ICPAK
Financial Reporting Workshop
IFRS 9 Comprehensive Example

FCM Bank is applying IFRS 9 for the first time in its December 31, 2018 financial statements. The following is information about its member loan portfolio at December 31, 2018:

- Loans 1-4, as well as all of the loans in Group A1 and A2, share similar risk characteristics. They are mortgage loans in the same geographical area which are all secured by collateral.
- All of the loans were originated at a market rate of interest.
- FCM is unable to rebut the presumption that its loans have experienced a significant increase in credit risk when more than 30 days past due.
- The bank considers all loans over 90 days to be credit-impaired based on historical experience with recovering the associated debt.
- Using the CBK Prudential guidelines, the aging of the bank's loans and the split between fixed and variable rates mortgages are as follows on December 31, 2018:

Loan Number	Total (KES)	Current (KES)	30+days past due	60+days past due	90+days past due
Group A1 (Fixed rate mortgages	1,700,000	1,400,000	75,000	100,000	125,000
Group A2 (Variable rate mortgages)	600,000	500,000	20,000	30,000	50,000
Total	**2,300,000**	**1,900,000**	**95,000**	**130,000**	**175,000**

- The FCM's treasury department forecasts that interest rates will increase by 1% over the next 2 years. Based on historical data, the bank knows that a 1% increase in market interest rates usually results in a significant increase in credit risk for 10% of the variable rate mortgages that would otherwise be in Stage 1.
- The bank monitors certain loans more closely on an individual basis given their significance and unique characteristics. The following information is available without undue cost or effort on an individual loan basis:

Loan # (All fixed rate)	Amount (KES)	Status	Other information	PV of Expected Future Cash Flows, including the expected recoveries from collateral (KES)
1	200,000	90 days	The borrower has filed for bankruptcy	180,000 (100% probability of default)
2	150,000	Current	None	Not calculated
3	120,000	Current	The borrower has breached several other covenants within the loan agreement and was recently arrested for embezzling money from his employer	120,000
4	50,000	60 days	The borrower recently lost his job due to an economic recession and was granted a concession to skip payments	37,000 (100% probability of default)

- Additional information for Group A1 and A2 taking into account historical information, current conditions and forward-looking information, including actual loss experience and recoveries from the sale of collateral, is as follows:

Probability of Default in the Next 12 months	Lifetime Probability of Default	Loss Given Default
Fixed rate loans = 2% Variable interest rate loans = 1%	Credit-impaired loans = 100% Not credit-impaired loans = 5%	All loans = 25%

Determine the total impairment loss for the bank as at 31 December 2018.

Analysis:

The following table explains how the impairment allowance for FCM is calculated at December 31, 2018

Loan	Amount (KES)	Stage	Action under IFRS 9	ECL Allowance (KES)
1	**200,000**	3	Recognize lifetime ECLs	(200,000 – 180,000) *100% = **20,000**
2	**150,000**	1	Move to Group A1	Included in Group A1
3	**120,000**	2	Recognize lifetime ECLs	(120,000 – 120,000) = **0**
4	**50,000**	3	Recognize lifetime ECLs	(50,000 – 37,000) * 100% = **13,000**
Group A1	**1,550,000** (1400,000 + 150,000)	1	Recognize 12-month ECLs	1,550,000 *25% * 2% = **7,750**
Group A1	**175,000** (75,000 + 100,000)	2	Recognize lifetime ECLs	175,000 * 25% * 5% = **2,188**
Group A1	**125,000**	3	Recognize lifetime ECLs	125,000 * 25% * 100% = **31,250**
Group A2	**450,000** (90% of 500,00 not affected)	1	Recognize 12-month ECLs	450,000 * 25% * 1% = **1,125**
Group A2	**100,000** (20,000 + 30,000 + 50,000 (the 10% from above row))	2	Recognize lifetime ECLs	100,000 * 25% * 5% = **1,250**
Group A2	50,000	3	Recognize lifetime ECLs	50,000 * 25% * 100% = **12,500**
Impairment Loss				**89,063**

Total impairment loss under IFRS 9 = **KES 89,063** (20,000 + 13,000 + 7,750 + 2,188 + 31,250 + 1,125 + 1,250 + 12,500).