

ASIAN INFRASTRUCTURE INVESTMENT BANK
DIRECTIVE ON LOSS PROVISIONING POLICY

February 2, 2018

A. OVERRIDING OBJECTIVE

This Directive sets out the rules and responsibilities for implementing the Loss Provisioning Policy of the Asian Infrastructure Investment Bank (the Bank). The Loss Provisioning Policy adopts International Financial Reporting Standards (IFRS) 9 as the basis for determining the Bank's loss provisioning.

The exercise and interpretation of this Directive shall seek to give effect to this overriding objective.

B. IFRS 9 METHODOLOGY, SCOPE OF DIRECTIVE

(a) The Risk Management Department (RMD) shall develop a detailed methodology for determining the Bank's loss provisioning under IFRS 9 that supports this Directive.

(b) This Directive shall leave unaffected the provision para 21, bullet point #2 of the Loss Provisioning Policy, which authorizes management to review whether suggested provisions under IFRS 9 are consistent with principles of prudent risk management and whether additional reserves for potential unexpected credit losses should be considered.

C. DEPARTMENTAL RESPONSIBILITIES

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

(a) Risk Management Department (RMD) has the overall responsibility for determining the loss provisioning under IFRS 9.

(b) Investment Operations provides loan and other investment specific cash flow projections to be incorporated in the determination of loss provisions.

(c) Treasury provides specific information for financial instruments that might be subject to loss provisions.

(d) Office of the Controller – Loan Administration Team provides Effective Interest Rate (EIR) or Effective Interest Spread (EIS), disbursement and other data for individual loans.

(e) Office of the Controller – Accounting Team reviews the application of the methodology and is responsible for recognizing and reporting of respective loss provisioning in the Bank’s financial statements.

D. MECHANISM FOR RESOLVING DISCREPANCIES

Matters arising under this Directive that cannot be resolved between respective functions shall be brought to the Risk Committee.

E. IMPLEMENTATION

(a) The Chief Risk Officer shall monitor the implementation of the Loss Provisioning Policy and this Directive. The Chief Risk Officer shall prepare and issue the Administrative Guidance: (1) establishing the detailed methodology for determining the Bank’s loss provisioning under IFRS 9 and (2) providing additional content where required to ensure the efficient implementation of this Directive.

(b) The Chief Risk Officer will regularly consult with the Office of the Controller and the Bank’s external auditor.