancing the presentation of sustainability- and climate-related information, along with its reporting capabilities. Meanwhile, recognizing the importance of measuring financed emissions, the Bank remain committed to developing the methodology and advancing the quality of our data collection further.

Through transparent reporting, the Bank aims not only to deepen its understanding of climate-related risks and opportunities, but also to foster its credibility and trust with its diverse panel of stakeholders throughout the value chain of its investments.

Sustainability is the foundation of the operations of the Asian Infrastructure Investment Bank (AIIB). AIIB has taken steps to embed sustainability in its decision-making processes at every level—across institution, investments, and governance frameworks. The 2024 AIIB Sustainability Report is part of the Bank's commitment to annual sustainability-related financial reporting on its operations, providing the impact of sustainability- and climate-related risks and opportunities on the Bank's financial performance.

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