Environmental, Social and Governance Credentials

April 2022
AIIB’S COMMITMENT TO SUSTAINABLE GROWTH

Firm commitment to sustainability by requiring that all investments be:

- Financially and economically sustainable
- Socially sustainable and inclusive
- Environmentally sustainable

AIIB Invests in i4t, the Infrastructure for Tomorrow:

- Addresses ecological impacts like water and air quality, biodiversity, pollution and climate change.
- Projects with sound ROI, that raise economic growth and increase productivity.
- Gives inclusive access, particularly to citizens excluded from access to infrastructure services.
AIIB’S COMMITMENT TO SUSTAINABLE GROWTH

Elements and Objectives of the Environmental and Social Framework (ESF)

**Elements of the ESF**
- Vision
- Environment and Social Policy (ESP)
- Environmental and Social Standards (ESS)
- Environmental and Social Exclusion List (ESEL)

**Objectives of the ESF**
- Provide a robust structure for managing operational and reputational risks of the bank and its shareholders in relation to project environmental and social risks and impacts.
- Ensure the environmental and social soundness and sustainability of projects.
- Support integration of environmental and social aspects of projects into the decision-making process by all parties.
- Provide a mechanism for addressing environmental and social risks and impacts in project identification, preparation and implementation.
- Enable Clients to identify and manage environmental and social risks and impacts of projects, including those of climate change.
- Provide a framework for public consultation and disclosure of environmental and social information in relation to projects.
AIIB’S COMMITMENT TO SUSTAINABLE GROWTH

Environmental and Social Framework (ESF) at the core of the organization

- Each proposed investment project is screened based on its potential Environmental and Social (ES) risks and impacts.
- Each proposed investment project requires an ES Impact Assessment, or related type of study, which identifies actions to avoid, minimize, mitigate and/or offset ES impacts.
- Mandatory requirements apply to investment projects as set out in the Environmental and Social Standards (ESS).
- AIIB supports Clients in the development of an Environmental and Social Management Plan (ESMP) or similar document for effective implementation of management and monitoring measures under investment projects.
- As part of project preparation and implementation, provisions are included for disclosure of information and consultation on ES aspects.
- Every investment project is required to have a Grievance Redress Mechanism accessible to project affected people and workers.
- Regular monitoring and reporting is required of the Client on implementation of ES measures agreed with the bank under the investment project.
- AIIB conducts comprehensive field-based reviews of investment projects to monitor compliance with the provisions of the ESMP and Environmental and Social Exclusion List (ESEL).

The Bank recognizes that environmental and social sustainability is a fundamental aspect of achieving outcomes consistent with its mandate.
AREAS OF OPERATIONS

Range of instruments offered

<table>
<thead>
<tr>
<th>Sovereign loans</th>
<th>Nonsovereign-backed financing</th>
<th>Equity Investments</th>
<th>Guarantees</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sovereign-backed loans have an average maturity up to 20 years and a final maturity limit up to 35 years.</td>
<td>• Borrowers can range from sub-sovereign public entities to private enterprises.</td>
<td>• The Bank makes equity investments under terms it considers fair, where clear potential exit strategies are present, and where an acceptable internal rate of return is projected.</td>
<td>• Partial Debt Guarantee are available to clients. The product is currently introduced for non-sovereign operations and incorporates partial debt guarantees and unfunded risk participations.</td>
</tr>
<tr>
<td>• AIIB cofinances projects with other lenders in addition to expanding its standalone portfolio.</td>
<td>• The terms and conditions will be set on a commercial basis and reflect the expected risk to the Bank and market conditions.</td>
<td>• Limit on Equity investments up to 10 percent of available capital.</td>
<td>• Projects involving guarantees are appraised, processed, and monitored the same way as loans.</td>
</tr>
<tr>
<td></td>
<td>• AIIB's exposure can be up to 35 percent of the long-term capital of the obligor, or for a new project, up to 35 percent of the project's value.</td>
<td>• The Bank plays the role of a minority investor and shall not seek a controlling interest in the target entity or enterprise.</td>
<td>• For capital headroom and exposure management purposes, guarantees are treated as if they were on the balance sheet (i.e., treated the same way as loans).</td>
</tr>
<tr>
<td></td>
<td>• The Bank participates in the capital markets to mobilize private capital.</td>
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</tbody>
</table>
SUSTAINABLE CAPITAL MARKETS INITIATIVE UNDER AIIB FINANCINGS

Applying the ESF to capital market projects for increased private capital mobilization and promotion of sustainable infrastructure as an asset class

ESG investing: Establishing an ESG investing framework for other market participants in Asia.

ESG research: Gaining insights on ESG issues and trends that are relevant for credit analysis of infrastructure-related companies.

ESG transparency and disclosure: Working with asset managers and stakeholders to improve transparency and disclosure in the market.

Market capacity building: Improving the understanding of ESG through capacity building for market participants.

Four-Step ESG Integration Process for Investment Operations Portfolios

Pre-investment
Step One: Exclusionary screening consistent with the ESEL.
Step Two: ESG assessment based on ESG score* and controversies screening in line with the vision of the ESF.

Post-investment
Step Three: Engagement with issuers on ESG issues.
Step Four: Monitoring, reporting and engagement based on deteriorating ESG performance and/or involvement in activities specified in step 1 and 2.

* Based on ESG scores from reputable ESG data providers.
AIIB’S COMMITMENT TO SUSTAINABLE GROWTH

AIIB’s existing investments in energy, transport, sustainable cities, digital infrastructure and water sectors directly support four SDGs:

• SDG 6: Clean water and sanitation.
• SDG 7: Affordable and clean energy.
• SDG 9: Industry, innovation and infrastructure.
• SDG 11: Sustainable cities and communities.

AIIB’s investments either directly or indirectly contribute to other SDGs. For example,

• AIIB’s support for its clients in the COVID-19 pandemic and future investment in social infrastructure over the Corporate Strategy period would contribute to SDG 3: Good health and well-being and SDG 4: Quality education.
• AIIB’s commitment to climate finance can be mapped against SDG 13: Climate action.
• AIIB’s commitment to increase its connectivity and regional cooperation operations is expected to be reflected in SDG 8: Decent work and economic growth, and SDG 17: Partnerships for the goals.
• AIIB’s efforts to increasingly incorporating gender considerations into projects can contribute to SDG 5: Gender equality.
SUSTAINABLE DEVELOPMENT BONDS

Invest in our commitment to sustainability

• AIIB Sustainable Development Bond Framework presents a summary of the policies, strategies, processes, and mechanisms that govern AIIB’s commitment to sustainable financing activities. The Framework applies to all debt issued by AIIB.

• The Framework outlines how AIIB is adhering to the principles set out in its Environmental and Social Framework that guides project selection, and how it is helping its members to meet their commitments under the Paris Agreement and the UN Sustainable Development Goals.

• The Framework includes the following four core components: (i) Use of Proceeds, (ii) Process for Project Evaluation and Selection, (iii) Management of Proceeds and (iv) Reporting.

• AIIB is rated by three ESG rating agencies; ISS ESG, Sustainalytics, and Vigeo Eiris. These ratings are solicited by investors and are based on industry-specific environmental, social and governance (ESG) criteria.

C+ (Prime), Apr. 2019
10.3 Low Risk, Apr. 2021
Advanced, Sep. 2021
IMPACT REPORT 2020
Investing Today, Transforming Tomorrow

• AIIB has launched its inaugural Sustainable Development Bonds Impact Report that offers investors a view of the sustainable nature and impact of AIIB’s development work.

• Under its Sustainable Development Bond Framework, AIIB has committed to annual impact reporting on the Bank’s overall portfolio and project-level results reflecting environmental and social benefits generated by its financing.

• AIIB’s inaugural Impact Report presents data on AIIB’s portfolio volume, alignment with thematic priorities and portfolio performance during the Bank’s first five years of operations from 2016 to 2020. It also focuses on 12 project stories selected from key infrastructure sectors that show how AIIB is making positive environmental and social impacts, including through investments in improving energy efficiency, enhancing urban sustainability, achieving climate resilience and catalyzing private capital.

• As a young and growing institution, AIIB will continue to improve its approach to impact reporting, including the way to collect and maintain data, monitor results, and aggregate impacts.
Impact Report 2020 – Portfolio-Level Reporting

PORTFOLIO VOLUME

Approved financings

<table>
<thead>
<tr>
<th>Year</th>
<th>Approved</th>
<th>Value (USD billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>8</td>
<td>1.69</td>
</tr>
<tr>
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<td>2020</td>
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Cumulative financing approvals

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<td>Total</td>
<td>108</td>
<td>22.02</td>
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Committed Financing by Sector

- Energy: 20.30%
- Transport: 13.26%
- Finance: 12.38%
- Water: 10.78%
- Public Health: 6.91%
- Urban: 5.56%
- Rural Infrastructure and Agriculture Development: 4.58%
- Economic Resilience and Policy-based Financing: 23.58%
- Finance/Liquidity: 5.08%
- ICT: 1.27%
- Other: 0.44%

Committed Financing by Region

- Southern Asia: 37.26%
- Latin America and the Caribbean: 0.00%
- Oceania: 0.28%
- Eastern Europe: 1.57%
- Eastern Asia: 2.47%
- North Africa: 6.97%
- Multicountry: 7.73%
- Central Asia: 7.75%
- South-Eastern Asia: 17.59%
- Western Asia: 18.19%
- Southern Asia: 37.26%

PROJECT ALIGNMENT WITH THEMATIC PRIORITIES

Number of projects approved from 2016 to 2020

- CROSS-BORDER CONNECTIVITY: 11
- PRIVATE CAPITAL MOBILIZATION: 34
- SUSTAINABLE INFRASTRUCTURE: 56

Climate financing (% of approved financings)

- 2016-2018*: 35%
- 2019: 39%
- 2020**: 41%
As a global hotspot for disasters, the Philippines was ranked third on the World Risk Index by the United Nations University Institute for Environment and Human Security in 2017. The Philippines is especially vulnerable to typhoons and floods, which cause 75 percent of disaster-related deaths.

Through a USD207.6 million loan, AIIB is providing support for flood management improvement in selected areas of Metro Manila in line with the Philippine government’s holistic Flood Management Master Plan.

The Project focuses on 56 potentially critical drainage areas in 11 local government units, covering a total estimated drainage area of 11,100 hectares or over 17 percent of the total area of Metro Manila, with a total population of approximately 3.5 million. The Project will help save lives, reduce damage to properties and infrastructure, and mitigate income losses to livelihoods and businesses.
Izmir is the third largest city in Turkey in terms of both population and GDP and is considered the buoyant economic hub of the Aegean coast. Currently, Izmir’s metro system has only a single line, which operates at full load at peak hours and cannot meet the strong growing demand for metro and urban rail services.

AIIB is providing EUR50 million nonsovereign loan to increase the capacity, connectivity, and efficiency of Izmir Metro. The Project will expand the size of the network to 26.6 km and 24 stations.

The metro project will provide a cleaner, more efficient alternative to road traffic, thereby reducing noise, air pollution, GHG emissions, road accidents, and congestion. It is estimated that the Project will transport the same number of passengers as a fleet of 251 buses and 537 minibuses, resulting in a total savings of 449,741 tCO2e of GHG emissions during the projection period 2022-2046.
In years past, Tajikistan suffered from extensive electricity deficits in the winter when approximately 70 percent of its population experienced restricted electricity supplies. It was estimated that 60 percent of the hydropower plants in Tajikistan require urgent rehabilitation by 2020 and 80 percent by 2030.

AIIB’s investment of USD60 million in the Nurek Hydropower Rehabilitation Project aimed to rehabilitate and restore the generating capacity of three units of the Nurek plant, improve their efficiency, and strengthen dam safety against hydrological and geological risks.

Almost the entire population of the country are expected to benefit from more reliable electricity supply. This includes over four million women consumers who rely on a stable electricity supply for energy-consuming household work, and an estimated 53,680 legal entities connected to the network.