

S02.04-SP-02-3

Financial Instruments: General principles

3. Impairment

The purpose of impairment is to assess whether the values of the financial instruments are decreasing or not. An impairment test is required where there is objective evidence that the financial assets are being impaired. Objective evidence of impairment includes one or more events after the initial recognition of the financial assets, which has an adverse impact on the estimated future cash flows of the financial assets.

For example, significant financial difficulty of the bond issuer results in a default in paying interest payment or principal payment.

Financial liabilities are not subject to testing for impairment

An impairment test is **required for financial assets measured at amortized cost** and also on assets designed as **available for sale**. The only category of financial assets that is not subject to testing for impairment is financial assets at fair value through profit or loss, because any decrease in fair value of these assets is recognized in P&L immediately.

The following table summarizes how to determine the amount of impairment loss for each category of **financial assets**:

<i>Category</i>	<i>Amount of impairment loss</i>
Financial assets at fair value through P&L	Not applicable
Held-to-maturity investments	Impairment loss =
Loans and receivables	+ existing carrying amount - present value of estimated future cash flows discounted using the original effective interest rate
Available-for-sale financial assets	Impairment loss = the amount of unrealized holding losses previously recognized directly in equity