Comprehensive Example of an Impairment Calculation under IFRS 9 *Financial Instruments*

February 2017

Lender A 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.
- Lender A is unable to rebut the presumption that its loans have experienced a significant increase in credit risk when more than 30 days past due.
- Lender A considers all loans over 90 days to be credit-impaired based on historical experience with recovering the associated debt.
- The aging of Lender A's loans and the split between fixed and variable rates mortgages are as follows on December 31, 2018:

Loan #	Total	Current	More than 30 Days Past Due	More than 60 Days Past Due	More than 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 Lender A's treasury department forecasts that interest rates will increase by 1% over the next 2 years. Based on historical data, Lender A 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.
- Lender A 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 #	Amount	Past Due Status	Other Information	PV of Expected Future Cash Flows, Including ECLs and the Expected Recoveries from Collateral
1 (fixed rate)	$200,000	90 days	The borrower has filed for bankruptcy.	$180,000 (100% probability of default)
2 (fixed rate)	$150,000	Current	None	Not calculated
3 (fixed rate)	$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 (fixed rate)	$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%

Analysis:

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

Loan	Amount	Stage	Rationale	Action Required Under IFRS 9	ECL Allowance
1	$200,000	3	Credit-impaired because 90 days past due and borrower bankruptcy	Recognize lifetime ECLs	($200,000 - $180,000) × 100% = $20,000
2	$150,000	1	No significant increase in credit risk	Move to Group A1 (fixed rate loans)	Included in Group A1
3	$120,000	2	Significant increase in credit risk	Recognize lifetime ECLs	$120,000 - $120,000 = $0
4	$50,000	3	Credit-impaired because of past due status and other events that have a detrimental effect on future cash flows	Recognize lifetime ECLs	($50,000 - $37,000) × 100% = $13,000
Group A1	$1,400,000 (current) + $150 000 (loan 2) = $1,550,000	1	Not past due and no other information that indicates a significant increase in credit risk	Recognize 12-month ECLs	$1,550,000 × 25% × 2% = $7,750
Group A1	$75,000 (30 days past due) + $100,000 (60 days past due) = $175,000	2	More than 30 days past due; therefore, presumed to have experienced a significant increase in credit risk	Recognize lifetime ECLs	$175,000 × 25% × 5% = $2,188
Group A1	$125,000 (90 days past due)	3	90 days overdue and based on past experience these are considered credit-impaired	Recognize lifetime ECLs	$125,000 × 25% × 100% = $31,250
Group A2	$500,000 (current) × 90% (not affected by interest rate increase) = $450,000	1	Not past due and no other information that indicates a significant increase in credit risk	Recognize 12-month ECLs	$450,000 × 25% × 1% = $1,125
Group A2	$20,000 (30 days past due) + $30,000 (60 days past due) + 10% × $500,000 (current but affected by interest rate increase) = $100,000	2	More than 30 days past due; therefore, presumed to have experienced a significant increase in credit risk and a portion experienced an increase in credit risk due to announced interest rate increase	Recognize lifetime ECLs	$100,000 × 25% × 5% = $1,250
Group A2	$50,000 (90 days past due)	3	Credit-impaired because 90 days past due*	Recognize lifetime ECLs	$50,000 × 25% × 100% = $12,500

** In this situation, reasonable and supportable information on credit losses and collateral was not reasonably available without undue cost or effort on all individual credit-impaired loans because it comprised a large number of small loans. Therefore, ECLs are measured on a collective basis. In other situations, it may be possible to estimate ECLs for individual credit-impaired loans. The same applies to estimating whether there has been a significant increase in credit risk.*

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

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