<u>SPI Albania Project</u>: The impact on the banking regulations of the IFRS implementation

Main Findings of the Survey on Bank's Readiness to Implement IFRS

Total members of AAB (no.):	**16 banks**
Market Share (100%):	**100%**
Total respondent banks (no.):	**11 banks**
Respondent ratio:	**68.8%**
Market share of the respondent banks:	
(reference indicator: total assets)	**67.6%**
Size of the respondent banks:	**small, medium, large**

Main conclusions

1. Respondent banks represent a large share of the banking market, therefore the results of the survey may be considered as relevant. To a large extent, the findings of this survey can be generalized to the entire banking system[1].

2. The survey confirms that the largest part of the banking system is applying international financial reporting standards. Out of the 11 respondent banks only three banks have not applied IFRS yet, and one of them is under the implementation process.

3. The adjustment of human resources and IT systems to the requirements of IFRS implementation would need 3 to 6 months for HR and 7-12 month for IT in case the reports are to be produced automatically.

4. Regarding the main changes brought by IFRS, banks have identified different treatment of loan loss impairment, amortization of expenses, treatment of the income form various activities (FX, fees and commissions etc.), deferred tax asset / liability, reclassification of statistical provisions of loans from liabilities to contra – assets accounts, revaluation of the capital held in currencies different from ALL, fair asset value etc.

[1] The respondent banks cover all types of operational and ownership structures.

Question 1. Do you apply the International Accounting Standards and the International Financial Reporting Standards IAS / IFRS to report to your parent company?

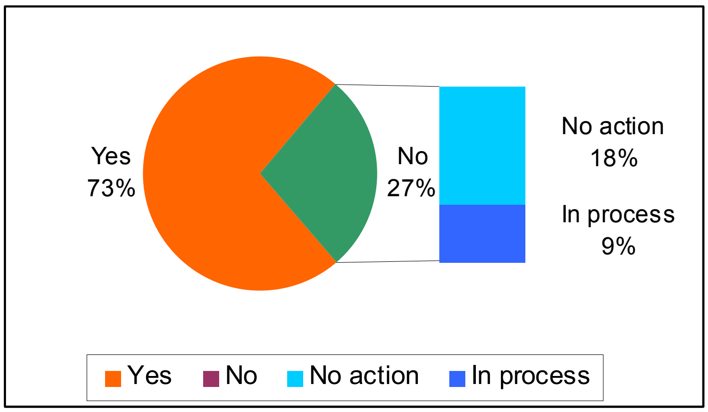
Answers

Table 1. The status of IFRS application in the banking system

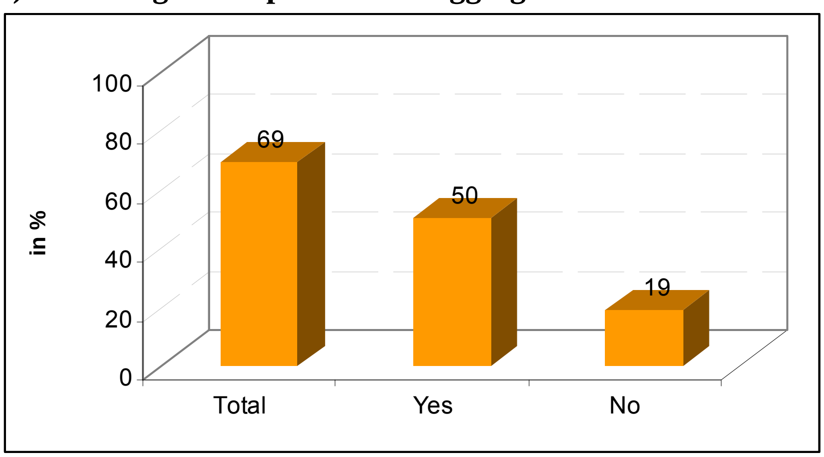
Response:	No. of respondent banks	% answers in total received answers	% of the respondent banks aggregate market share in total market
Total	**11**	**100**	**67.6**
Yes	**8**	**72.8**	**66.2**
No	**3**	**27.2**	**1.4**
In process	**1**	**0.09**	**0.41**
No significant actions	**2**	**0.18**	**0.95**

Chart 1. Structure of responses

a) Percentage of answers in total received answers



b) Percentage of respondents to aggregate market share in total market.



Conclusion 1: The major part of the respondents, as number and as share of the market, has started the process of IFRS application. Data from the survey confirm that more than 66% of the total market is currently applying and reporting to their

parent companies according to IFRS. One bank even though has not reported under IFRS yet, is in the process of adoption the new accounting and reporting framework. The market share of this bank is small and it will not bring considerable changes to the current status of IFRS application. Only 2 banks from the respondents, which make up almost 13% of the total market, have not taken significant actions in the process of IFRS implementation.

<u>Question 2</u>. If "Yes" when did you first report under IAS / IFRS?

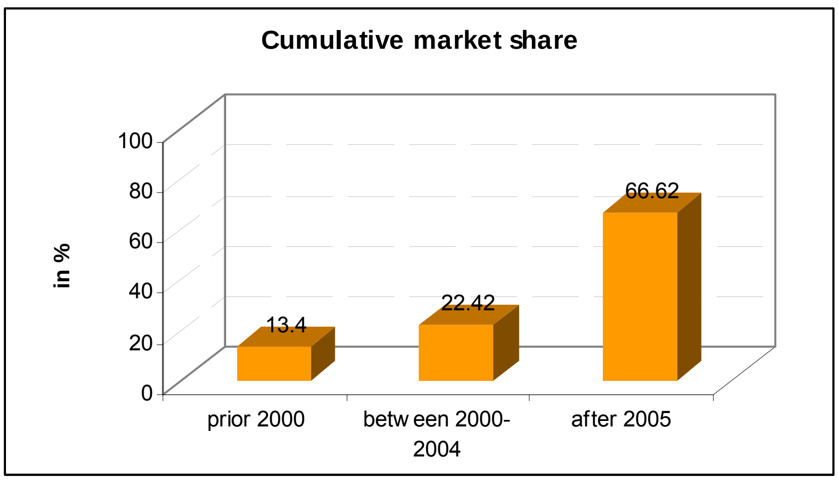
Answers

Table 2. The period of First time adoption.

Period of application	No.	Market share (%)
Prior 2004*	2	22.4
2005 - 2008	7	44.2

*In 2004 was issued the new Law on Accounting and Financial Statements

Chart 2. The evolvement of IFRS application, cumulative market share



Conclusion 2: the data from the survey show that IFRS application in the Albanian banking system has followed the application of this conceptual framework in other European countries. Following the increased presence of foreign private ownership in the banking system, banks have faced the need to report to their shareholders in accordance to the international standards. From the respondents only one of the IFRS applicants does no have foreign presence in its own capital structure. This bank has applied the standards on a voluntary basis.

<u>Question 3.</u> How long has been the process of adapting:

a. Human Resources;
b. IT Resources.

Answers

- **a.** The process of the human resources development in accordance to IFRS standards has taken from 3 – to 7 months (with a strong bias to the upper range). Response rate is 5 our of 8 IFRS applicants. While,
- **b.** Currently the banking system has not made significant modifications in the IT system for the adoption of IFRS. Six[2] banks among the IFRS applicants state that they have not installed or made significant changes to the IT system with regard to the accounting system (core system) for IFRS. The reports for the parent company are created through extra account reports (excel files). To achieve a full automated IT system banks estimated that it will take from 7 to 12 months.
- **c.** One banks states in the IFRS implementation process has performed even credit risk management changes.

Conclusion 3: The adjustment of the human resources for IFRS implementation took 3 – 7 months. In a first stage, reporting under IFRS may require no important changes in the IT system. In addition to the reporting system banks might also adopt the credit risk management system.

Question 4. If not yet reporting, how much time your bank is estimating to need for IFRS implementation?

a. Human Resources;
b. IT Resources.

Answer

The first time IFRS adopters estimate that will require:

- **a.** From 3 to 6 months for the human resources development. And,
- **b.** 3 months for the IT system adoption (there is not made any specification with regard to the type of modification).

Conclusion 4: A first time IFRS adopter bank might spend from 3 to 6 months in the process of adjusting the human resources needs and 3 months to adapt the information technology system.

Question 5. If your bank is implementing the IFRS or is under the process of adapting the IFRS into the financial statements, did you identify or are you identifying the main changes to be occurred into these statements? Please detail in general the main topics or issues.

Answer

[2] One of these banks is planning to start since this year to establish an appropriate system for IAS/IFRS. They suggest that all the banking system to discuss in order to follow a common policy for this purpose.

Respondent banks identified as main changes brought by IFRS implementation the followings:
BALANCE SHEET
ASSETS
Amortized cost of loan portfolio, to be adjusted according to the effective interest rate method (IAS 39). Adoption of effective interest rate method for acknowledging of income also impact on interest income and commission income.
Loan loss impairments. Regulatory requirements on loan loss provisions significantly diverge from the IAS / IFRS requirements.
Fair value measurement of financial instruments under IFRS 39.
Amortization expense. Bank accounting manual prescribes some rates of amortization for different categories of assets. This does not seem to converge with IAS / IFRS requirements.
LIABILITIES & EQUITY
Revaluation of the capital held in currencies different from ALL has to be included in P&L instead of Balance sheet as it is actually reported.
PROFIT AND LOSS
Income from FX operations and accounting treatment of foreign currency denominated equity. While the existing standards allow the usage of some “Translation reserve account” to account for the differences between historical cost of equity and current value, under IFRS such variation has to go through P&L.
Deferred tax asset / liability. This derives from the above listed adjustments.

Expenses for the reconstruction of the branches which are not property of the bank should not be amortized any more based on the life of the rent contract but have to be included directly in the P&L.
Start up cost expenses will not be amortized but will go directly to P&L. (Adjustment of start – up costs capitalized on Intangible Assets and reclassification in P&L account.)
Reclassification in P& L account of the amount of inventories in use, held according to old standards in Other Assets.

RECLASSIFICATIONS
Adjustment related the reclassification of statistical provisions of loans from liabilities to contra – assets accounts.
Reclassification of Statutory Reserve with Central Bank.
Reclassification of Difference from Capital Revaluation in to P&L account (the capital should be held with historical cost).

In addition, in important issues is related to the recognition of some certain assets and expenses, which are in contradiction with the existing fiscal laws.

Question 6. Comments.

Banks need clarifications on the following practical issues:

What statements will they present to BoA for statutory purposes, those prepared in accordance with IFRS or something different?

Will there be a separate set of “regulatory statements” or a review of special purpose reports (i.e. Unified Reporting System (SRU)) will be sufficient?

If banks have to present IFRS statements, then they will be IFRS as adopted by Albanian Government (IFRS 2006) or IFRS effective as of the date of closing the financial statements?

List of the participants in the survey.

Banks	Respondent	Market share
Alpha Bank		
American Bank of Albania		
Credins Bank	√	4.82%
Credit Bank of Albania	√	0.27%
Emporiki Bank		
First Investment Bank	√	0.28%
International Commercial Bank	√	0.68%
Italian Development Bank	√	0.41%
National Bank of Grecce		
National Commercial Bank	√	13.40%
Popular Bank	√	4.96%
ProCredit Bank		
Raiffeisen Bank	√	31.94%
Tirana Bank	√	9.02%
Union Bank	√	1.06%
United Bank of Albania	√	0.71%