



FERNBACH delivers robust IFRS-compliant Regulatory Reporting

Company

ICBC (Asia) is a full licensed bank incorporated in Hong Kong with its shares listed on the Stock Exchange of Hong Kong. It is an affiliate of the Industrial and Commercial Bank of China which is the largest commercial bank on the Chinese mainland and one of the world's largest financial service providers.

Key Data

- ▲ Total assets: €11.6 billion
- ▲ Headquarters: Hong Kong
- ▲ Customers: International customer base
- ▲ Portfolio: Private and corporate
- ▲ Hong Kong's sixth largest bank with 39 branches and 5 commercial business centres

Challenge

Prompt implementation of IFRS requirements (IAS 32 & IAS 39), including:

- ▲ valuation
- ▲ posting
- ▲ regulatory reporting
- ▲ rationalisation and optimisation of accounting processes

Solution

FlexFinance® IFRS

ICBC (ASIA)

Precise, reliable and audit-compliant IFRS accounting

ICBC (Asia) chose FERNBACH's FlexFinance® IFRS as the perfect product to rationalise their accounting processes and to fulfill the requirements of IFRS including valuation and reporting both consistently and in compliance with auditing requirements. After a long selection process, ICBC (Asia) chose FlexFinance® IFRS due to the solid solution architecture that guarantees results that are precise, consistent and reproducible. The implementation of IFRS requires 50 percent less effort since no adaptation of existing IT systems or operative systems is required.

Industrial and Commercial Bank of China [ICBC]

ICBC (Asia) is the sixth largest bank (in terms of total assets) among banks listed in Hong Kong. It is the flagship of the Hong Kong banking business of the Industrial and Commercial Bank of China, the largest commercial bank on mainland China (in terms of total assets) with over 100 million private clients and 8 million corporate clients, assets amounting to 67 billion dollars and more than 21,000 subsidiaries in China, 100 overseas branches and almost 1,000 correspondence banks.

ICBC (Asia), which was founded in 1984, has its headquarters in Hong Kong, has full bank status and its shares are quoted on the Hong Kong stock exchange (stock code: 349). Essentially, the bank operates in both the banking sector and corporate client sector.

Initial situation – the challenge of IFRS

The International Financial Reporting Standards (IFRS) have become a global standard with currently more than 90 countries either requiring or permitting the use of IFRS instead of traditional local GAAP (Generally Accepted Accounting Principles) for their consolidated or individual financial statements.

The new accounting requirements were also introduced in Hong Kong in 2005. Hence, on 16th June 2004, the HKMA (Hong Kong Monetary Authority) at the Hong Kong Institute of Bankers) announced that they were going to conform fully to IFRS standards and that the application of these standards would have a subsequent dramatic effect on reporting methods of banks in Hong Kong.

“Active involvement of bank management is crucial in ensuring that most, if not all, of these international standards are properly incorporated into the daily operations of banks, especially since each bank may face different focuses and challenges in the process.”

Hong Kong Monetary Authority, at the Hong Kong Institute of Bankers, Hong Kong, 16 June 2004.



Reference Story FlexFinance® IFRS

Benefits for ICBC (Asia)

- ▲ Compliance with the statutory International Financial Reporting Standards (IFRS)
- ▲ Analysis and reporting quality of external accounting at individual deal level
- ▲ Streamlined, decentralised reporting with presentation of IFRS data and HK GAAP information
- ▲ Detailed analysis is possible even when preparing data for consolidation
- ▲ Streamlined IT structure
- ▲ No additional personnel required
- ▲ Low costs, rapid implementation and minimum project risk
- ▲ Efficient integration into all relevant bank management processes
- ▲ Adjustment, unification and optimisation of the data set
- ▲ Future-oriented system architecture

Process and accounting automation for reliable results

The implementation of IFRS represents one of the most significant challenges of recent years for ICBC (Asia) and indeed for the entire global financial services industry.

The new IFRS requirements not only affect the use of methods but, above all, data supply, processes and IT support. As in many other banks, in ICBC, the required data was not stored in integrated data systems thus making it necessary to have time-consuming, additional manual work and preventing automated changeover in less than a year along with viable forecasts for period-end closing.

The basic strategic aim of ICBC (Asia) was therefore to automate or industrialise all of the accounting processes. Through the centralisation of accounting, centrally available functions and methods were to be applied to the financial instruments, independent of the operative system in which they were captured.

Against a background of constantly changing markets and the increasing complexity and diversity of products, future-proofing to the greatest possible extent was deemed necessary by ICBC (Asia) in order to fully meet these challenges transparently and in compliance with audit requirements while, at the same time, offering greater flexibility and cost efficiency.

Extensibility of the banking application creates security for the future

Analysis of the IT system structure shows that only a central calculation core and a uniform and consistent data mart would provide the best possible solution for the implementation of IFRS.

Due to the extremely sophisticated data enrichment processes internalized within the FERNBACH Data Management Suite, the bank also has an exceptionally high level of data quality at its disposal, for example, in the context of an individual reporting or a management information system. A uniformly consistent data set with the possibility to drill down to an individual deal not only provides compliance with auditing requirements with regard to IFRS but it also enables the bank to provide a sound basis for setting up and implementing current banking applications as well as applications planned for the future. With the FlexFinance® IFRS solution, ICBC (Asia) is more than capable of meeting the challenges of the present day and of the future.

Effective interest under IFRS

Under IFRS, effective interest is used to distribute all of the components to be amortised (discount, upfronts, transaction charges to be amortised and various adjustments) across the relevant period. As a result of this procedure, it is possible to produce punctual and accurate income statements.

It is this exact procedure that is also to be used under Hong Kong GAAP and ICBC (Asia) were faced with problems which, based on the existing systems, were almost impossible to solve. The Accounting Generator in use at the bank, at that time could only be converted to provide a temporary solution to bridge the period until a new solution – FlexFinance® IFRS – could be implemented.



FERNBACH's Product Manager Dr. Karl Kirchgesser and Process Manager Christoph Meilen illustrating the advantages of FlexFinance® IFRS



The transition period in which this provisional solution has been used was extremely burdensome and time consuming requiring a huge amount of effort for manual intervention as well as being extremely error-prone and cost-intensive.

Unchanged data set to the supply systems

The challenge of implementing the International Financial Reporting Standards at ICBC (Asia) was not restricted to reporting issues, but the main challenge was to value and report financial instruments in the balance sheet without changing the data set of the delivery systems. After the fundamental requirements for categorisation, valuation and posting of the individual business transactions had been implemented, it was imperative to ensure a smooth and, as far as possible, retrospective initial transfer of the local GAAP data.

Low costs, rapid implementation and minimal project risk

Cost-effective and on-schedule implementation of software is critical for the economic and strategic success of a project. By leveraging the power of proven implementation methods and tools combined with industrialised processes, FERNBACH reduces the time and effort required for successful implementation.

Furthermore the following aims of the project derived from the implementation of the standards for ICBC (Asia) were achieved by choosing FERNBACH's FlexFinance® IFRS solution:

- ▲ **To draw up the financial statement 2006/2007 according to IFRS using FlexFinance® IFRS**
- ▲ **Valuation and posting according to IFRS for generating monthly and annual financial statements**
- ▲ **Prompt and flexible reporting possibilities according to IFRS and HK GAAP**
- ▲ **To achieve a high degree of data quality**
- ▲ **Adjustment and unification of the data set**
- ▲ **Avoidance of adaptation of existing operative and delivery systems**
- ▲ **Development of bank-internal know-how**
- ▲ **Minimal project effort**
- ▲ **Minimal project risks**

Based on broad experience and in-depth knowledge gained first hand from a multitude of projects FERNBACH has developed a standardised and structured implementation process. For each stage of the project, the requirements, responsibilities and objectives are clearly defined and tested. Human resources can be deployed selectively and appropriately based on a range of criteria including skill-set, availability, languages etc. Furthermore, this procedure allows the business units to work together hand in hand, at the same time and on the same content, which dramatically reduces any potential down-time.

Procedure models which are clearly outlined for individual scenarios and configurations ensure efficient implementation and rapid availability of the solution.

For each phase of the implementation process, templates with sample deals are available amounting to approximate coverage of 80 percent of the portfolio of a bank. The customer's individual requirements are accommodated by these supporting tools in a way that is both structured and transparent. They are then documented and immediately implemented by the actual software installation. The customised features based on standard parameterisation which is already executable mean that productivity increases from the moment the project is live and can be tracked to ensure continued profitability of the project.

*"As a forward-looking banker, ICBC (Asia) is well-prepared for IFRS compliance in accordance with the international financial standard. With the adoption of **FERNBACH's FlexFinance® IFRS solution**, our credential to our customers in the region will be enhanced. The compliance also indicates our firm vision and commitment for the solid growth of the Hong Kong banking industry."*

Stanley Wong, Director and Deputy General Manager of ICBC (Asia).

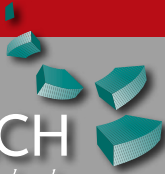


中國工商銀行(亞洲)

ICBC (Asia)

FERNBACH

creating software for banks



FERNBACH

FERNBACH is a global leader of analytical solutions for the finance industry. Modular software bundles for Multi-GAAP accounting, risk, compliance and lending enable our customers to optimise business processes.

FERNBACH offers a sophisticated component-based solution portfolio which ensures faster time to market and rapid implementation of banking requirements thus mitigating risk and ensuring quality.

Our customers worldwide benefit from our combined expertise to overcome challenges and to provide solutions for future success. FERNBACH innovates to maximise the performance of our clients.

**Drives Multi-GAAP.
Manages Risk & Compliance.
Optimises Lending Processes.**

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