

## **Audit and Risk Committee Annual Report to the Board of Directors 2025-2026**

### **1. Introduction**

- 1.1. The annual report covers the period from June 2025 to May 2026 and presents the activities of the Audit and Risk Committee (ARC or the Committee) of the Asian Infrastructure Investment Bank (AIIB or the Bank). The ARC has played a critical role in overseeing AIIB's financial activities, risk management practices, internal controls, and governance processes. Through regular meetings, consultations, and comprehensive briefings aligned with its terms of reference (ToR), the ARC ensured effective oversight and provided informed recommendations to AIIB's Board of Directors.
- 1.2. The Committee Chair regularly updates the Board of Directors on the Committee's activities, fostering transparency and accountability. By maintaining a robust control environment, effectively managing risk, and adhering to best practices and international standards, the Committee plays a vital role in safeguarding AIIB's operations and upholding its commitment to high standards.

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

- 2.1. In accordance with the ToR, the responsibilities of the ARC are as follows:
  - (i) Review AIIB's financial statements and accounting, auditing, and financial reporting practices, procedures, and issues.
  - (ii) Review the selection procedures for and the qualification and performance of external auditors. Review the reports from external auditors and ensure appropriate action is taken in respect of major improvement areas identified.
  - (iii) Review the scope of work, the internal audit work plan, and the effectiveness of the internal audit function.
  - (iv) Review the adequacy and the effectiveness of the internal control system.
  - (v) Review AIIB's financial policies, including the Bank's borrowing and investment authorities and the asset and liability management policy.
  - (vi) Review AIIB's risk-related policies. Annually review the Bank's risk management framework and its risk appetite statement.
  - (vii) Receive reports on violations of the Prohibited Practices Policy (PPP) from the Managing Director of the Complaints-resolution, Evaluation and Integrity Unit (CEIU).
- 2.2. The review of the ARC's ToR has been an important exercise to ensure continued alignment with the Bank's policies and the Committee's evolving practices. The Board of Directors approved revisions to the ARC ToR on Dec. 21, 2020. A subsequent effectiveness review was conducted in September 2021, followed by the most recent review in September 2023. These purposeful periodic reviews are essential to maintaining the relevance, clarity, and operational alignment of the Committee's mandate within the Bank's broader governance framework. The next review of the ARC's ToR will be considered in 2026-2027.

### 3. Committee Composition

- 3.1. At the beginning of the reporting period (June 2025), the Committee comprised Craig Murphy (Chair), Parjiono Cipto Widarto (Vice Chair), Pavel Snisorenko, and Arno Oudijn, along with external members Teresa Lin and Elisabeth Stheeman.
- 3.2. As of the date of this report, the membership of the Committee is as follows:
- Craig Murphy (Chair);
  - Masyita Crystallin (Vice Chair);
  - Pavel Snisorenko;
  - Dominik Wallau (represented by Antonio Adinolfi); and
  - Teresa Lin (External Member).

Committee members' biographies are available [here](#).

- 3.3. Following the resignation of Director Arno Oudijn, Director Dominik Wallau was appointed to the Committee on July 11, 2025, and is represented on the ARC by Alternate Director Antonio Adinolfi. Following the resignation of Director Parjiono Cipto Widarto, Director Masyita Crystallin was appointed to the Committee on July 24, 2025. Director Masyita Crystallin was selected as the Vice Chair of the Committee at the ARC Meeting on Sep. 8, 2025.
- 3.4. ARC external member Teresa Lin was re-appointed for a three-year term effective May 10, 2026. Elisabeth Stheeman stepped down from her position as ARC external member in September 2025, and recruitment for the position is underway as of the date of this report.

### 4. Areas of Focus

- 4.1. **Financial Oversight and Policy Stewardship.** The Committee exercised its financial oversight through regular consultations on the Bank's quarterly and annual financial statements. The Committee reviewed treasury portfolio positioning, refinancing risk, and income stability and emphasized the importance of maintaining high credit quality and prudent duration management.

Particular attention was given to the integration of financial management with asset-liability management, including the evolution of the balance sheet as the share of nonsovereign exposures grows. Committee discussions also highlighted the importance of strengthening operational readiness and the sustainability of earnings in the context of interest rate volatility, geopolitical uncertainty, and evolving market conditions.

The Committee reviewed and endorsed updates to key financial policies, including the Financial and Risk Management Policy. The latter focused on alignment with internal frameworks, IFRS 9 compliance, portfolio optimization transactions, and strengthened governance for exposure monitoring.

The Committee reviewed the 2026 Global Borrowing Authority (GBA), which authorized up to USD11 billion in long-term borrowing and USD5 billion in short-term instruments. The Committee expressed broad support for the GBA and acknowledged the prudence of the Bank's funding strategy, liquidity management, and execution in 2025. It also looked forward to better integrating borrowing with how funds are deployed through investment operations.

In reviewing the 2025 Financial Statements, the Committee noted that the Bank's overall financial performance demonstrated resilience to changes in the USD interest rate environment, as well as strong financial performance in the Investment Operations and Treasury portfolios. The Committee observed that the Bank achieved an operating profit of USD923 million, which marked a 19.6% decline from the previous year. It was noted that this decline was broadly consistent with the trend observed across peer institutions and reflected the impact of interest rate cuts since Q3 2024.

The Committee reviewed the 2024 AIIB Sustainability Report and expressed its strong support for the launch of AIIB's inaugural Sustainability Report, commending its alignment with the disclosure requirements established by the International Sustainability Standards Board (ISSB).

- 4.2. **Risk Governance and Appetite.** The Committee maintained quarterly oversight of the Bank's Risk Report Dashboard, monitoring key indicators such as sovereign and nonsovereign weighted average credit ratings, risk-adjusted return on capital (RAROC), liquidity ratios, and concentration risks. The Committee noted that key risk indicators generally remained within established limits, while emphasizing the need for enhanced forward-looking analysis, early warning indicators, and clear narrative reporting.

Committee discussions covered credit, market, liquidity, operational, compliance, and reputational risks, with particular emphasis on concentration risk, portfolio diversification, and the implications of growing nonsovereign exposures. The Committee encouraged continued refinement of risk metrics, including the introduction of additional indicators (e.g., KYC, debt redemption metrics) and stronger alignment between risk appetite and pricing frameworks such as RAROC.

In its risk governance role, the Committee reviewed and approved the 2026 Risk Appetite Statement (RAS), focusing on capital adequacy under baseline and stressed conditions, the refinement of risk metrics, and the alignment of scenario design with peer multilateral development bank (MDB) practices. Members examined the robustness of capital buffers, the clarity of risk indicators, and the operational implications of recent enhancements to KYC and compliance processes. The Committee welcomed the enhancements to the 2026 RAS, including the addition of KYC and debt redemption metrics, and supported the recommendations on updated terminology.

The Committee also reviewed stress testing frameworks and capital adequacy under adverse scenarios, with attention to scenario design, comparability with peer MDBs,

and the Bank's capacity to deliver countercyclical lending while maintaining its AAA rating. The Committee also welcomed the improved data on the risk side, as well as the updates in reporting on operational risk incidents.

- 4.3. **Internal Audit, Assurance, and Controls.** The Committee reviewed updates from the Internal Audit Office (IAO) on the execution of the Internal Audit Strategy and the new three-year Strategic Plan; the 2025 Audit Plan and its progress in implementation; the 2026 Risk Assessment and Annual Audit Plan and resource requirements; and the new Internal Audit Office (IAO) Competency Framework. Members welcomed the ongoing implementation of the Guest Auditors Program, Audit Navigator Workshop, and IAO Briefs to foster organizational ownership of internal controls and the integration of data analytics and exploration of artificial intelligence in audit practices and governance.

The Committee reviewed quarterly updates on internal control testing under the COSO/ICFR framework. Management presented the new ICFR dashboard format. Management also provided an update on the completion of key control testing for FY2025, confirming that all key control assessments had been completed and that no significant deficiencies had been identified that would affect the Bank's ICFR certification. The Committee noted that the Bank's control environment had continued to mature, with control exceptions and areas for improvement stabilizing and gradually declining over time. The Committee encouraged continued efforts to maintain the effectiveness of the control framework as the Bank grew in scale and complexity.

- 4.4. **External Audit Transition and Assurance Integrity.** In March 2026, the ARC held its annual closed-door session with PwC to preserve independent oversight. The ARC also received updates on transition activities between the outgoing and incoming external auditors (PwC and Deloitte, respectively). Deloitte noted that it had participated in transition activities covering key audit areas, including expected credit loss, valuation of financial instruments, internal controls, and IT controls, and had worked with Management to develop an understanding of the Bank's strategy, business operations, and control environment. Deloitte confirmed that there were no disagreements with PwC on their audit opinion for the 2025 Annual Financial Statements, and they had not identified any reportable issues.

## 5. Outlook for 2026-2027

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

- 5.2. Key areas of focus for 2026-2027 include:

- **Sustainability Reporting and Climate Risk Governance.** The Committee will oversee the publication of the Bank's second ISSB-aligned Sustainability Report and continue monitoring the Bank's progress in developing robust Environmental, Social and Governance (ESG) data infrastructure, scenario methodologies, and assurance readiness.

- **IT and Internal Control Enhancements.** The ARC will continue its oversight of internal control testing under the COSO/ICFR framework and digital risk governance. These include further thematic control work related to system changes and upgrades, accounting, and reporting developments; the transition to the new external auditor; the proactive use of technology; and early engagement on new products and systems, with updates expected on remediation, automation, and cultural awareness in the coming quarters.
- **Institutional Risk Culture and Operational Readiness.** Raising operational risk awareness and reporting across the institution continues to be a priority, as does strengthening operational readiness, in particular the ability to rapidly mobilize crisis response funding without breaching capital adequacy thresholds. The Committee will continue to focus on the Bank's risk culture, including through the discussion of an Operational Risk Heatmap and continued progress updates on the crisis scenario analysis exercise.
- **Active Cost and Risk Management:** The Committee notes that the Bank's long-term sustainability requires active cost and risk management, and encourages the Bank to use technology more effectively and reduce reliance on costly manual processes.

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

**Annex A: Agenda of the Audit and Risk Committee Meetings (June 2025-May 2026)**  
*Reporting Period*

The following is a comprehensive list of all formal meetings, consultations, and briefings undertaken by the Audit and Risk Committee (ARC or the Committee) during the reporting period from June 2025 to May 2026. These engagements reflect the Committee's oversight across financial reporting, risk management, internal audit, policy review, and institutional governance. The agendas below capture both standing items and thematic discussions aligned with the ARC's mandate and evolving priorities throughout the year.

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

1. Conversation with Chief Financial Officer and Chief Risk Officer
2. Risk Report Dashboard
3. Scenarios for Stress Testing
4. Internal Audit Office Update
5. COSO/ICFR Implementation Update (circulation only)

**Aug. 13, 2025: ARC Consultation and Briefing**

1. Q2 2025 Financial Statements
2. Treasury Portfolio and Asset Liability Management Report (2025 H1 Results)
3. AIIB Sustainability Report

**Sep. 8-9, 2025: ARC Meeting**

1. Selection of Vice Chair
2. Internal Audit Office Update
3. CEIU Report on PPP-related Cases
4. PwC Audit Work Plan 2025
5. Risk Report Dashboard
6. COSO/ICFR Implementation Update
7. ARC External Member (update/farewell)

**Nov. 13, 2025: ARC Financial Consultation**

1. Q3 2025 Financial Statements

**Dec. 1-2, 2025: ARC Meeting**

1. 2026 Global Borrowing Authority
2. Internal Audit Office Update
3. Discussion with the Chief Internal Audit Officer (closed session)
4. Risk Report Dashboard
5. Risk Appetite Statement and Report on Stress Testing
6. Financial and Risk Management Policy
7. COSO/ICFR Implementation Update (circulation only)
8. MDB Comparison Report 2025 (ARC briefing)

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

1. 2025 Financial Statements
2. Treasury Portfolio and Asset Liability Management Report (2025)
3. COSO/ICFR Implementation Update

4. PwC Independent Auditor's Report and ICFR Opinion
5. Discussion with External Auditors (closed session)
6. Internal Audit Office Update
7. Risk Report Dashboard

**May 13, 2026: Financial Consultation**

1. Q1 2026 Financial Statements

**Annex B: Summary of Audit and Risk Committee Recommendations  
to the Board of Directors (June 2025-May 2026)**

Key Observations		Summary of ARC Recommendations to the Board
1	Financial Reporting	Recommended Board approval of the 2025 Financial Statements, acknowledging robust performance, earnings sustainability, and prudent financial risk management despite market volatility. The Financial Statements were approved by the Board of Directors on March 24, 2026, and by the Board of Governors on April 16, 2026.
2	Global Borrowing Authority (GBA)	Endorsed the 2026 GBA of up to USD11 billion in long-term borrowings and USD5 billion in short-term instruments, supporting the Bank's liquidity, refinancing, and funding strategy. The GBA was approved by the Board on Dec. 17, 2025.
3	Risk Appetite Statement (RAS)	Recommended approval of the revised RAS, focusing on capital adequacy under baseline and stressed conditions, the refinement of risk metrics, and the alignment of scenario design with peer MDB practices. The RAS was approved by the Board on Dec. 17, 2025.
4	Financial and Risk Management Policy	Endorsed the revised Financial and Risk Management Policy to the Board for decision. The targeted revisions reflect the evolution of the Bank's operations, internal governance reforms, and data governance requirements. The Financial and Risk Management Policy was approved by the Board of Directors on Dec. 15, 2025, on an absence-of-objection basis.

## **Annex C: Summary of Committee Recommendations to the Bank (June 2025-May 2026)**

### **I. Risk Management**

- Strengthen timely reporting and capture of operational risk incidents across all business units, with more detail in reporting. Support for ongoing automation initiatives for operational risk events.
- Continued fostering of a culture of reporting operational risk across the Bank, including increased visibility of high- and medium-risk operational events, and improving departmental engagement in strengthening risk culture.
- Emphasize the importance of continued vigilance in responding to external risks while supporting the Bank's long-term financial sustainability.
- Further develop the taxonomy and framework needed to support more systematic management of reputational risk, which is a significant issue for multilateral development banks and one that is closely linked to other risk categories and to the Bank's overall risk culture.
- Include summaries of high-risk KYC cases in future ARC reporting.
- In relation to new products, encourage the segregation of the first line's role of strategic prioritization and product development by the Product Development and Management Team and the second line's role of operational readiness assessment and implementation led by the enhanced New Product Operational Readiness Working Group.
- Encourage ongoing discussion of AIB's risk appetite for Treasury-related risks, given their current risk profile.

### **II. Internal Controls**

- Encourage and recognize continued progress in strengthening internal controls and ongoing vigilance in adapting the control environment to evolving risks, systems, and business needs.
- Continued investment in IT infrastructure and capacity to support the control environment.

### **III. Internal Audit**

- Encourage continued efforts to support good governance across the Bank and the progress made in strengthening IAO's methodology, capabilities, and strategic direction.

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

- Track portfolio growth and whether current pipeline is aligned with diversification objectives; and whether the Bank remains on track to meet its concentration limits ahead of the 2030 Corporate Strategy horizon.
- Provide clarity on how portfolio growth is managed alongside liquidity preservation, such as on the relatively high share of the Bank's Treasury assets and elevated liquidity levels compared to peers as well as the implications of a gradual reduction in the Treasury portfolio over time.

## **Annex D: Indicative Committee Workplan (June 2026-May 2027)**

The following indicative workplan outlines the anticipated schedule of the Audit and Risk Committee (ARC or the Committee) engagements for the period June 2026 to May 2027. It reflects the Committee's expected focus areas, including quarterly financial oversight, risk reporting, internal audit, and the review of major financial and risk policies. This schedule is subject to change based on institutional developments, evolving priorities, and emerging risk or policy matters requiring ARC attention.

### **June 8, 2026: ARC Meeting**

- Internal Audit Office Update
- Q1 2026 Risk Report Dashboard
- Operational Risk Heatmap
- COSO/ICFR Implementation Update (circulation only)
- ARC Annual Report (circulation only)

### **Aug. 13, 2026: ARC Consultation and Briefing**

- Q2 2026 Financial Statements
- AIB Sustainability Report
- Briefing: Treasury Portfolio and Asset Liability Management Report (2026 H1 Results)

### **Sep. 7-8, 2026: ARC Meeting**

- Selection of the Chair and Vice Chair
- Q2 2026 Risk Report Dashboard
- Scenarios for Stress Testing
- Internal Audit Office Update
- COSO/ICFR Implementation Update
- Independent External Audit Work Plan 2026
- CEIU Report on PPP-related Cases

### **Nov. 24, 2026: ARC Financial Consultation**

- Q3 2026 Financial Statements

### **Dec. 7-8, 2026: ARC Meeting**

- Q3 2026 Risk Report Dashboard
- Risk Appetite Statement and Report on Stress Testing
- 2027 Global Borrowing Authority
- Internal Audit Office Update
- Discussion with the Chief Internal Audit Officer (closed session)
- COSO/ICFR Implementation Update (circulation only)

### **March 15-16, 2027: ARC Meeting**

- 2026 Financial Statements
- Briefing: Treasury Portfolio and Asset Liability Management Report (2026)
- Deloitte Independent External Auditor's Report and ICFR Opinion
- Discussion with Independent External Auditor (closed door session)

- Financial and Risk Management Policy
- Q4 2026 Risk Report Dashboard
- Internal Audit Office Update
- COSO/ICFR Implementation Update

**May 13, 2027: ARC Consultation**

- Q1 2027 Financial Statements