Appendix 1: Illustrative example showing the impact of the different views

- An asset is purchased at par for currency units (CU) 100.
- The coupon on the asset is 5%.
- The asset is due to mature 5 years after the impairment date. The effective interest rate (EIR) based on the purchase price of CU100 is 5% ("initial EIR").
- The asset is reclassified from the available-for-sale category to loans and receivables when the fair value of the asset is CU60 and the loss in other comprehensive income (OCI) is CU40.
- The contractual cash flows, comprising principal and interest, are expected to be collected based on an assessment at the reclassification date; the new EIR based on the new amortised cost of CU60 and expected future cash flows is 17.71% ("new EIR"). *Please refer to Appendix 2 for a schedule showing the accrual of interest on the asset and the amortisation of OCI to profit or loss through the life of the asset after reclassification.*
- Impairment occurs after reclassification date when the asset is carried at CU60 and the loss in OCI is CU40 (no amortisation of OCI has been assumed to have yet taken place so as to simplify the numbers).
- The following analyses show the impact on profit or loss and the carrying amount for each view *when the asset is impaired*, and (i) a small credit loss is expected (scenario 1), and (ii) a large credit loss is expected (scenario 2).

The terms used herein have the same meaning as that used in the body of the document. The body of the document should be referred to for a description of the different views.

Scenario 1: Expected credit loss of principal of CU10 in 5 years, all the contractual coupons are received (small credit loss)

All amounts below are in CU unless otherwise stated.

	Loss recycled from OCI to profit or loss (a)	Impairment adjustment on the asset (b)	Total loss recorded in profit or loss (a) + (b)	Impact on carrying amount of asset (b)	Adjusted carrying amount of asset 60 + (b)
View A	-40.0	-4.4	-44.4	-4.4	55.6
View B	-40.0	32.2	-7.8	32.2	92.2
View C	-7.8	0	-7.8	0	60.0

The net present value (NPV) of the revised expected cash flows of 90 at maturity plus coupons discounted at 17.7% (new EIR) = 55.6. This is the adjusted carrying amount under view A. The impairment adjustment on the asset under view A is the difference between the carrying amount of 60 and the NPV at the new EIR of 55.6

The NPV of the revised expected cash flows of 90 at maturity plus coupons discounted at 5% (initial EIR) = 92.2. This is the adjusted carrying amount under view B.

The difference under view B is 7.8, which is equivalent to the 'net carrying amount' of 100 (the sum of the carrying amount of 60 and the OCI balance of 40) less the NPV of the asset at the initial EIR.
The net loss of 7.8 under views B and C reflects the loss in value due to the decrease in expected cash flows of 10.

Scenario 2: Expected credit loss of principal of CU70 in 5 years, all the contractual coupons are received (large credit loss)

All amounts below are in CU unless otherwise stated.

	Entire loss in OCI recycled to profit or loss (a)	Impairment loss on the asset (b)	Total loss recorded in profit or loss (a) + (b)	Impact on carrying amount of asset (b)	Adjusted carrying amount of asset 60 + (b)
View A	-40.0	-31.0	-71.0	31.0	29.0
View B	-40.0	-14.9	-54.9	-14.9	45.1
View C	-40.0	-14.9	-54.9	-14.9	45.1

The NPV of the revised expected cash flows of 30 at maturity plus coupons discounted at 17.7% (new EIR) = 29.0. This is the adjusted carrying amount under view A.

The impairment adjustment on the asset under view A is the difference between the carrying amount of 60 and the NPV at new EIR of 29.0.

The NPV of the revised expected cash flows discounted at 5% (initial EIR) = 45.1. This is the adjusted carrying amount under views B and C.

The difference under view B and C is 54.9, which is equivalent to the 'net carrying amount' of 100 (the sum of the carrying amount of 60 and the OCI balance of 40) less the NPV of the asset at the initial EIR.

The net loss of 54.9 under views B and C reflects the loss in value due to the decrease in expected cash flows of 70.

Please refer to Appendix 2 for schedules showing the accrual of interest on the asset and the amortisation of OCI to profit or loss through the life of the asset after impairment for each of the scenarios and views.

Appendix 2: Interest accrual and OCI amortisation schedules after reclassification

Amounts below are in CU unless otherwise stated.

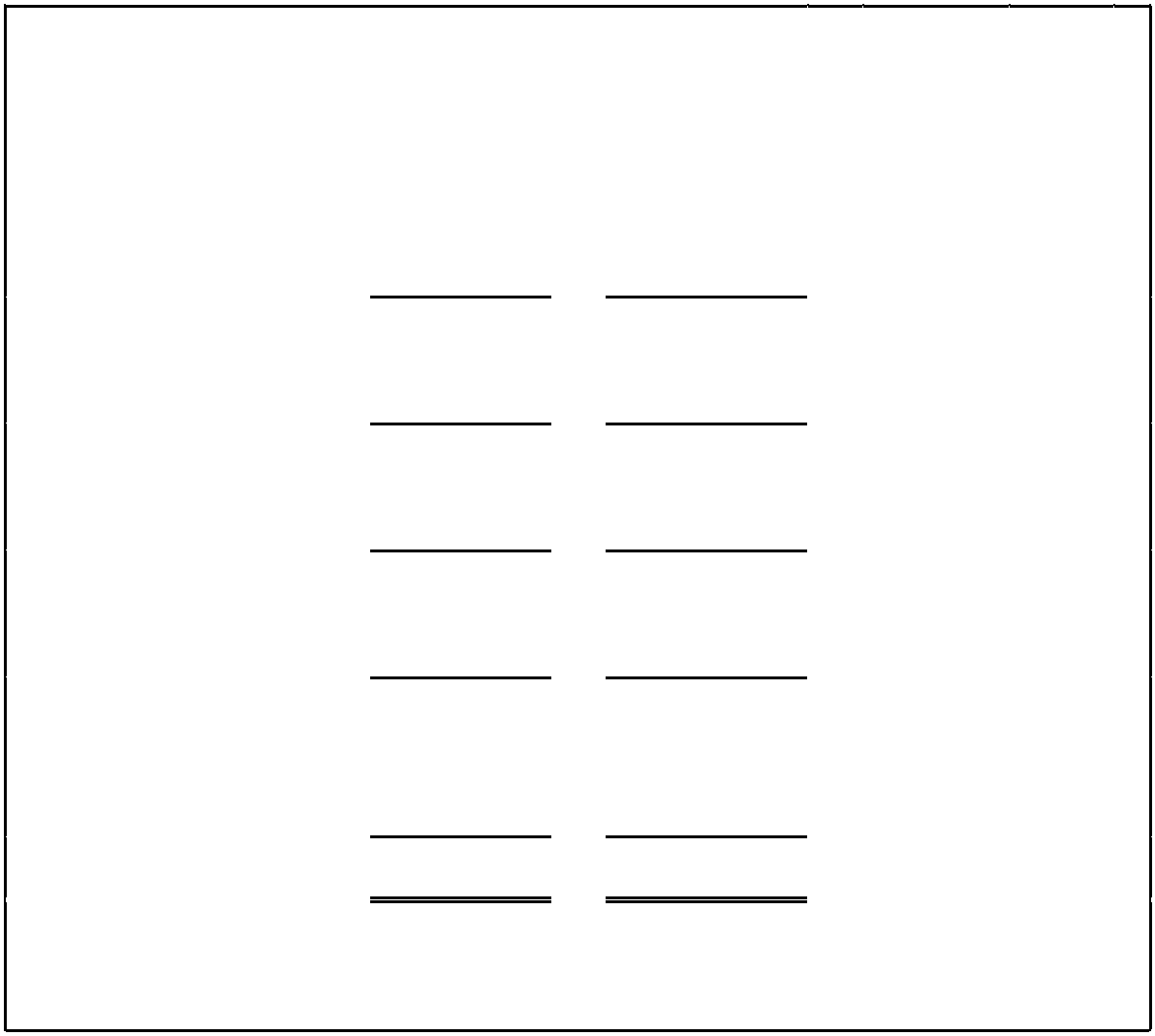
Before impairment, the interest accrual and OCI amortisation is:

NPV of cashflows at new EIR = 60;
new EIR determined iteratively is 17.7%

	Asset		Loss in OCI	Net profit
At reclassification	60.0		40.0	
+ Interest income	10.6	*	-5.6	5.0
- Interest payment	-5.0			
Amount 1 year after reclassification	65.6		34.4	
+ Interest income	11.6	*	-6.6	5.0
- Interest payment	-5.0			
Amount 2 years after reclassification	72.2		27.8	
+ Interest income	12.8	*	-7.8	5.0
- Interest payment	-5.0			
Amount 3 years after reclassification	80.0		20.0	
+ Interest income	14.2	*	-9.2	5.0
- Interest payment	-5.0			
Amount 4 years after reclassification	89.2		10.8	
+ Interest income	15.8	*	-10.8	5.0
- Interest payment	-5.0			
- Principal repayment	-100.0			
Amount 5 years after reclassification	0		0	

* Interest income on the asset is calculated by multiplying the carrying amount of the asset by the new EIR.

View B and C argue that the effective interest rate has not changed, as the net income recorded in profit or loss of 5.0 is similar to the interest income recorded before reclassification, i.e., the principal multiplied by the initial EIR of 5%, since the asset is purchased at par.



Scenario 1 - View A

The interest accrual and OCI amortisation after impairment is:

	Asset		Loss in OCI	Net profit
At impairment	55.6		0	
+ Interest income	9.8	*		9.8
- Interest payment	-5.0			
Amount 1 year after impairment	60.4		0	
+ Interest income	10.7	*		10.7
- Interest payment	-5.0			
Amount 2 years after impairment	66.1		0	
+ Interest income	11.7	*		11.7
- Interest payment	-5.0			
Amount 3 years after impairment	72.8		0	
+ Interest income	12.9	*		12.9
- Interest payment	-5.0			
Amount 4 years after impairment	80.7		0	
+ Interest income	14.3	*		14.3
- Interest payment	-5.0			
- Principal repayment	-90.0			
Amount 5 years after impairment	0		0	

* Interest income on the asset is calculated by multiplying the carrying amount of the asset by the new EIR.

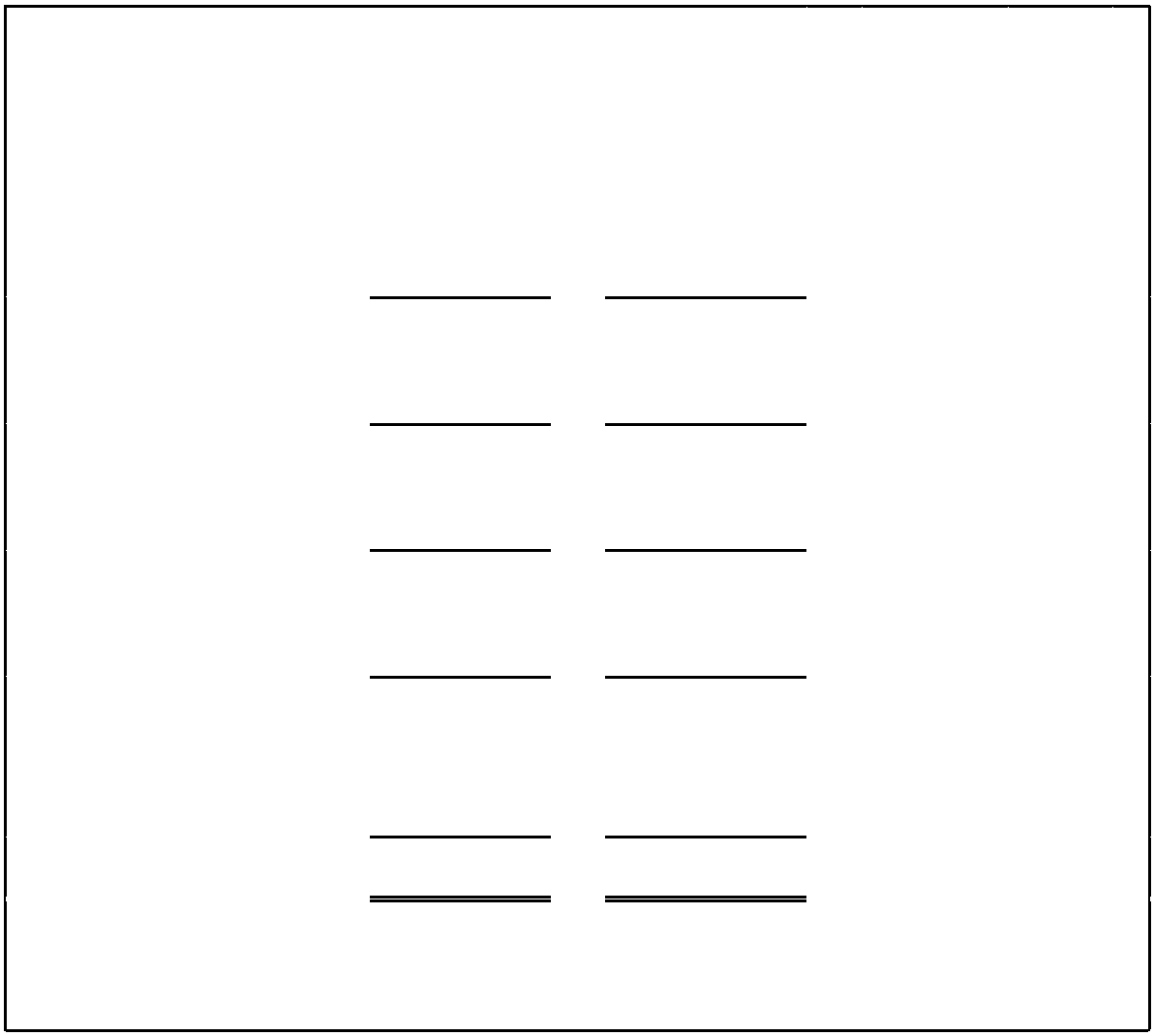
Scenario 1 - View B

The interest accrual and OCI amortisation after impairment is:

Initial EIR of 5.0% used to amortise the asset to the revised expected cash flows

	Asset		**Loss in OCI**	**Net profit**
At impairment	92.2		0	
+ Interest income	4.6	*		4.6
- Interest payment	-5.0			
Amount 1 year after impairment	91.8		0	
+ Interest income	4.6	*		4.6
- Interest payment	-5.0			
Amount 2 years after impairment	91.4		0	
+ Interest income	4.6	*		4.6
- Interest payment	-5.0			
Amount 3 years after impairment	91.0		0	
+ Interest income	4.5	*		4.5
- Interest payment	-5.0			
Amount 4 years after impairment	90.5		0	
+ Interest income	4.5	*		4.5
- Interest payment	-5.0			
- Principal repayment	-90.0			
Amount 5 years after impairment	0		0	

* Interest income on the asset is calculated by multiplying the carrying amount of the asset by the initial EIR.



Scenario 1 - View C

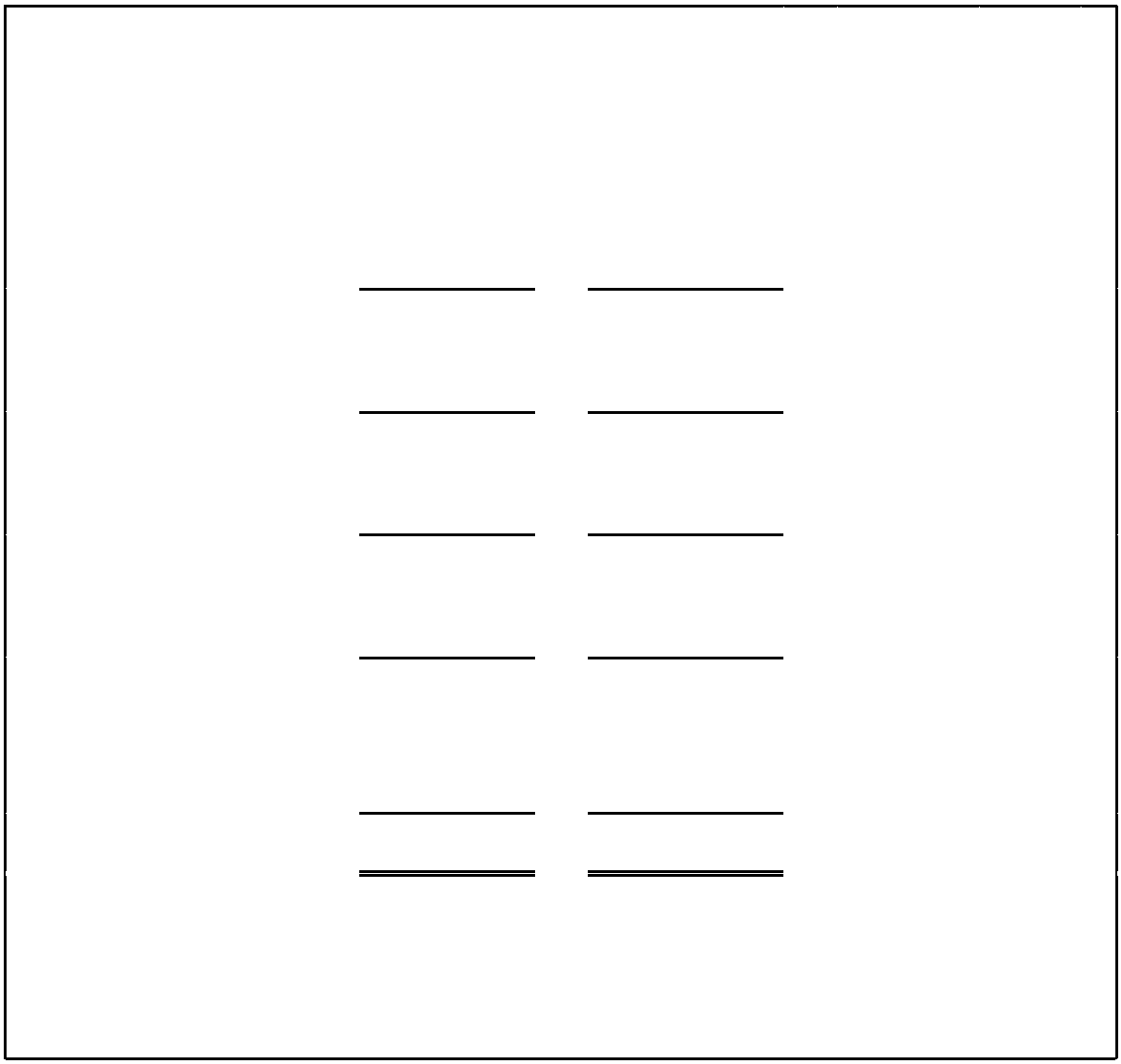
The interest accrual and OCI amortisation after impairment is:

Revised EIR= 15.7% used to amortise the asset to the revised expected cash flows

	Asset		**Loss in OCI**	**Net profit**	
At impairment	60.0		32.2		
+ Interest income	9.4	*	-4.8	4.6	**
- Interest payment	-5.0				
Amount 1 year after impairment	64.4		27.4		
+ Interest income	10.1	*	-5.5	4.6	**
- Interest payment	-5.0				
Amount 2 years after impairment	69.5		21.9		
+ Interest income	11.0	*	-6.4	4.6	**
- Interest payment	-5.0				
Amount 3 years after impairment	75.5		15.5		
+ Interest income	11.8	*	-7.3	4.5	**
- Interest payment	-5.0				
Amount 4 years after impairment	82.3		8.2		
+ Interest income	12.7	*	-8.2	4.5	**
- Interest payment	-5.0				
- Principal repayment	-90.0				
Amount 5 year after impairment	0		0		

* Interest income on the asset is calculated by multiplying the carrying amount of the asset by the revised EIR.

** Net profit or loss is calculated by multiplying 'net carrying amount' (sum of carrying amount of the asset and the loss in OCI) by the initial EIR.



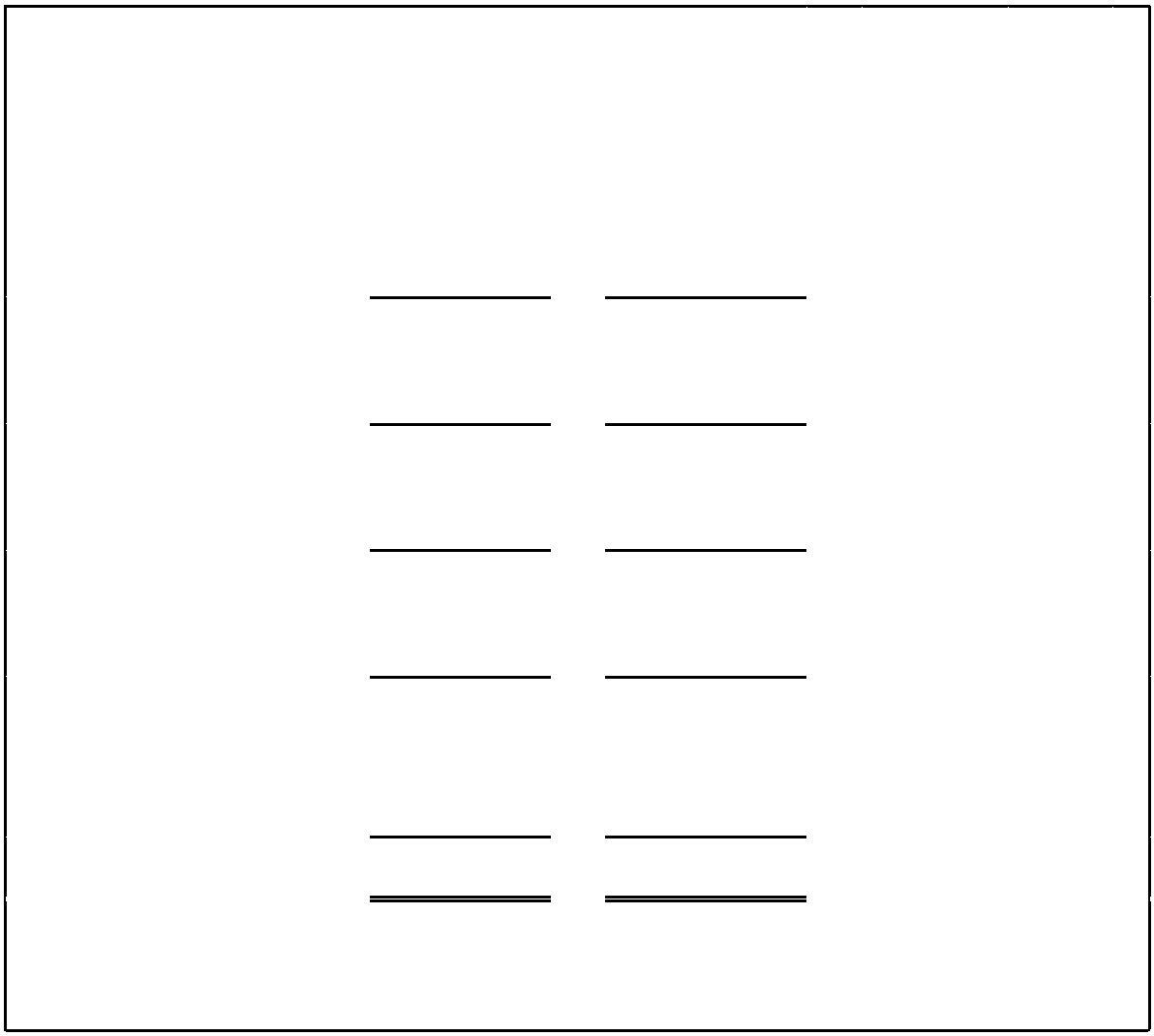
Scenario 2 - View A

The interest accrual and OCI amortisation after impairment is:

New EIR of 17.7%
used to amortise the asset to the revised expected cash flows

	Asset		Loss in OCI	Net profit
At impairment	29.0		0	
+ Interest income	5.1	*		5.1
- Interest payment	-5.0			
Amount 1 year after impairment	29.1		0	
+ Interest income	5.2	*		5.2
- Interest payment	-5.0			
Amount 2 years after impairment	29.3		0	
+ Interest income	5.2	*		5.2
- Interest payment	-5.0			
Amount 3 years after impairment	29.5		0	
+ Interest income	5.2	*		5.2
- Interest payment	-5.0			
Amount 4 years after impairment	29.7		0	
+ Interest income	5.3	*		5.3
- Interest payment	-5.0			
- Principal repayment	-30.0			
Amount 5 years after impairment	0		0	

* Interest income on the asset is calculated by multiplying the carrying amount of the asset by the new EIR.



Scenario 2 - View B and C

The interest accrual and OCI amortisation after impairment is:

Initial EIR of 5.0% -used to amortise the asset to the revised expected cash flows

	Asset		Loss in OCI	Net profit
At impairment	45.1		0	
+ Interest income	2.3	*		2.3
- Interest payment	-5.0			
Amount 1 year after impairment	42.4		0	
+ Interest income	2.1	*		2.1
- Interest payment	-5.0			
Amount 2 years after impairment	39.5		0	
+ Interest income	2.0	*		2.0
- Interest payment	-5.0			
Amount 3 years after impairment	36.5		0	
+ Interest income	1.8	*		1.8
- Interest payment	-5.0			
Amount 4 years after impairment	33.3		0	
+ Interest income	1.7	*		1.7
- Interest payment	-5.0			
- Principal repayment	-30.0			
Amount 5 years after impairment	0		0	

* Interest income on the asset is calculated by multiplying the carrying amount of the asset by the initial EIR.