IMPLEMENTING IFRS9 IN CGC EGYPT

CGC ضمان

شركة ضمان مخاطر الائتمان ش.م.م

CREDIT GUARANTEE COMPANY S.A.E

Overview of IFRS 9

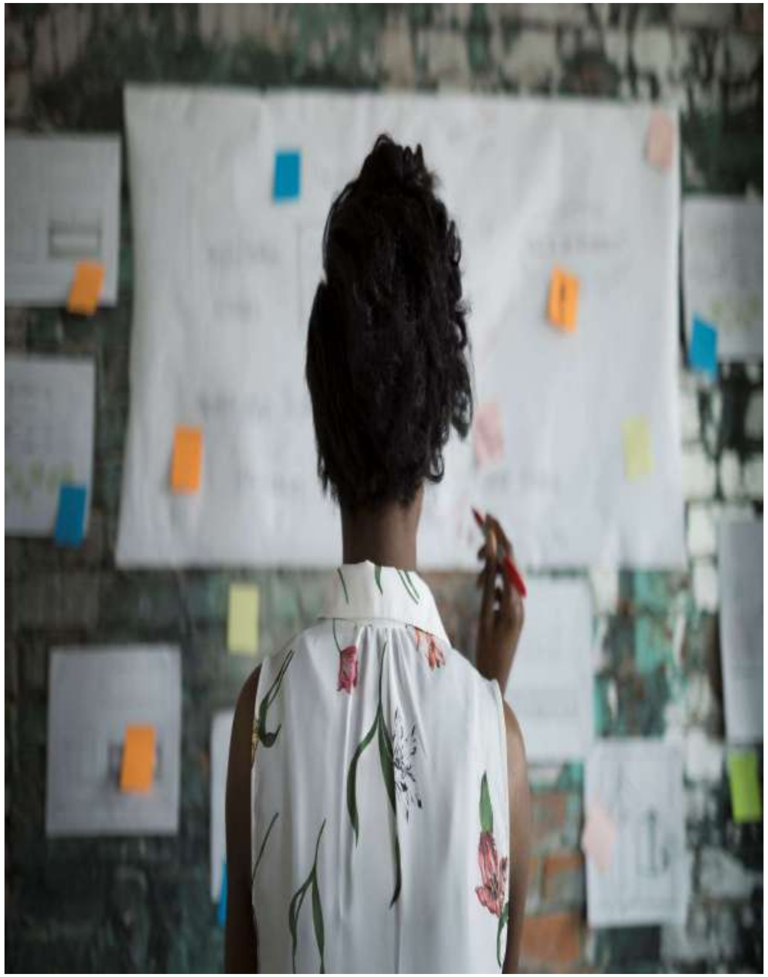
IFRS 9 is a comprehensive accounting standard that addresses the classification and measurement of financial instruments, impairment of financial assets.

The key aspects of IFRS 9 are :

1. Classification and measurement of financial assets
2. Enhanced Disclosure
3. Expected Credit Loss Model

1. Classification and Measurement of Financial Assets:

IFRS 9 introduces a more principle-based approach to classifying and measuring financial assets. CGC Egypt often holds many financial instruments such as guarantees and debt securities. This involves categorizing these financial instruments into different measurement categories based on their cash flow characteristics and CGC Egypt's business model.



2. Enhanced Disclosures:

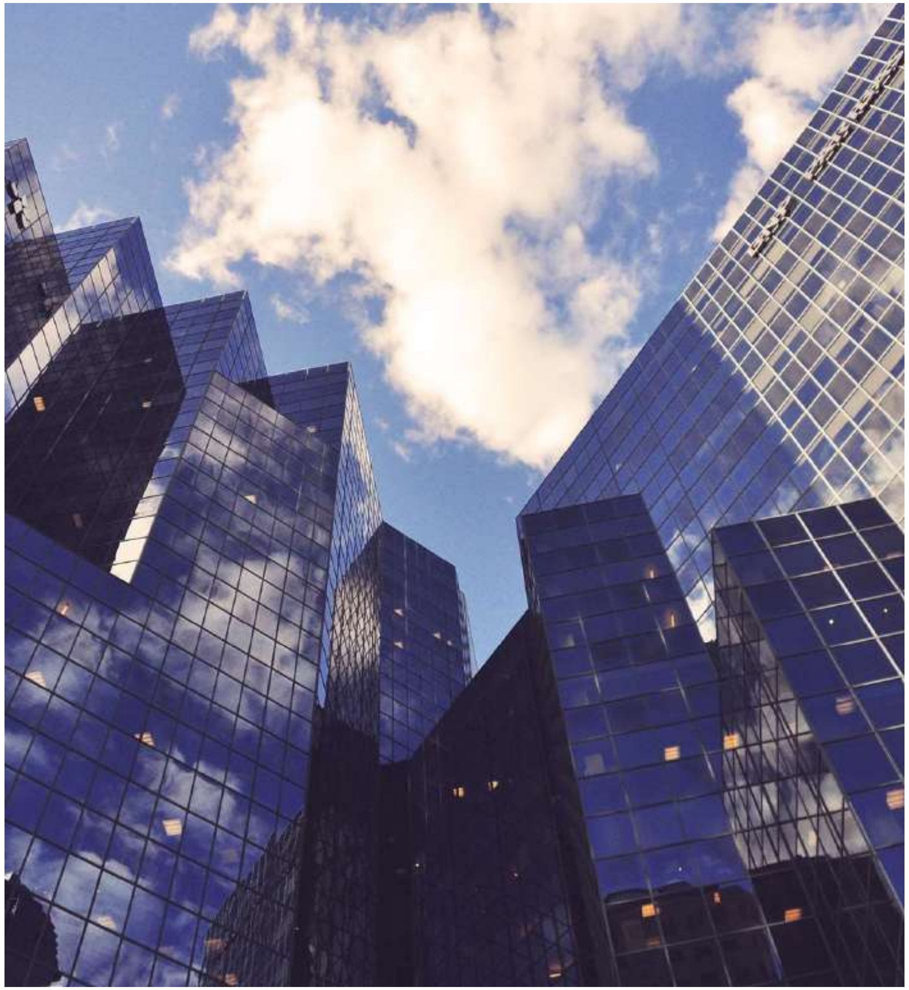
- IFRS 9 enhanced disclosure requirements to provide users of financial statements with more comprehensive and relevant information about CGC's financial position, performance, and risk exposures.

- By aligning the accounting treatment more closely with risk management activities. CGC Egypt has disclosed information related to credit risk management practices, including the objectives, policies, and processes for managing credit risk.

3. Expected Credit Loss (ECL) Model:

- One of the key aspects of IFRS 9 is its provision for expected credit losses (ECL), which requires entities to recognize losses on financial assets based on their expected credit losses rather than waiting for them to be incurred.

- Instead of the last loss model using a backward-looking, this model requires a forward-looking approach, including historical data, current conditions, and reasonable forecasts



- CGC has utilized S&P credit ratings and scorecards as part of our credit risk assessment framework. It is globally recognized for its careful methodologies in assessing credit risk across many industries and sectors.
- S&P methodologies are designed to align with international best practices in credit risk assessment and financial analysis.
- These methodologies provide a systematic approach to evaluating the creditworthiness of borrowers based on quantitative and qualitative factors such as financial measures, industry dynamics, and management quality.

- **Performing Guarantees**: Guarantees for which the issuer of the facility has not notified the company of a rating below standard, doubtful collection, or poor quality (ORR 8-9-10).
- **Nonperforming Guarantees**: Guarantees for which the issuer of the facility has notified the company of a rating below standard, doubtful collection, or poor quality (ORR 8-9-10).
- **Stages**: All financial instruments are categorized into three stages according to the credit performance of the instrument and the commitment of the issuer or beneficiary to fulfill their financial obligations
- All guarantees with an ORR from 1 to 6 are classified as Stage 1.
- All guarantees with an ORR of 7 are classified as Stage 2.
- All guarantees with an ORR from 8 to 10 are classified as Stage 3.
- All guarantees with an ORR from 1 to 7 for a customer classified in Stage 3 are also classified as Stage 3.
- All investment instruments subject to the Egyptian Accounting Standard and under the supervision of the Central Bank of Egypt are classified as Stage 1.

- The ECL model requires estimating the probability of default (PD), loss given default (LGD), and exposure at default (EAD) for each financial asset

ECL = PD x LDG x EAD

- **Probability of Default (PD):** represents the likelihood that a borrower will default on the facility within a specified time frame.

- **Exposure at Default (EAD):** EAD refers to the total exposure a lender has to a borrower at the time of default.

- **Loss Given Default (LGD):** represents the proportion of the exposure that is expected to be lost in the event of default.

The following table is used to establish a link between the S&P credit rating and the ORR

ORR	Staging	S&P Scale
ORR 1	Stage 1	AAA to BB-
ORR 2	Stage 1	B+
ORR 3	Stage 1	B
ORR4	Stage 1	B-
ORR 5	Stage 1	CCC+
ORR 6	Stage 1	CCC
ORR 7	Stage 2	CCC-
ORR 8	Stage 3	D
ORR 9		
ORR 10		

WHY IS IFRS 9 IMPORTANT FOR CREDIT GUARANTEE COMPANY IN EGYPT?

- Credit risk is one of the most significant risks that CGC Egypt faces, as it affects our profitability, solvency, and reputation, as we provide guarantees to borrowers, thereby assuming the risk of default on behalf of lenders.
- **Risk Management:** By estimating ECL, CGC Egypt could identify potential credit losses in our portfolio of guaranteed facilities and take appropriate risk management actions to mitigate these losses, such as adjusting guarantee pricing or implementing stricter underwriting criteria.
- **Provision:** Estimating ECL helped CGC determine the amount of provision needed to cover potential credit losses on guaranteed facilities.
- **Regulatory Compliance:** Egypt has been aligning its accounting standards with international best practices, including the IFRS9. Compliance with IFRS 9 ensures that CGC Egypt meets regulatory requirements and enhances its credibility in the eyes of regulators.

- **Improved Risk Management:** CGC Egypt plays a vital role in supporting access to finance, particularly for small and medium-sized enterprises (SMEs). Implementing IFRS 9 allows us to enhance our risk management practices by adopting a more forward-looking approach to assess and provision against credit losses. This ensures we have adequate reserves to cover potential losses from guarantees provided to Borrowers.
- **Enhanced Investor Confidence:** helps build investor confidence in the CGC's operations and financial health.
- **Access to International Capital Markets and funding:** IFRS 9 standards improve CGC's standing in the global financial market. Also, It opens doors to international lenders who prefer companies with transparent financial reporting practices, thereby expanding the company's access to capital for further growth and development.

Successful Implementation of IFRS 9 in CGC Egypt

Challenges Faced

- Data Availability and Quality
- Limited availability of historical credit data and challenges in ensuring data quality.

Overcome

- CGC has Invested in data management infrastructure and data analytics to collect, store, and analyze relevant data effectively
- Enhanced data processes to improve data quality and integrity.

Benefits Realized Post-Implementation

Lessons Learned

- Applying the ECL model enabled more accurate estimates of expected credit losses, resulting in improved financial reporting.
- Importance of Data Quality
- Recognized the critical role of data quality in implementing IFRS 9 successfully.

Best Practices

- Implementation of IFRS 9 encouraged the adoption of more sophisticated credit risk assessment techniques and proactive risk management practices.
- Continuous Monitoring and Validation

Thank You