IFRS 9 implementation in Priorbank JSC

Minsk

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IFRS reporting in Priorbank JSC

- **IFRS reporting** is prepared on a monthly basis (7^{th} WD)

- **Mixed approach**
  - Method of transformation
  - Method of parallel accounting for the most substantial and time-consuming transactions (tangible and intangible assets accounting, loans portfolio accounting)

- **IFRS reporting is a basis for**:
  - Management reporting (prepared on a monthly basis – 9^{th} WD)
  - Budgeting
  - Strategic planning
  - KPIs and reward system

IFRS 9 implementation: major changes

	IAS 39	IFRS 9 (01.01.2018)
Classification and measurement of financial assets	1. Fair value through profit or loss / Held for trading 2. Held-to-maturity investments 3. Loans and receivables 4. Available-for-sale	Two-stage approach on the basis of: - **Business model** of financial assets management - contractual cash flows characteristics (**SPPI test**)
Impairment of financial assets and provisioning	**Incurred losses** (portfolio and individual loan loss provisions)	**Expected losses**

- Significant changes in accounting methodology require broad-scale software updates
- Applied retrospectively – effect on Equity on the transition date for the Group

Project milestones in RBI group

2011 – 2013	**Initial evaluation** of financial instruments
2014	**Subsequent analysis** and identification of contractual critical features that may lead to booking of financial assets at fair value
2015	**Group project** initiated **Purpose**: methodological support and monitoring of IFRS 9 implementation in network banks
2016 – 2017	**Local project** started in Priorbank **Purpose:** Overall compliance of financial reporting with IFRS 9 requirements **Objectives:** • Completeness and correctness of source data • Software updates for the purpose of automation of time-consuming calculations **Precondition**: close cooperation of business and risk

Local project in Priorbank

Priorbank RBI Group

Classification and measurement

1. Definition and approval of **business model** on the basis of:
   - Management reporting
   - KPIs set by key executives

2. Analysis of **contractual cash flows** of existing deals for critical features (**SPPI test**)

3. Subsequent to the definition of business model and SPPI test a decision is made on the **accounting treatment** of financial instruments
   - Amortized cost
   - Fair value

4. Update of algorithms for **loans accounting** in accordance with the requirements of a new standard
   - Interest income for impaired assets
   - Modification of contractual clauses
   - POCI-assets booking

5. Drawing-up and approval of **fair value calculation** methodology

Local project in Priorbank

Impairment of financial instruments

1. Definition of **credit risk deterioration criteria** subsequent to initial recognition:
   - Quantitative
   - Qualitative

2. Definition of **macroeconomic indicators** reflecting future economic environment

3. Construction of expected cash flows schedules taking into account collateral – aimed at incorporating **time value of money**

4. Elaboration and IT-implementation of algorithms for **expected credit losses (ECL) calculation** depending on Stage (12-month ECL, Lifetime ECL) on the basis of historical and current statistics on losses as well as future confirmable data

5. New report outlay on **Movements in allowances and provisions for credit losses** – detailed information on the reasons of changes in expected credit losses

Further steps

1. **Testing** of calculation results
2. Alignment and approval of developed **methodologies**
3. Amending **IFRS accounting policy** in line with IFRS 9 requirements
4. Calculation of **effect on Equity** on the transition date
5. Preparation of 2017 financial report in the new structure (**Transition tables**)