Box 3 Impairments and credit statistics[1]

The level of private sector credit extension (PSCE) decreased in January 2018, and year-on-year growth in this aggregate was lower because of a technical increase in impairments. Loan loss provisioning increased when the International Financial Reporting Standard (IFRS) 9 for financial instruments became effective for annual periods, beginning on or after 1 January 2018.

The change from the International Accounting Standard 39 incurred loss model to the IFRS 9 expected credit loss (ECL) model came about as a response to the 2007-08 global financial crisis. The earlier recognition of impairment losses by taking into account the general pattern of deterioration or improvement in credit quality based on a forward-looking view of macroeconomic developments, will be made possible by the ECL model. The delayed recognition of impairment losses was seen as a major weakness in accounting practices.

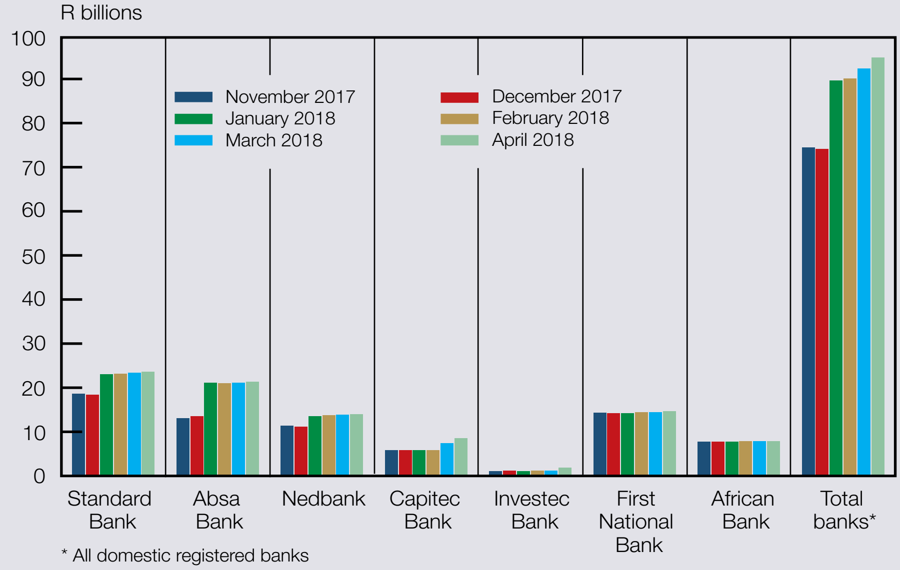
The ECL model is expected to result in a significant increase in the impairments of South African banks in 2018, and will from time to time affect the level and growth rate of PSCE and other related credit aggregates. The table shows the effective dates of implementation of the ECL model by banks with the largest credit impairments under the incurred loss model. In December 2017, this selection of banks, in aggregate, reported 97% of the total value of credit impairments.

Implementation of IFRS 9 for selected banks

Bank	Financial year-end	IFRS 9 implementation
Standard Bank	December	January 2018
Absa Bank	December	January 2018
Nedbank	December	January 2018
Capitec Bank	February	March 2018
Investec Bank	March	April 2018
First National Bank	June	July 2018
African Bank	September	October 2018

Total credit impairments[2] of loans and advances by the South African banking sector increased by R15.2 billion in January 2018, mostly as three large banks implemented IFRS 9. This is expected to be the most substantial monthly increase in impairments in 2018, as historically these three banks have accounted for about 60% of the total value of impaired advances.

Credit impairments of selected banks in sequence of IFRS 9 implementation date



* All domestic registered banks

Source: SARB

1 This discussion is based on the statistics presented in the tables on pages S–8 to S–10 and S–20 to S–24 of this *Quarterly Bulletin*.

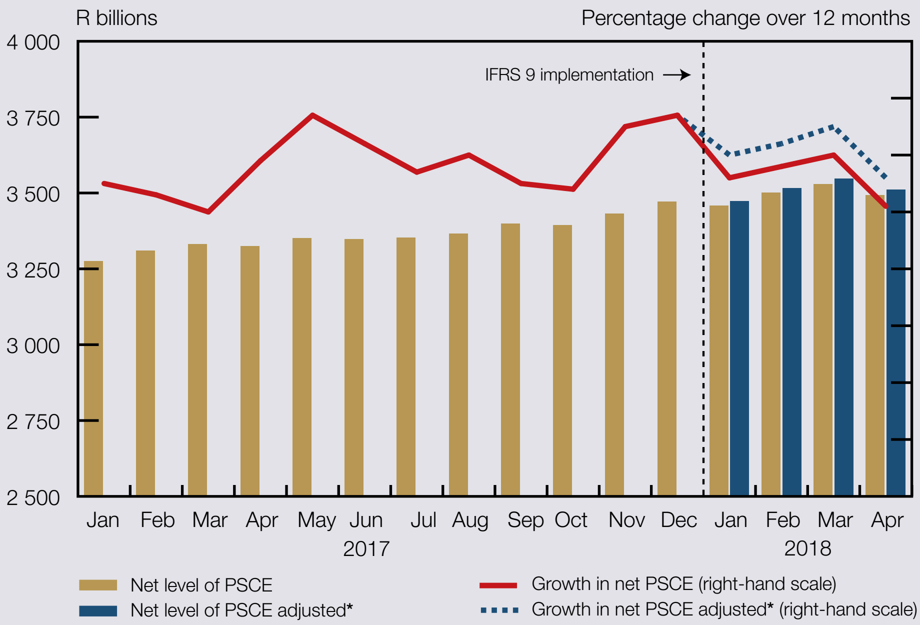
2 South African banks report impairments on the BA900 return in respect of both loans and advances as well as investments separately. Impairments in respect of investments account for only 0.2% of total impairments.

IFRS 9 adjusts the asset value of loans for impairments. However, from a national accounts point of view, the measurement of financial assets remains unchanged. Loan asset values are still presented on a gross basis with expected loan losses as a memorandum item to ensure symmetry of debtor and creditor reporting.

Credit extension statistics are presented on a gross basis (not deducting impairments) and/or on a net basis (deducting impairments). The South African Reserve Bank reports credit aggregates net of impairments, which is consistent with the IFRS 9 standard. One-off adjustments, such as those discussed here due to impairments, should not necessarily be interpreted as a contraction in credit as it will mostly reflect the actual level of credit excluding loan loss provisions.

On a net-of-impairment basis, the level of PSCE decreased by R13.2 billion in January 2018, mostly reflecting the introduction of IFRS 9. This lowered year-on-year growth in credit extension to 5.6%. Should the increase in impaired advances due to IFRS 9 of around R15 billion for January 2018 be added back to PSCE, the year-on-year growth rate would have been 6.0% for the month. Similarly, PSCE would have increased by 5.6% in April 2018, compared to an increase of 5.1%.

Private sector credit extension



* Adjusted by adding back the IFRS 9 related increase in the value of impairments
Source: SARB