

IFRS 9/IPSAS 41 -Financial Instruments

Presentation by:

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Presentation agenda



- □ Introduction
- ☐ Impairment with practical implementation emphasis
- ☐ Implementation successes
- □ Challenges identified
- Way forward
- □ Q&A

Introduction - Impairment



Expected loss model

Past events

+

Current conditions

+

Forecast of future economic conditions

Impairment - high level overview

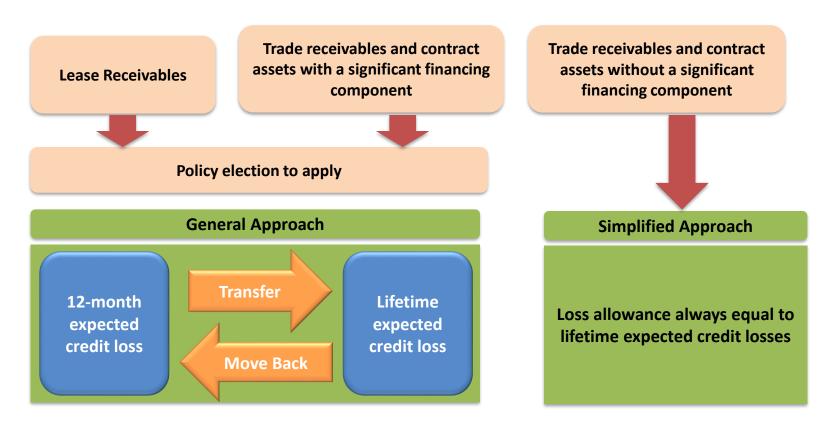


| ← EL | = | PD | X | LGD | X | EAD |
|---|---|--|---|--|---|--|
| Expected loss is a statistical measure used to reflect expectations of future losses based on historical data. Derived based on observation, empirical evidence and expert judgment | | Probability of default for an asset or class of assets (PD) represents an average expectation over the course of an entire business cycle. | | Loss given default based on losses resulting from defaults. LGD will be separated for secured and unsecured portions of an exposure. | | Exposure at default represents the amount a financial institution stands to lose in the event of a default event Undrawn commitments are factored in using statistical probabilities of drawing |

Changes to existing models are necessary to comply with lifetime expected credit loss (LECL) requirements

Impairment – General approach versus Simplified approach





IFRS 9 ECL – General mode CPAK

Significant increase in credit risk (credit deterioration) since initial recognition

12-month expected loss

EIR on gross amount (excl loss allowance)

Stage 1Performing "The Good"

EIR: Effective interest rate

Impairment recognition

Lifetime expected loss

Interest revenue recognition

EIR on gross amount (excl loss allowance)

Stage 2
Under-Performing
"The Bad"

Lifetime expected loss

EIR on amortised cost (net of loss allowance)

Stage 3
Non-Performing
"The Ugly"

12-month ECLs are the portion of lifetime expected credit losses that represents losses resulting from default events that are possible within 12 months

Lifetime ECLs are the expected credit losses that result from all possible default events over the expected life of a financial instrument

Implementation Successes



| 4 Successes | |
|-------------|---|
| Compliance | -Implementation compliant with IFRS 9 impairment requirements for financial assets |
| Disclosures | - Richer information relevant to investors (key ECL assumptions, SICR/additional financial assets in the period, drivers of ECL changes etc.) |

Implementation Successes (cont.)



4 Successes (cont.)

| Management |
|--------------|
| of financial |
| assets |

- Improved accounting and reporting on financial assets
- Undrawn commitments
- Lending/ extending credit limits

Business strategy

- Enhanced credit risk management practices
- Influencing strategy on acquisition of financial assets

Challenges identified

SICR



| 5 key challenges | |
|------------------|--|
| Data | Limited historical data for PD and LGD; validation challenges; |
| | management overlays |
| Forward looking | Complex models; Statistically |
| information | significant relationships may not |
| | be identified |

Staging criteria relies solely on

past due information; probation

Challenges identified (Cont.)



5 key challenges (cont.)

Proxy PDs

Ratings developed by credit agencies may not be reflective of local market characteristics

Effective interest rate (EIR)

Contractual rates being used to discount cash flows when determining LGD while IFRS 9 requires EIR

Way forward



| 5 considerations | | |
|------------------|---|--|
| Data | Develop policies and controls for validationData governance | |
| SICR | Incorporate qualitative, quantitative and forward looking information Credit ratings Segmentation of financial assets | |

Way forward (cont.)



| 5 considerations | (cont.) |
|------------------|-----------------------------------|
| Disclosures | - Continue to enhance disclosures |
| | and align to credit risk |

ECL Models

- Model governance and validation frameworks

management practices

Automation of models

- To address Excel limitations and risks of error

Q&A



