

**AIIB Directive on
Valuation of Financial Instruments
Dec. 10, 2018**

A. Overriding Objective

- 1.1. This Directive sets out the rules and responsibilities for the valuation of the financial instruments of the Asian Infrastructure Investment Bank (the Bank) in accordance with International Financial Reporting Standards (IFRS) 13 *Fair Value Measurement*.
- 1.2. The exercise and interpretation of this Directive shall seek to give effect to this overriding objective.

B. Governing principles

In accordance with IFRS 13 and generally accepted concepts and practices the Bank adheres to the following principles in its valuation of financial instruments:

- 2.1. **Transparent:** Maximize the use of observable inputs and minimize the use of unobservable inputs to increase reliability of valuation results.
- 2.2. **Consistent:** Valuation methodologies and assumptions should be applied consistently from period to period, except where a change would result in better estimates of fair value. Any such changes should be properly documented.
- 2.3. **Timely:** Computation of valuation results should be performed in a timely manner so as to meet the requirements of financial reporting and portfolio monitoring.
- 2.4. **Verifiable/auditable:** Information sources used to derive valuation inputs shall be maintained both for independent verification and for audit purposes.

C. Main approach

In line with IFRS 13 this Directive recognizes three widely used approaches for the valuation of financial instruments for the Bank:

3.1. Market approach

The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities.

3.2. Income approach

The income approach converts future amounts (e.g., cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts.

3.3. Asset-based approach

The asset-based approach is a sub-category of the cost approach. It is likely to be appropriate for a business whose value is derived mainly from the underlying fair value of its assets rather than its earnings, such as property holding companies and investment businesses.

The approach to be selected for the valuation of individual financial instruments shall be determined in accordance with the attendant Administrative Guidance.

D. Departmental responsibilities

For purposes of this Directive, the following departments of the Bank have key responsibilities as below:

- 4.1. The Investment Operation Departments (IOD) and the Office of the Treasurer (TRE) take the ownership of the valuation of financial instruments, including determining the valuation methodology, gathering relevant information, and performing the valuation for investment portfolios held under their respective units.
- 4.2. The Risk Management Department reviews the assumptions and methodologies of valuation models based on AIB's model risk framework.
- 4.3. The Office of the Controller reviews the application of the methodology and key inputs used by IOD/TRE; and performs the valuation of loans where such fair valuation is required only for financial disclosure purposes.

E. Implementation

- 5.1. The Vice President and Chief Financial Officer shall oversee this Directive, introduce any related Administrative Guidance and ensure their efficient and accurate implementation. The Administrative Guidance will establish controls and processes to ensure that all valuation-related activities are undertaken by the Bank in accordance with this Directive and will provide further clarification and detailed procedures that support this Directive.
- 5.2. A Valuation Technical Group (VTG) will be established that will act as the forum for considering matters involving the valuation of financial instruments of the Bank.

Detailed provisions as to the composition of the VTG and its responsibilities and procedures shall be specified in the attendant Administrative Guidance.

F. Authority

6.1. The Vice President and Chief Financial Officer shall make all final decisions regarding the application of this Directive.