Guideline for the Measurement, Monitoring and Control of Impaired Assets

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1 INTRODUCTION

1.1 A realistic valuation of credit exposures and the prudent recognition of income and expenses related to those exposures are critical factors in evaluating the financial condition and performance of financial institutions[1].

1.2 The Central Bank of Trinidad and Tobago (the "Central Bank"), as regulator and supervisor of banks, non-bank financial institutions, insurance companies and pension funds, has a duty to ensure that licensees under the Financial Institutions Act, 1993 (FIA) and registrants under the Insurance Act, 1980 (IA) Chapter 84:01 control credit risk by adopting prudent practices with respect to the measurement and reporting of, and provisioning for impaired assets.

2 PURPOSE

2.1 This Guideline outlines the Central Bank's minimum requirements for the recognition, monitoring and measurement of impaired assets. The Guideline seeks to ensure that financial institutions have adequate processes for:

2.1.1 ensuring the carrying amounts of credit portfolios represent recoverable values,

2.1.2 determining adequate allowances for credit losses, and

2.1.3 ensuring that there is timely recognition of identified losses.

2.2 The Guideline is not intended to deal with all the requirements of the International Accounting Standards (IAS) pertaining to impairment and uncollectibility of financial assets. Additionally, it supplements, and does not replace, the requirements under relevant legislation and accounting standards.

2.3 Financial institutions are advised to refer directly to the IAS for the complete treatment of impairment of assets. Some excerpts of relevant IAS have been included in Appendix 1 for ease of reference.

[1] In this Guideline, "financial institution" refers to a licensed commercial bank or non-bank, and a registered insurance company and pension fund

3 INTERPRETATION

3.1 "credit exposure" is defined as the amount of risk arising through the extension of credit by a financial institution and represents the maximum loss a financial institution might suffer if a counterparty fails or the loss that may be experienced due to the realization of assets or off-balance sheet positions. It encompasses the risk arising from the financial institution's:

(i) claims on a counterparty including actual and potential claims which would arise from the drawing down of advised facilities (whether revocable or irrevocable, conditional or unconditional) which the financial institution has committed itself to grant, provide, purchase or underwrite; and

(ii) contingent liabilities arising in the normal course of business, and which would arise from the drawing down of advised facilities (whether revocable or irrevocable, conditional or unconditional) which the financial institution has committed itself to provide.

3.1.1 Credit exposures include, but are not limited to:

- loans
- advances
- lines of credit
- commitment letters
- standby facilities
- participations
- equities
- bonds
- guarantees
- acceptances
- letters of credit
- securitized assets
- other transactions with recourse and
- other contingent liabilities, notably credit commitments.

3.2 An *"impaired asset"* refers to an asset where there is no longer reasonable assurance of collection within the contractually established time frame of the full amount of principal and interest due to deterioration in the credit quality of the counterparty or any other factor which may affect contractual performance. In other words, an asset is impaired if its estimated recoverable amount is less than its carrying amount shown in the books of the financial institution.

3.2.1 Impaired assets may exist as a result of any activity of a financial institution that may give rise to problems associated with counterparty default.

3.2.2 As such, in classifying impaired assets, a financial institution should not limit itself only to assessing assets arising out of its lending activities, but should also, for example, have regard to its investments and its off-balance sheet assets, both in derivatives and contingent or committed undrawn facilities.

3.3 "Collateral" refers to assets pledged or otherwise standing as security to ensure payment or performance of an obligation.

4 IMPAIRMENT RECOGNITION AND MEASUREMENT POLICY

4.1 A financial institution must implement an effective credit risk management policy, which incorporates an effective impairment recognition and measurement process. Further, the credit risk management policy must be supported by appropriate accounting and documentation procedures and information systems to ensure its integrity.

5 ROLE OF THE BOARD OF DIRECTORS

5.1 The Board of directors of a financial institution must:

5.1.1 ensure that credit risk management policies and procedures that are adequate for the risk profile and activities of the institution are established and implemented;

5.1.2 review at least annually and sign off on all material changes to credit risk management policies and procedures, and related controls and systems;

5.1.3 ensure, through the audit committee of the Board, that the internal audit function is adequately staffed and the internal controls and credit risk management policies and procedures of the institution are being adhered to;

5.1.4 review all material[2] credit exposures that are given an adverse classification beginning at the level of watch-list, at least once per quarter;

5.1.5 ensure that valuations of collateral held against all material credits classified as non-performing/impaired are conducted at least quarterly[3],

5.1.6 ensure that independent valuations of collateral held against material credits are conducted on an annual basis.

6 INCOME RECOGNITION FOR IMPAIRED ASSETS[4]

6.1 When an impaired asset is measured on the basis of expected future cash flows discounted at the asset's effective interest rate, changes in the estimated recoverable amount arising subsequent to initial recognition of impairment should be reflected in the income statement in the current period. Reductions in the carrying amount of the impaired asset should be recognized as a charge in the statement of income in the period in which the impairment is identified.

6.2 When an impaired asset is measured on the basis of the fair value of the collateral underlying the asset or an observable market price for the asset, changes in the estimated recoverable amount arising subsequent to initial recognition of impairment should be reflected in the income statement in the current period as a charge or credit for asset impairment.

6.3 To maintain a complete record of write-offs and recoveries in the allowance for loan losses, write-offs and recoveries related to impaired assets that are not measured at fair value should be recorded through this account rather than be recorded directly as a charge or credit for asset impairment in the income statement. Write-offs and recoveries that are charged or credited to the allowance account during an accounting period are reflected as a charge or credit for asset impairment in the income statement at the end of the period when the ending balance in the allowance account is established.

6.4 Where subsequent payments or collections received by the institution result in a reduction in the remaining estimated recoverable amount, **the proceeds should be applied first to the principal and then to the interest.**

[2] 'Material' in terms of a credit exposure is relative to the size and operations of an institution and is determined by the Board of Directors and senior management of a financial institution.
[3] This review may be conducted by internal staff
[4] This Section should be read in conjunction with Appendix II and III as well as the applicable standard (IAS 39)

7 GROUP EXPOSURES

7.1 If a borrower within a group of related borrowers has a non-performing or impaired credit exposure, the financial institution should classify all other facilities to the borrower group as “special mention” (See definitions in Appendix III) and put them on a watch list.

7.2 An adverse classification[5] is not required if:

7.2.1 There is no financial interdependence between the connected or related parties, the various credit facilities are not cross-collateralized, and there are no cross-guarantee arrangements between the related parties; or

7.2.2 There are cross-collateral and guarantee arrangements but, in aggregate, there are sufficient marketable/cash securities within the group of related parties to ensure ultimate collectibility of all principal and interest on both the impaired and performing exposures

7.3 Borrowers or counterparties are “related” when they are linked by cross-guarantees, common ownership or management, ability to control, financial interdependency, or other connections which, in the Central Bank’s assessment, would lead it to regard the exposures as representing a common risk.

8 RETURNING A LOAN TO UNIMPAIRED STATUS

8.1 A loan may be returned to unimpaired status when either:

8.1.1 ALL past due[6] principal and interest payments have been made and the remaining payments according to the loan agreement are expected[7] and the borrower has resumed paying the FULL amount of the scheduled contractual principal and interest for a reasonable period and all remaining contractual payments are deemed collectible in a timely manner; or

8.1.2 The loan becomes fully secured[8] and in the process of collection (through legal or other action that will result in repayment of the loan or restoration to current status in the near future).

[5] A classification is adverse if the exposure is classified as Impaired/Non Performing. See Appendix III for details.
[6] See Appendix II – Past Due Credit Exposures
[7] See Appendix IV for Limitations on loan negotiations
[8] Appraised value of collateral must be supported by a written opinion of an independent and qualified appraiser and based on a conservative view of current market prices, suitably discounted for price volatility and lack of ready market for assets. All realization costs must be taken into account

9 GENERAL PROVISIONS FOR LOAN LOSSES

9.1 This Guideline envisages the establishment of a general provision to ensure the adequacy of the overall allowance for losses on loans and advances. The general provision is designed to cover potential losses that are not captured in the allowances for individually assessed credit exposures. This is in line with IAS 30.

9.2 If an entity determines that no objective evidence of impairment exists for an individually assessed credit exposure it should include the asset in a group of credit exposures with similar credit risk characteristics for determining a general provision.

9.3 IAS 30 (paragraph 44) sets out the circumstances under which a general provision may be established. It states that *"Any amounts set aside in respect of losses on loans and advances in addition to those losses that have been specifically identified or potential losses which experience indicates are present in the portfolio of loans and advances should be accounted for as appropriations of retained earnings."*

9.4 Institutions must take into consideration the relatively higher risks associated with certain types of lending such as credit card facilities, unsecured personal loans, hire purchase and leasing contracts in setting the level of general provisions.

9.5 The Central Bank may recommend that an institution increase its general provision from a minimum of 0.5%[9], based on an assessment of factors which may include:

9.5.1 The effectiveness of the institution's risk management and credit policies, internal and external audit, loan reviews and credit inspections in maintaining a high quality asset portfolio

9.5.2 The institution's experience of loan and investment losses, its success in realizing security on problem loans in a timely manner without incurring substantial loss and the outlook for recoveries

9.5.3 The institution's credit risk models used for provisioning

[9] The general provision should range between 0.5% to 4.5% of the value of the unexamined portion of the credit portfolio

9.5.4 The quality of financial information and credit files maintained in relation to each credit exposure on each borrower; and

9.5.5 The present economic conditions within the industry sectors or country where the credit exposures, including investment portfolios, are concentrated and the expected impact of political, economic and climatic circumstances on the collectibility of the exposure in the foreseeable future.

10 EXPOSURES WHICH DO NOT REQUIRE A PROVISION

10.1 No provision is required in the following cases, even if the exposure is classified as “Non-performing”:

10.1.1 *Trinidad and Tobago (T&T) Government Loans & T&T Government guaranteed loans*

Loans extended to state entities, local Government and statutory authorities that are supported by government guarantees though in arrears should not be classified as sub-standard, doubtful or loss for the purpose of requiring a provision.

10.1.2 Fully Secured Loans

No provision is required where the credit facility, including the accrued interest, is fully secured and is in the process of collection or is one hundred percent secured by a cash deposit.

11 DISCLOSURE

11.1 All financial institutions are required to comply with the disclosure requirements of the IAS, particularly the requirements outlined in IAS 30 *(Disclosures in the Financial Statements of Banks and Similar Financial Institutions)* and IAS 37 (*Provisions, Contingent Liabilities and Contingent Assets)*.

12 ROLE OF EXTERNAL AUDITORS

12.1 Financial institutions shall require their auditors to attest to the adequacy of processes used in determining credit loss allowances and the adequacy of the total allowance on an annual basis.

Any deficiencies in the allowance or the processes used shall be duly recorded in the auditors' 'opinion' or management letter, depending on their materiality.

12.2 If the auditor is not satisfied that the Board is taking timely and appropriate corrective action in response to his findings, the auditor may submit such findings in a written report to the Central Bank. Such information will be treated as strictly confidential.

13 INTERNATIONAL BANKS

13.1 Where an international financial institution is granted a license to operate subsidiaries in Trinidad and Tobago, policies and procedures adopted from the parent institution must conform to the Central Bank's minimum requirements.

Appendix I

PAST DUE CREDIT EXPOSURES

A credit exposure is considered past due[10] one day after the date on which an installment becomes due and includes all exposures which are due for repayment but have not been repaid.

AGING CATEGORIES

Credits which are past due:

- 1 day - 30 days
- Over 30 days – 89 days
- 90 days – 179 days
- 180 days – 359 days
- 360 days – 720 days
- Over 720 days

PAST DUE OVERDRAFT CREDIT EXPOSURES

An overdraft credit is past due where one or more of the following factors exist: -

- The contracted interest payment and or principal have not been paid for 90 days or more, and this is not as a result of any special client arrangement[11].

- The facility has operated, on average, in excess of the sanctioned limit for a period of 90 days or more, and the financial institution has not approved an increased limit even if only on a temporary basis

- The outstanding balance has been called but has not been liquidated and a period of 30 days has elapsed

Once an overdraft loan is classified as past due, it should be reported immediately as past due on the CB20.

[10] Past due refers to installments which have not been fully met. Once this occurs, the entire exposure must be reported as past due (principal only).

[11] There must be documentary evidence of special client arrangements. "Special Client" arrangements will not be recognized by the Central Bank unless there is a formal agreement.

Financial institutions must follow their written policies with respect to the application of discretionary excess.

Appendix II

ASSET CLASSIFICATION RATINGS SYSTEM

All credit exposures must be assessed from the standpoint of the degree of risk presented by individual items, and the likelihood of orderly payments by the borrower.

UNIMPAIRED/PERFORMING CREDIT EXPOSURES

These are facilities which are fully performing and are categorized as **standard or special mention**: -

- *Standard: th*e credit is current and its original source of repayment is adequate. It has adequate collateral support and does not carry more than a normal risk of loss. Such credit is not classified for the purposes of making a specific provision.
- *Special Mention:* The credit is of acceptable quality. However, due to particular weaknesses, it requires more than usual management attention to prevent deterioration (for e.g. the loan may be past due for 1-89 days). It is not mandatory that such credits be classified for the purposes of making a specific provision.

IMPAIRED/NON-PERFORMING CREDIT EXPOSURES

Non-performing/impaired credit exposures are defined as those exposures for which the ultimate collectibility of principal and interest is compromised and there is no longer reasonable assurance that an institution will collect all amounts due, according to the contractual terms of the agreement.

Loans (excluding residential mortgages, time loans, demand loans) should be classified as non-performing when payments are contractually 90 days or more in arrears and are to be further categorized as **sub-standard, doubtful or loss.** Additionally interest accrued on non-performing loans is to be reversed in accordance with the Prudential Criteria Regulations, 1994.

Institutions should measure an impaired asset at its estimated recoverable amount[12]. Impairment assessments should be done at a **minimum** quarterly and the carrying amount of assets reduced to the recoverable amount either directly or through the creation of adequate provisions and charging the income statement in the period in which the impairment occurs. Where assessments are done only

[12] Market value of security should be used to determine provisions

annually at the balance sheet date, it is recommended that interim provisioning be made for non-performing credits as follows:

Sub-standard 20%

Doubtful 50%

Loss 100%

Sub-standard[13]

The credit is in arrears 90-179 days and displays weaknesses that jeopardize the full liquidation of the debt and there is a distinct possibility that the financial institution will sustain some loss, if deficiencies are not corrected. The credit involves more than a normal risk of loss due to one or a combination of factors, namely: -

- Unsatisfactory debt servicing record or financial condition of the customer
- Inadequacy of cash flow
- Insufficiency of security
- Other adverse factors, which give rise to some doubt as to the ability of the customer to comply with the agreed repayment terms.

A credit that is currently performing but has weaknesses that throw doubt on the customer's ability to comply with the terms and conditions of the credit, may be classified as sub-standard.

Doubtful

The credit is in arrears 180-359 days and exhibits the weaknesses inherent in those classified as sub-standard with the added characteristic that the weaknesses make collection in full, on the basis of currently known facts, conditions and values, highly improbable. There is a high risk of default.

A credit that is not in arrears 180 days, but has weaknesses that make collection in full highly improbable, may warrant to be classified as doubtful.

[13] Credits which are secured by Trinidad and Tobago Government letters of credit and past due 180-359 days should be given a 'sub-standard' classification. When such facilities are in arrears 360 days and over, a doubtful classification should be given.

Loss

The credit is in arrears 360 days and over. A credit classified as loss is considered uncollectible. A loss credit should not be kept on the books of a financial institution in the hope that there may be some eventual recovery.

OVERDRAFT ACCOUNTS

Once classified as "substandard" or lower, overdraft accounts should be renegotiated with a view to converting the inactive portion to another type of credit facility which must be classified as "substandard" or lower.

Appendix III

LIMITATIONS ON LOAN RENEGOTIATIONS

The refinancing, rescheduling, renewal or other modifications on loan agreements arising from weaknesses in the borrower's financial position and/or inability to repay would be allowable under the following conditions:-

- loans would be permitted under these conditions only provided that the borrower can demonstrate the capacity to service the loan under the new conditions of the contract
- loans classified as doubtful or loss would not be eligible for renegotiation unless such loans have either an improvement in the loan collateral or an up-front cash payment
- in no case should the interest on the renegotiated loan be below the institution's average cost of funds
- commercial loans can be renegotiated only twice over the life of the original loan and mortgage loans not more than twice in a five-year period
- renegotiated loans should not be reclassified upward for a minimum of one year following modification of the credit agreement. This will enable a performance record to be demonstrated
- any loan rescheduling involving capitalization of interest (whereby uncollected interest is added to unpaid principal at the payment date or maturity of a loan or advance) would require an increase in the value of the collateral to cover the capitalized interest, if necessary
- the new loan resulting from the interest capitalization will be offered only if the borrower can demonstrate the capacity to service the loan under the new conditions of the contract
- loans classified as substandard, doubtful or loss would not be eligible for interest capitalization.

Appendix IV

EXCERPTS FROM IAS 39 ON IMPAIRMENT AND UNCOLLECTIBILITY OF FINANCIAL ASSETS

Impairment and Uncollectibility of Financial Assets

58. An entity shall assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraph 63 (for financial assets carried at amortised cost), paragraph 66 (for financial assets carried at cost) or paragraph 67 (for available-for-sale financial assets) to determine the amount of any impairment loss.

59. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the asset (a 'loss event') and that loss event has impact on the estimated future cash flows of the financial asset or group of financial assets. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the holder of the asset about the following loss events:

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

> (i) adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or
>
> (ii) national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, a

decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

60. The disappearance of an active market because an entity's financial instruments are no longer publicly traded is not evidence of impairment. A downgrade of an entity's credit rating is not, of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a financial asset below its cost or amortized cost is not necessarily evidence of impairment (for example, a decline in the fair value of an investment in a debt instrument that results from an increase in the risk-free interest rate).

61. In addition to the types of events in paragraph 59, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

62. In some cases the observable data required to estimate the amount of an impairment loss on a financial asset may be limited or no longer fully relevant to current circumstances. For example, this may be the case when a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. In such cases, an entity uses its experienced judgement to estimate the amount of any impairment loss. Similarly an entity uses its experienced judgement to adjust observable data for a group of financial assets to reflect current circumstances (see paragraph AG89). The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

Financial Assets Carried at Amortised Cost

63. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

64. An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (see paragraph 59). If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

65. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognised in profit or loss.

Financial Assets Carried at Cost

66. If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset (see paragraph 46(c) and paragraphs AG80 and AG81). Such impairment losses shall not be reversed.

Available-for-Sale Financial Assets

67. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired (see paragraph 59), the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

68. The amount of the cumulative loss that is removed from equity and recognised in profit or loss under paragraph 67 shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

69. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.

70. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

No Active Market: Equity Instruments

AG80. The fair value of investments in equity instruments that do not have a quoted market price in an active market and derivatives that are linked to and must be settled by delivery of such an unquoted equity instrument (see paragraphs 46(c) and 47) is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

AG81. There are many situations in which the variability in the range of reasonable fair value estimates of investments in equity instruments that do not have a quoted market price and derivatives that are linked to and must be settled by delivery of such an unquoted equity instrument (see paragraphs 46(c) and 47) is likely not to be significant. Normally it is possible to estimate the fair value of a financial asset that an entity has acquired from an outside party. However, if the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity is precluded from measuring the instrument at fair value.

AG84. Impairment of a financial asset carried at amortised cost is measured using the financial instrument's original effective interest rate because discounting at the current market rate of interest would, in effect, impose fair value measurement on financial assets that are otherwise measured at amortised cost. If the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. If a loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss under paragraph 63 is the current effective interest rate(s) determined under the contract. As a practical expedient, a creditor may measure impairment of a financial asset carried at amortised cost on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

AG89. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Entities that have no entity-specific loss experience or insufficient experience, use peer group experience for comparable groups of financial assets. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their

magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.