

Provisions for doubtful financial assets: AASB 9 Financial Instruments mapped to EFS

| | 12 month [current] ECL — on performing loans | Lifetime [non-current] ECL — on underperforming loans | Lifetime [non-current] ECL — on non-performing loans |
|---|---|---|--|
| Financial assets affected | Assets measured at amortised cost (e.g. loans), at fair value through OCI (e.g. securities held for trading), lease assets, assets arising from AASB 15 (contracts with customers) and financial guarantees (Para 5.5.1). | | |
| Provision to recognise | If there has been <u>no indication</u> of significantly increased credit risk since inception, still recognise a provision for the next 12 months' worth of <i>expected</i> losses (para. 5.5.5 and B5.5.22-23). | If there <u>has been an indication</u> of significantly <i>increased credit risk</i> (defined in AASB 7) since inception, recognise a provision that would take up losses to maturity (para 5.5.3 and B5.5.15-18). | On actually underperforming assets, a provision that would take up losses to maturity (para 5.5.13). |
| Characteristics | Low risk financial instruments which haven't had a significant increase in risk since inception (para 5.5.10) from borrowers in good standing (para B.5.22-23) | Significant increase in the risk of default (<i>credit risk</i>) since it came onto the books (para 5.5.9). A non-exhaustive list of indicators are given in para. B5.5.17. | Purchased or originated <i>credit-impaired</i> assets i.e. significant financial difficulty, breach of contract, concessions granted etc. appendix A). |
| How assessed? | <ul style="list-style-type: none"> • 'General approach' — individually or collectively (para 5.5.5) every period. • Individually — where it had been determined as such in the Lifetime ECL and it has moved to this bucket (para 5.5.4 and 5.5.7). | <ul style="list-style-type: none"> • 'General approach' — individually or collectively (para 5.5.4 and B5.5.1) every period. • Where 'renegotiated or modified' — Individually (para 5.5.12, B5.5.2) every period. • Trade receivables and leases — collectively (para 5.5.15) every period. | <ul style="list-style-type: none"> • 'Credit-impaired financial assets' — individually where assets are individually known to be distressed and assessed as such, otherwise collectively (para 5.5.4), at initial recognition or subsequent measurement. |
| EFS forms E.g. ARF 720.0A/B, ARF 720.1A/B etc. | Allocate all amounts to the collective column <u>by default, except for individually assessed amounts.</u> | <ul style="list-style-type: none"> • Allocate all renegotiated or modified loan related provision amounts to the individual column. • Allocate all trade and lease receivable related provision amounts to the collective column <u>by default, unless</u> any assets that were individually assessed. • Allocate all remaining amounts to the collective column <u>by default, except for</u> any that've been actually individually assessed. | Allocate amounts to the individual or collective column, following assessment. |

Expected credit losses (ECL):

- are determined using forward-looking information (informed by probability-weighted forecasts, time value of money, future economic conditions, para 5.5.17) related to the financial assets (determined either **individually** or **collectively**), and not merely based past-due data unless forward-looking information is cost ineffective to obtain (B5.5.4), or the data is not available (B5.5.3), unless
- assets are >30 days past due, then they are considered have suffered 'significant increase in credit risk' and therefore **individually** identifiable.

Collective assessment Is to be performed based on 'shared credit risk characteristics', such as instrument type, risk ratings, collateral type, industry etc. (para B5.5.5).