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Point of View

Implementation of Ind AS by banks in India

12 years & counting...

October 2023

1. Foreword

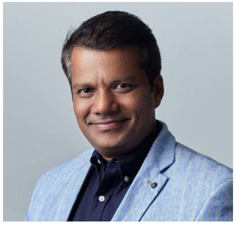
Banks in India currently use the Generally Accepted Accounting Principles in India ('I GAAP') to prepare their financial statements. It has been over 12 years since the initial announcement on transition to International Financial Reporting Standards ('IFRS') was made. Since then, corporates and Non-Banking Finance Companies ('NBFC's') have transitioned to Ind AS. However, banks continue to await clarity on transition to Ind AS.

The Reserve Bank of India ('RBI') has recently issued revised directions on the Classification, Valuation, and Operations of Investments. Earlier this year, the RBI issued a Discussion Paper ('DP') on provisioning as per the Expected Credit Losses ('ECL') approach. We believe that the RBI's revised directions on accounting for investments is a significant step towards facilitating this transition.

In this Thought Leadership publication, we have articulated nuances that need to be addressed to facilitate a seamless transition to Ind AS by banks in India. We have also included key learnings from the transition experience of global banks and Non-Banking Finance Companies ('NBFCs') in India.

We sincerely hope you find the enclosed publication informative. We will be happy to participate in any discussions required to provide clarifications on our views enclosed in the attached publication. We look forward to hearing from you.

Thank you.



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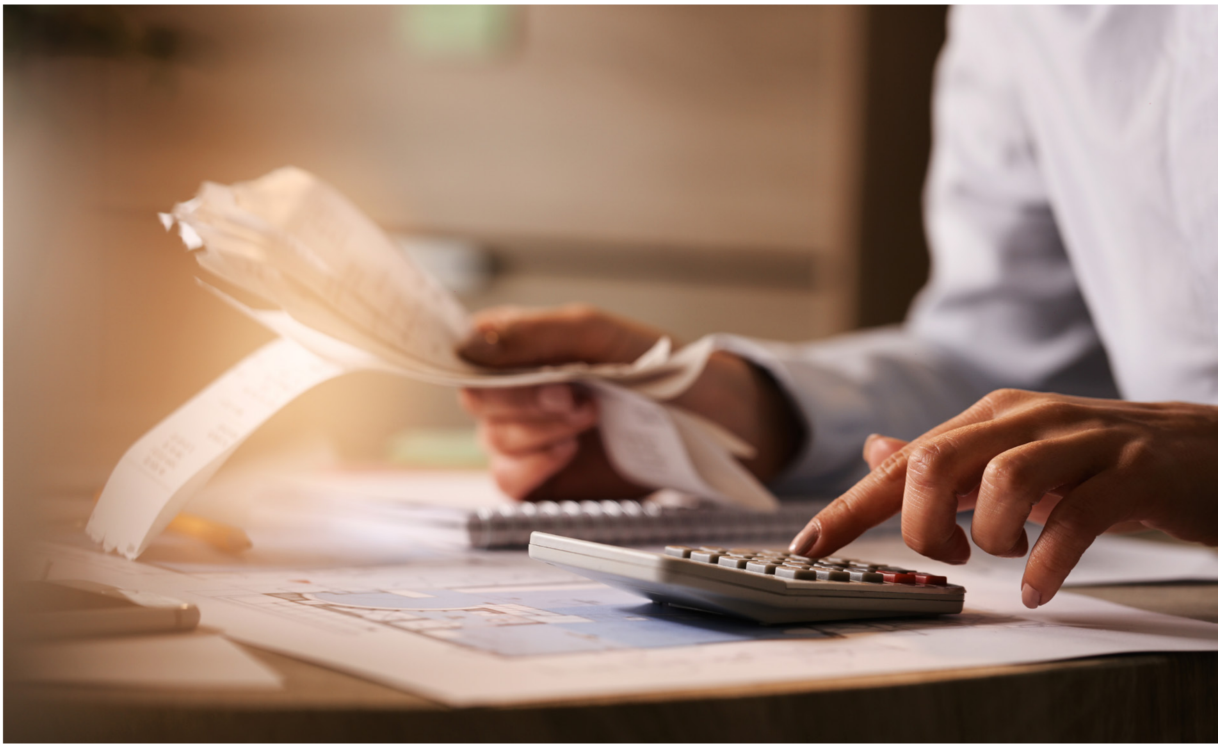
2. Executive Summary

Earlier this year, the RBI issued a DP on provisioning as per the ECL approach which was largely acknowledged as a paradigm shift in how banks in India were required to provide for financial assets like loans and investments. In response to comments received from stakeholders, the RBI issued a press release on 04 October 2023 and announced the constitution of a working group for independent inputs on technical aspects pertaining to ECL. While the final directions on ECL based provisioning is awaited, the RBI issued final directions on Classification, Valuation, and Operations of Investments on 12 September 2023. The issuance of revised directions on Classification, Valuation and Operations of investments marks a significant shift in financial reporting requirements for banking entities.

Currently, Banks prepare financial statements in accordance with I GAAP. The financial reporting framework under IGAAP comprises directions stipulated by Third Schedule of the Banking Regulation Act, 1949, various guidelines issued by the RBI over a period, the Accounting Standards ('AS') specified under Section 133 of the Companies Act, 2013 read together with the Companies (Accounts) Rules, 2014 and the Companies (Accounting Standards) Rules, 2021. Furthermore, disclosures stipulated under IGAAP do not cover policies, process and systems relating to risk management which are pertinent to better understand financial performance and results of a banking company.

In this publication, we have covered the journey on transition to Ind AS, key issues to be addressed during transition to Ind AS based on our global and local experience of implementing IFRS 9 & Ind AS and a point of view on the timing of transition to Ind AS by banks in India.



3. Journey so far

To facilitate Indian entities access to international markets without having to go through cumbersome conversion and filing process, the Council of Institute of Chartered Accountant of India ("ICAI") at its 269th meeting held on 18th July 2007 had decided that public interest entities such as listed companies, banks, insurance companies, and large-sized organizations converge with IFRS for accounting period commencing on or after 1 April 2011.

While the process for convergence of IND AS was underway, certain issues pertaining to taxation, Company Law, and other regulatory frameworks emerged. As a result, the Ministry of Corporate Affairs ("MCA") decided to postpone the implementation of IND AS so that these issues could be addressed.

The government in its budget for the year 2014-2015 had announced adoption of the new Indian Accounting Standards ('Ind AS') by Indian companies from the financial year 2015-16 on a voluntary basis and from the financial year 2016-17 on a mandatory basis. Further, MCA had laid down a road map for adoption of Ind AS by the specified companies in a phased manner.

The MCA vide press release dated 18th January 2016, deferred Ind AS implementation for

18 July 2007
ICAI decided that public interest entities converge with IFRS for accounting period commencing on or after 1 April 2011.

Year 2014-2015
Budget announcement for adoption of the new Ind AS by Indian companies from the FY 2015-16 on a voluntary basis & from FY 2016-17 on a mandatory basis

18 January 2016
MCA deferred Ind AS implementation for SCBs to accounting periods commencing 1 April 2018

23 June 2016
RBI directed SCBs to submit proforma Ind AS Financial Statements from the half-year ended 30 September 2016

05 April 2018
RBI deferred the implementation of Ind AS for banks by one year considering legislative amendments

22 March 2019
RBI deferred the implementation of Ind AS for banks till further notice as legislative amendments were still under consideration of the Government.

Scheduled Commercial Banks ('SCBs') to accounting periods commencing 1 April 2018 in order to avoid two rounds of implementation efforts, first with IAS 39 and then IFRS 9.

Meanwhile to encourage banks to accelerate preparedness for Ind AS implementation, the RBI with its notification dated 23rd June 2016 directed SCBs to submit proforma Ind AS Financial Statements along with significant accounting policies from the half-year ended 30th September 2016, onwards.

Subsequently, RBI vide notification dated 05th April 2018 deferred the implementation of Ind AS for banks by one year considering the proposed legislative amendments required to enable implementation of Ind AS by SCBs. Furthermore, RBI vide notification dated 22nd March 2019 deferred the implementation of Ind AS for banks till further notice as legislative amendments were still under consideration of the Government.

In the recent past, the RBI issued DP on accounting for investments and provisioning per the ECL approach and sought comments from public at large. On 12th September 2023, the RBI issued directions on Classification, Valuation and Operation of Investments. The directions aim to align reporting norms for investments with global standards.. The final directions on ECL based approach to provisioning are awaited from the RBI. However, the RBI has constituted a working group to provide inputs on technical aspects having a bearing on transition to ECL based approach of provisioning.

Several banking conglomerates in India have within their group, Non-Banking Finance Companies ('NBFC's') and companies who have transitioned to Ind AS for statutory financial reporting purposes. However, as the parent entity i.e., banks continue to prepare statutory financial statements per Indian GAAP, such group entities continue to be saddled with incremental compliance obligation of preparing fit for consolidation accounts as per Indian GAAP and also get those audited by their statutory auditors for consolidation purposes.

While presently there is no clarity on whether and when banks in India will transition to Ind AS, we believe with the issuance of revised directions on accounting for investments, the RBI has taken a significant step forward to facilitate transition to Ind AS by banks. Also, the formation of working group on ECL based provisioning seems to suggest implementation of ECL may be round the corner. In this publication, we have articulated nuances that need to be addressed to facilitate seamless transition to Ind AS by banks in India.

4. Key Impacts arising from Ind AS for Banks

4.1 Expected Credit Losses – Impact on profits and capital

Currently, banks follow the incurred credit loss method to provide for Non-Performing Assets ("NPA"). Provision for NPA's is recognised in line with RBI guidelines on Income Recognition, Asset Classification and Provisioning ('IRACP'). These directions stipulate provisioning to be recorded at specified percentages and leave very little room for use of management judgment or forward-looking factors to determine provisions required to be held. Under Ind-AS, loan loss provisioning will need to be recognised ab-initio with due consideration of portfolio segmentation, empirical data on defaults, recoveries along with macro-economic factors to arrive at a probability weighted outcome of provisions required to be held. The application of ECL methodology calls for extensive iterations as the accuracy of calculations depend immensely on data availability, data quality and use of modelling techniques to arrive at Exposure At Default ('EAD'), Probability of Default ('PD') and Loss Given Default ('LGD'). The ECL methodology also applies to computation of provisions on financial assets such as debt investments, undrawn commitments and off-balance sheet exposures like financial guarantees, performance guarantees etc.

Under the ECL framework, financial assets will need to be classified as **Stage 1 (assets which are unimpaired and significant increase in credit risk in not identified), Stage 2 (significant increase in credit risk is identified) or Stage 3 (impaired asset)** as applicable, depending on their credit risk profile and Early Warning Signals ('EWS'). Financial assets will be deemed to have suffered a significant increase in credit risk when they are 30 days past due. There are several qualitative and quantitative factors that may be considered to assess whether there is a significant increase in credit risk such as multiple notches rating downgrade, negative operating results, existing or suspected fraud by borrowers, etc. The assessment of significant increase in credit risk may be carried out at individual borrower or portfolio level by segmenting borrowers based on shared credit risk characteristics to evaluate the quantum of provisions required to be held.

Following are key proposals and implications of ECL based provisioning as per the DP on ECL issued by RBI on 16th January 2023:

01

Banks to classify financial assets (primarily loans, including irrevocable loan commitments, and investments classified as held-to-maturity or available-for-sale per Indian GAAP) into one of the three categories - Stage 1, Stage 2, and Stage 3, depending upon the business model and assess credit losses on them, at the time of initial recognition as well as on each subsequent reporting date and make necessary provisions.

02

The proposed framework would entail significant management judgement while computing ECL, and thus it is imperative to provide enhanced and detailed disclosures to stakeholders to ensure transparency.

03

Banks to ascertain whether significant increase in credit risk has occurred on a reporting day as compared to initial recognition, and to measure and provide for the expected credit losses subject to the regulatory backstops such as prudential floor for loan provisions. It may be possible that, similar to the Investment Directions issued by the RBI on 12 September 2023, the eventual ECL approach applied by banks in India may not be fully comparable with ECL approaches used by their global peers, basis the approach prescribed in the DP. In this context, it is pertinent to weigh the pros and cons of regulatory backstops for financial reporting vis a vis regulatory reporting. One possible approach is to let statutory financial reporting be driven by accounting standards i.e., Ind AS 109 for ECL and regulatory backstops be applied for purposes such as determination of capital adequacy ratio. However, it is also pertinent to note that banking regulators in countries like United Arab Emirates ('UAE'), Saudi Arabia, Qatar, Bahrain, and Oman have implemented IFRS 9 in its entirety along with certain deviations for computing the ECL as per guidelines issued by their respective banking regulators. *Annexure 1 captures differences between requirements of IFRS 9 and regulatory guidelines stipulated by banking regulators in aforesaid countries.*

04

Stage migration between stage 1, 2 and 3 will be majorly based on significant increase in credit risk of the financial asset. For financial assets which have been classified as Stage 3, a Stage 1 classification will not be an automatic Days Past Due ('DPD') based calculation. Such a financial asset will continue to be classified as Stage 2 for minimum six months after all the irregularities are rectified In our view, cooling period for stage migration proposed in the DP will facilitate a more realistic assessment of the unlikeliness to pay and possibly result in a higher estimate of provision required to be held. It will also help mitigating a transient rectification of the irregularity / deficiency near the reporting date.

05

The guidelines include transitional approach that would permit the impact of an increase in the Common Equity Tier 1 ("CET 1") capital to be phased out over a maximum period of five years.

In the DP, the RBI has proposed a period of at least one year for banks to put in place the necessary systems and procedures, including the development and validation of expected credit loss models post release of final guidelines. Assuming data availability and data integrity, we believe the banks will need around 12 months to automate the process of calculating ECL alongside several other Ind AS adjustments and disclosures related to financial instruments. Banks will need to conduct user testing, parallel reporting for at least 2 quarters before going live in the automation tool they implement. Also, banks will need this time to engage with their statutory auditors to finalize assumptions and related technical nuances as part of this transition.

4.2 The Changing Landscape of Investment Portfolio and Valuation

In October 2000, a framework was established for the classification and valuation of investment portfolios by commercial banks, reflecting the global practices and standards of the time. However, the financial landscape has evolved significantly since then, with the adoption of IFRS 9 as a global standard for banks from 1st January 2018.

Recognizing these changes, the RBI has updated its norms through the Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), issued on 12th September 2023. These revised guidelines will be applicable to all commercial banks (excluding Regional Rural Banks) from 1st April 2024.

Key highlights of the new circular

i

A step forward towards aligning with Ind AS 109 for banks, promoting some uniformity in the reporting framework with NBFCs and listed corporates in India.

ii

Implementation of a business model and intent-based classification that will need to align Key Performance Indicators (KPIs) of business desks, resulting in accounting that reflects actual business decisions.

iii

Introduction of credit assessment for investment portfolio as per IRACP norms, enhanced documentation for business model and valuation of investments.

iv

Additional disclosures for enhanced comprehension by users of financial statements.

Key deviations vis-à-vis Ind AS requirements

i. Additional sub-category of Held for Trading ('HFT ') introduced within category FVTPL.

ii. Transfer to be made from AFS reserve to Capital reserve on sale of equity classified as AFS and sale out of HTM portfolio.

iii. Instead of ECL, the criteria used to classify an asset as NPA as per the extant Prudential Norms on IRACP pertaining to Advances shall be used to classify an investment as a Non-Performing Investment (NPI).

iv. Absence of guidance on the derecognition requirements pertaining to securitization or assignment of financial assets, and the need for alignment with Ind AS 109 requirements.

v. No reference to assessment required as per Ind AS for subsidiaries and joint ventures. Instead, the revised directions refer to the existing Indian GAAP accounting standards for the definition of subsidiaries and joint ventures.

4.3 Effective Interest Rate ('EIR')

In current scenario, banks recognize processing fees on loans disbursed and borrowings upfront in the profit and loss account. Similarly direct origination costs, like Direct Marketing Agency ('DMA') costs are accounted for as and when they are incurred. However, Ind AS require recognition of interest income and interest expense on an EIR basis. Accordingly, directly attributable and incremental origination fees and costs are required to be amortised over the expected life of the financial instrument. The requirement to measure interest income and expense on an EIR basis applies to financial assets measured at amortised cost, debt investments measured at FVOCI, and financial liabilities measured at amortised cost.

In our experience, following are key challenges associated with application of EIR retrospectively:

01 The lack of historical data on the contractual terms and cash flows of the financial instruments that may necessitate use of several assumptions.

02 Attribution of blended fees to multiple facilities for determination of EIR.

03 The complexity in EIR calculations due to terms such as expected cash flows, the benchmark interest rate, the initial effective spread, premiums or discounts, and the credit risk adjustments.

04 Determining methodology (fixing the EIR rate at inception or adjusting the EIR for expected future interest rate at reporting date) for computing EIR for variable or floating rate instruments.

05

Computing foreign exchange gains/losses for debt instruments denominated in foreign currency and measured at amortised cost or fair value through other comprehensive income.

It is likely that the approach and assumptions applied by banks may differ, which will result in inconsistent and incomparable EIRs across different financial instruments and reporting periods. Further, manual calculations are prone to errors and inconsistencies, especially when dealing with large volumes of financial instruments with different characteristics and features. We believe the need for automating EIR cannot be undermined considering the variants in cash flow features and other contractual terms.

4.4 Disclosures require extensive qualitative and quantitative information hitherto not compiled and not reported

IND AS 107 requires detailed qualitative and quantitative disclosures on various aspects of risk management. These include policies, processes and systems used to measure and monitor risks arising from exposure to financial instruments i.e. credit risk, liquidity risk, market risk and operational risk. Several of these disclosures are not required to be provided under Indian GAAP. Accordingly, banks will have to review existing data sources to establish accuracy of available information for external reporting. Further, all these disclosures are required to be audited and hence management will need to demonstrate governance on underlying information.

RBI should define a road map now to provide banks with sufficient time (at least one year in line with the timeframe defined in DP for adoption of ECL), to make the necessary modifications to the systems and processes. RBI may also consider enhancing the level of disclosures in the proforma financial statements in line with the requirements of IND AS including asking banks to prepare the year end proforma Ind AS financial statements to be subjected to a limited review by statutory auditors. We believe this will help accelerate discussions with statutory auditors on key estimates and matters requiring judgment.

5. Key learnings from global and local transition experience

The banking industry globally observed an adverse impact on its net worth on transition to IFRS 9. The key impacts arising from implementation of IFRS 9 in different regions has been explained below:

- **European Banks using IRB approach observed an adverse impact of CET1 by 19bps and banks using standard approach by 157 bps[1].**
- **Banks in Gulf Cooperation Council observed an increase in provision by 30.2% along with an adverse impact on capital by 90 bps[2].**

In the Indian context, on an average there had been an increase in provision by 19.44% and 9.51% amongst NBFCs and HFCs respectively[3]. Other impact areas include application of EIR, fair valuation of employee stock options ('ESOPs'), derecognition of financial assets (securitization and assignment arrangements), business model assessment, segment reporting and other disclosure requirements.

Below is the summary of impact of ECL on transition to Ind AS for major NBFCs (Rs. in crores)[4]:

NBFC	Net worth as per Previous GAAP	ECL Impact	Impact %
HDFC Limited	39,311	266	0.7%
Indiabulls Housing Finance	11,869	254	2.1%
Bajaj Finance	9,600	270	2.8%
Mahindra Finance	6,477	124	1.9%
Manappuram Finance Limited	3,311	5	0.2%

1. First observations on the Impact and Implementation of IFRS 9 by EU Institutions issued on 20 December 2018
2. IFRS 9: Transition impact on banks in the Gulf Cooperation Council issued by KPMG in 2018
3. Ind AS impact analysis for non-banking financial companies issued by EY
4. Summarised from Audited Financial Statements of the respective NBFCs (Transition date 1 April 2017)

Key implementation challenges faced by NBFCs and Housing Finance Companies ('HFCs') were:

- **Conceptual design of ECL computation framework per Ind AS 109 compliant risk parameters involved significant efforts;**
- **Significant judgement for pooling of the loan portfolio taking into consideration homogenous characteristics such as sector, product category, and geography;**
- **Data availability and data integrity for determination of PD, LGD**

Considering the experience of global peers and NBFCs in India, scheduled commercial banks may also witness a similar impact on their net worth due to implementation of ECL approach during transition. However, if the guidance per DP of ECL is finalized and banks implement it prior to transition to Ind AS, the impact on account of ECL will likely be muted provided there are minimum deviations from principles of Ind AS 109.

6. Will Ind AS be a reality for Banks?

As per a press release issued by ICRA on 24th January 2023 ('Banks face one-time impact on capital with transition to ECL framework), it is expected that transition impact to Ind AS including due to provisioning as per ECL could be in the range of 300-400 bps.

As per **RBI publication on Financial Institution: Soundness and Resilience** dated 28th June 2023, capital adequacy for Scheduled commercial banks as a whole stood at 17.1% (PSU at 15.5%, Private banks at 18.6% and foreign banks at 19.1%) as of 31st March 2023 against the minimum requirement of 12%.

As per **RBI publication on Operations and Performance of Commercial Banks** dated 27th December 2022, there was no bank under Prompt Corrective Action ("PCA") framework as of September 2022 compared to 3 banks as at March 2021. Some of the other factors showing improvement are:

- **Return on Equity for PSUs improved from -15% in March 2018 to 10% in March 2022.**
- **Return on Assets for PSUs improved from -0.8% in March 2018 to 0.5% in March 2022.**
- **GNPA of SCBs improved from 11.2% in March 2018 to 5.8% in 31 March 2022 and NNPA from 5.6% in March 2018 to 2.4% in March 2022.**

The RBI in its draft discussion paper indicated an option to phase out the the effect of increased provisions on Common Equity Tier I capital, over a maximum period of five years. We believe the decision of RBI on how impact on capital is addressed and readiness of public sector banks will determine the timing of transition to Ind AS.

Implementation of Ind AS by banks is not merely an accounting change as it will involve holistic transformation across key functions such as credit, treasury, information technology and operations to support financial reporting on an ongoing 'Business As Usual' ('BAU') basis. In our experience of having implemented IFRS 9 across global banks and NBFCs in India, the need for greater rigor in implementing Ind AS by banks cannot be understated. The need to automate several computations, deliberate on matters of judgment, conduct parallel reporting in full compliance with requirements of Ind AS and realign responsibilities across various functions will take around 12 months. Accordingly, the RBI should factor in this preparation time while finalizing the transition date. Assuming the RBI finalizes a glide path to phase out impact on capital over a period of five years and make Ind AS applicable from FY 2025-2026, banks should now focus on the following aspects:

Capital

Eventually, asset quality of the banks will determine the impact on the date of transition and if additional capital is required to absorb the impact of transition. Accordingly, banks may consider reviewing their credit underwriting and provisioning policies under Indian GAAP to gauge need for capital.

Systems, processes, and internal controls

To be able to produce audited Ind AS financial statements on a BAU basis, systems, processes and internal controls will need to be robust. Accordingly, banks might have to evaluate investment in suitable IT infrastructure or modify existing systems.

Skill enhancement of Bank personnel

Working on ECL modelling, resulting quantification and financial reporting related to ECL will be an area which Banks will need to focus on. This may entail additional training for existing personnel and onboarding of new personnel with the required skill sets.

Effective governance and control framework

These should be in place to manage the transition and related reporting requirements. For instance, management will need additional data points across areas like lending, borrowings, and investments. Many of these data points may not have been previously tracked or subject to the rigor associated with an audit. Appropriate governance and controls will need to be institutionalized to make a meaningful transition to Ind AS.

7. Can the timing for transition to Ind AS by banks be any better?

With accounting for investments largely aligned with international norms, it is expected that ECL based provisions will be the most important transition adjustment. While estimating ECL entails a complex and iterative computation process, we have assumed an impact of 100 bps on provision due to ECL, for a group of large private and public sector banks[5]:

Group of large private and public sector banks selected basis net worth[6] as on 31 March 2023:

Particulars	INR in crores
Total net worth	14,07,207
Total loans and advances	98,38,463
Total provision under existing framework	2,93,437
Increase in provision due to impact of ECL by 100 bps (Total loans and advance * 1%)	98,385

Estimated impact on CET 1 ratio considering the above sensitivity on impact due to ECL

Particulars	INR in crores
Total CET 1 Capital	13,61,528
Total Risk Weighted Assets ('RWA') under existing framework *(assumed to remain same for calculation purposes)*	96,50,779
Overall CET 1 ratio	**14.11%**
Estimated increase in provision due to impact of ECL (100 bps)	98,385
Revised CET 1 Capital after considering the impact due to ECL	12,63,143
Revised overall CET 1 ratio	**13.09%**
Estimated reduction in CET 1 ratio	*(1.02%)*

As explained above, assuming a 100 bps impact due to ECL, the likely impact on capital may be 1.02%. As per RBI guidelines, banks are required to maintain a minimum Capital to Risk weighted Assets ratio CRAR of 9% and the above calculation indicates that sufficient capital may be available with banks to absorb the impact of ECL based provisioning.

5. Details are sourced from annual report of respective banks as on 31 Mar 2023
6. Net worth comprises Capital and Reserves as on 31 Mar 2023

The RBI's Discussion Paper on ECL proposes an option to phase out the effect of increased provision on capital over a maximum period of 5 years. Accordingly, the impact on capital may be minimal on an annualized basis. Furthermore, with increase in year-on-year profitability of private and public sector banks (as tabulated below), transition to Ind AS including implementation of ECL appears to be a feasible move.

Sector	FY 2023	FY 2022	% increase
Private sector*	1,17,000[7]	94,046	~23%
Public sector#	1,04,649	66,539	57%
Total	**2,21,649**	**160,585**	

With HDFC Bank now being the sixth largest bank by market capitalization[8], public sector banks showing an improvement in their financial health and the Insurance Regulatory and Development Authority of India ('IRDAI') asking top 15 companies across life and non-life insurance businesses (excluding state run insurance companies and Life Insurance Corporation of India) to adopt Ind AS 117 (based on IFRS 17) with effect from 1 April 2024[9], we believe it will augur well for the financial services business in India to now fully align with internationally comparable financial reporting norms.

This will help banks and insurance companies to address transition issues in a comprehensive manner, especially the large financial services conglomerates. It will be interesting to see if the RBI decides to mirror IRDAI's partial roll out approach keeping public sector banks out of the purview of Ind AS or takes a leap of faith by asking all scheduled commercial banks to implement Ind AS anytime soon. In any case, given the extent of efforts needed to address all aspects associated with this mammoth transition, time will indeed be of essence to make it a meaningful one!

7. Amount rounded up

** Q4 results: Private sector banks post 9.7% decline in net profit (business-standard.com)*

 # Public sector banks' total profit crosses Rs.1 lakh crore-mark in FY23 | Mint (livemint.com)

8. https://economictimes.indiatimes.com/prime/money-and-markets/hdfc-bank-is-now-worlds-no-6-by-market-cap-what-will-it-take-to-compete-directly-with-jpmorgan/primearticleshow/104137947.cms

9. https://www.thehindubusinessline.com/money-and-banking/top-15-insurance-companies-to-adopt-ind-as-from-april-2024/article67165345.ece

8. Annexure

Annexure 1 - Key differences between requirements of IFRS 9 and regulatory guidelines stipulated by banking regulators.

Country	Guidelines
United Arab Emirates (Regulator – Central Bank of UAE)	i. On transition, Day 1 impact to equity without restating comparatives. ii. Stage 1 exposures attract 12-month loss estimates, while Stages 2 and 3 receive lifetime losses. Banks continue to determine loss estimates for impaired assets as per current practices. iii. Banks should link macro-economic factors and borrower attributes, especially in real estate and construction, when assessing SICR, in addition to DPD and internal ratings. iv. A 12-month cooling off period is required for backward transition from Stage 3/2 to Stage 2/1. v. If CBUAE provisions exceed IFRS 9, the difference is transferred to an Impairment Reserve from retained earnings. If IFRS 9 provision is higher, it is recognized as normal. vi. UAE banks can spread the impact over five years with CBUAE approval, but most banks have not opted for this.
Saudi Arabia (Regulator – Saudi Central Bank formerly known as Saudi Arabian Monetary Authority	i. Banks are advised to maintain a consistent definition of default for regulatory and financial reporting, as per SAMA and IFRS 9. ii. SAMA recommends a 90-day backstop for default, but allows a 180-day backstop for retail and public sector exposures under certain conditions. iii. ECL models require validation and maintenance to ensure they perform as expected. iv. The initial impact of IFRS 9 on regulatory capital, applicable from 1 January 2018, can be transitioned over five years.

Country	Guidelines
Qatar (Regulator – Qatar Central Bank)	i. On transition, Day 1 impact to equity without restating comparatives. ii. Domestic sovereign is excluded from ECL calculation. iii. ECL calculations are done for Stage 1 (12 months), Stage 2 (lifetime), and provisions for Stage 3 follow QCB guidelines. iv. Specific guidance is provided on staging criteria based on notch movements or other factors identified by the Bank. v. A 12-month cooling off period is required for backward transition from Stage 3/2 to Stage 2/1.
Bahrain (Regulator – Central Bank of Bahrain)	i. Non-performing is defined as 90 DPD for default under IFRS 9. ii. ECL model (PD, LGD, EAD) requires annual internal and external validation. iii. A 12-month cooling period is needed for transitioning from Stage 3 (non-performing) to performing. iv. Restructured facilities are classified as Stage 2 for 12 months post-restructuring. v. Spread ECL impact over up to 3 years as a CET1 capital reduction.
Oman (Regulator – Central Bank of Oman)	i. On transition, Day 1 impact to equity without restating comparatives. ii. Internal ratings should map to external ratings. iii. ECL calculations are done for Stage 1 (12 months), Stage 2 (lifetime), and provisions for Stage 3 follow CBO guidelines. iv. Banks must compute total allowance for impairment as per CBO guidelines. If CBO provisions exceed IFRS 9, the difference is transferred to an Impairment Reserve from retained earnings, which can't be used for dividends or regulatory capital. v. The CBO identifies events as evidence of SICR, such as non-cooperation of borrower, over 25% decline in turnover or earnings, and net worth erosion by over 20%.

A TEAM THAT YOU CAN TRUST TO DELIVER

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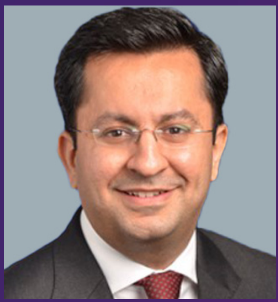

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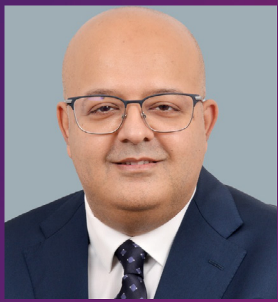

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