4. Conclusions

Under IFRS 9 implementation, the definition of credit loss moves from incurred loss into expected loss, while life time expected credit losses are recognized when there are significant increases of credit risk (even when the account is still categorized as performing loans). The purpose of IFRS 9 implementation is for capital adequacy assessment to comply with the Accounting Standard. Its philosophy is neutrality and principal based using one model impairment to recognize the impairment loss by using the tools of forward looking calibration for PD / LGD. The classification and measurement of financial instruments / assets are based on business model and nature of cash flows, while the reclassification could be conducted driven by those business model.

IFRS 9 implementation would impact Bank's CKPN, Earnings and KPMM / CAR. Most likely Bank would book higher CKPN under IFRS 9 implementation rather than under IAS 39. Bank's earnings will be lower as CKPN would be included as operating expenses of Bank. Bank's CAR would be lower yet better as Bank has had enough allowance that credit risk would not be covered by Bank's capital, but from the allowance that has been booked. By implementing IFRS 9 for impairment losses, Bank would have enough capital as required by Regulator.

5. References

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