IFRS 9: Financial Instruments

A Study : Transition Impact on Banks Across the Globe

Accounting Standards Board
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

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FOREWORD

In the first decade of new millennium the world witnessed unprecedented global financial crisis with severe adverse impact on many economies. Unlike previous crisis, large internationally active Banks from advanced economies were at the epicentre of the crisis. The crisis impact was felt across the globe, calling for urgent and unified remedial action by global leaders and international forums such as G20, Financial Stability Board, and Basel Committee on Banking Supervision. Financial Reporting Standards area was no exception and the financial instruments related standards of both IFRS Framework and US GAAP faced severe criticism from various corners. It was time for both the International Accounting Standard Board (IASB) and Financial Accounting Standard Board (FASB) to work on war footing basis to undertake complete overhaul of standards on Financial Instruments. In respect of IFRS standards, extensive time bound work of over more than 5 years culminated into issuance of a robust standard internationally viz. IFRS 9, *Financial Instrument* or its equivalent standards in various jurisdictions.

As it was reported widely, transition to IFRS 9 was a monumental change which requires galvanisation of entire organisation and substantial cost and efforts. Well, it is expected that benefits of change that will be bought in by IFRS 9, will be far greater than the efforts and resources employed in successfully managing this huge transformation.

In this overall context of global change, the ICAI undertook a project to evaluate the impact of worldwide implementation of IFRS 9, so that this impact study would provide valuable insights of these financial reporting reforms and also act as a guiding factor for banks and jurisdictions that will be transitioning to IFRS 9 or equivalent in the near future. With this thought process, ICAI came out with publication on IFRS 9 *Transition Impact on Banks across the Globe*. The study is comprehensive one covering 75 banks from 26 global jurisdictions. The study reflects that Prudential Regulators of various jurisdictions were proactive and highly supportive of embracing this change.

I am confident that this impact study would provide valuable insights into dynamics of this major change in the financial reporting of banking sector to many stakeholders.

I would like to congratulate CA. M.P. Vijay Kumar, Chairman, Accounting Standards Board, CA. (Dr.) Sanjeev Singhal, Vice-Chairman, Accounting Standards Board and other members of the Board who have contributed immensely in coming out with this publication of international utility.

I wish this impact study adds significant value to various stakeholders including standard setters across the world.

New Delhi **CA. Prafulla P. Chhajed**
June 29, 2019 **President, ICAI**

PREFACE

"One must change one's tactics every 10 years if one wishes to maintain one's superiority."- Napoleon

IFRS Standards are considered as high quality globally accepted standards that bring in transparency, accountability and efficiency in the economy and financial capital market around the world. Over a period of time, IFRS Standards have emerged as "Gateway to Global Capital Markets'. IFRS Standards are developed to serve lager public interest. One of the hallmarks of high quality accounting standards is its robustness and ability to capture the nature and type of economic events/ transactions of contemporary world. This fundamental quality necessitates periodical review and improvements in the standards, of course, in order to be effective and to achieve the intended objectives, Standards have to be pragmatic, prudent and forward looking.

In this perspective, IFRS Standards on financial instruments, particularly IAS 39 was due for a comprehensive review around 2009-10. In the wake of severe global financial crisis around that time, the IASB accelerated its plan to undertake complete overhaul of IFRS Standards in this area i.e. replace IAS 39 in entirety with a new standard IFRS 9.

The IASB decided to replace IAS 39 in phases considering the complexity and wide range of financial instruments that were in its scope. First phase of this gigantic project was completed in 2009 and finally on 24 July, 2014, the International Accounting Standards Board (IASB) issued a complete set of standard on financial instruments – IFRS 9 *Financial Instruments was issued*. The final complete set of IFRS 9 brings together all standards issued in 'three' phases i.e. Classification and Measurement, Impairment and Hedge Accounting and replaced IAS 39 in it's entirely. The new standard is mandatorily effective for periods beginning on or after 1 January, 2018.

Banks and Financial Institutions are known to have a substantial portion for their transaction/events within the scope of IFRS 9. Therefore, transition to IFRS 9 was expected to be of high impact on its financial position including impact on Basel Regulatory Capital.

In this background, the ICAI had decided to develop a research paper on the initial transition impact of IFRS 9 BFIs across the globe. The study conducted for this research paper is predominantly focussed on *'Quantitative Impact'* of IFRS 9 on financial position of the bank as of transition date and some as aspects as of first accounting year of IFRS 9 implementation. Quantitative impact study approach is primarily based on high level review of publicly available financial statements of randomly selected 75 banks across 26 international Jurisdiction.

The quantitative impact study comprises identification of impact on certain key financial areas such as Equity, Total Assets, Classification and Measurement category of Financial Assets, Impairment Loss Allowance based on ECL model, Credit Quality of credit exposures, and Core Equity Tier 1 Regulatory Capital. This study also covers aspects such as transition exemptions and reliefs, most importantly it also provides a high level summary of Expected Credit Loss Measurement Approaches. It was also considered appropriate to perform an analysis of the Prudential

Regulators' Guidance, Instructions and their overall approach to enable robust and successful implementation of reformed IFRS Standard in an area expected to have wide ranging impact on BFIs financial position and activities.

We hope that the study provides valuable insights to the readers about a mega accounting reform in an area of high relevance to BFIs. It is also intended to act as torch-bearer for jurisdictions who have not yet adopted IFRS 9 or its local equivalent.

I am very grateful to our Honourable President, CA. Prafulla P. Chhajed and Vice-President, CA. Atul Kumar Gupta, for providing an opportunity of bringing out this publication. I am also thankful to CA. (Dr) Sanjeev Kumar Singhal, Vice-Chairman, ASB and other members of the Accounting Standards Board for their continued support and guidance.

I would like to place on record my deep appreciation of the efforts put in by CA. Vidhyadhar Kulkarni, Secretary, ASB and his project team comprising CA. Ekta Gurnasinghani, CA. Anjali Butani, CA. Savita Gupta and CA. Choshal Patil.

I hope this publication would be of enormous use and continued interest to the preparers, reviewers and other stakeholders.

New Delhi
June 28, 2019

CA. M P. Vijay Kumar
Chairman
Accounting Standards Board

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Abbreviations

Term	Description
AAS	Australian Accounting Standard
AASB	Australian Accounting Standard Board
AC	Amortised Cost
AFS	Available for Sale Financial Assets
APRA	Australian Prudential Regulatory Authority
ASB	Accounting Standards Board of ICAI
BCBS	Basel Committee on Banking Supervision
BFI	Banks and Financial Institutions
Bn	Billion
BNM	Bank Negara Malaysia
CAR	Capital Adequacy Ratio
CB	Central Bank
CBO	Central Bank of Oman
CBUAE	Central Bank of United Arab Emirates
CET 1	Core Equity Tier 1 under Basel III
C&M	Classification and Measurement
D-SII or D-SIB	Domestic Systemically Important Institution/Bank
EAD	Exposure at Default
EBA	European Banking Authority
ECL	Expected Credit Loss
EEA	European Economic Area
EIR	Effective Interest Rate
EU	European Union
FA	Financial Asset
FL	Financial Liability
FVTPL	Fair Value through Profit and Loss
FVO	Fair Value Option
FVOCI	Fair Value through Other Comprehensive Income
FSB	Financial Stability Board
F/S or FS	Financial Statements
G20	An international forum of Governments and Central Governors from 19 countries and the European Union
GAAP	Generally Accepted Accounting Principles
GCA	Gross Carrying Amount
GCC	Gulf Co-operation Council
GP	General Provision
GPFS	General Purpose Financial Statements
G-Security Or G-Sec	Government Securities
G-SII or G-SIB	Global Systemically Important Institution/Bank
HFT	Held for Trading
HKFRS	Hong Kong Financial Reporting Standards
HKMA	Hong Kong Monetary Authority
HTM	Held to Maturity
IAS	International Accounting Standards
IAS 39	IAS 39 Financial Instruments – Recognition and Measurement issued by the IASB of IFRS Foundation

Abbreviations

Term	Description
IASB	International Accounting Standards Board of IFRS Foundation
ICAI	The Institute of Chartered Accountants of India
IFRS	International Financial Reporting Standards
IFRS 9	IFRS 9 Financial Instruments issued by the IASB of IFRS Foundation
IFRS IC	International Financial Reporting Standards Interpretations Committee of IFRS Foundation
Ind AS	Indian Accounting Standards
IOSCO	The International Organization of Securities Commissions
IRB	Internal rating based approach of Basel II/III
IT	Information Technology
JV	Joint Ventures
KASB	Korea Accounting Standards Board, South Korea
K-IFRS	Korea International Financial Reporting Standard
LGD	Loss Given Default
L&R	Loans and Receivables
MAS	Monetary Authority of Singapore
MASB	Malaysian Accounting Standards Board
MCA	Ministry of Corporate Affairs, Government of India
MFRS	Malaysian Financial Reporting Standards
Mn	Million
NI/NMI	No Impact/ No Material Impact
NPA/NPL	Non-Performing Asset/Loan
NRA	Not readily available
OCI	Other Comprehensive Income
PAT	Profit After Tax
PD	Probability of Default
P&L	Profit and Loss
POCI	Purchased or originated credit-impaired
QCB	Qatar Central Bank
SAMA	Monetary Authority of Saudi Arabia
SICR	Significant Increase in Credit Risk
SIFRS(I)	Singapore International Financial Reporting Standard
SLAS	Sri Lankan Accounting Standard
SLFRS	Sri Lankan Financial Reporting Standard
SOCIE or SOCE	Statement of Changes in Equity
SP	Specific Provision
SPPI	Solely Principal and Interest
UAE	United Arab Emirates

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I. Executive Summary

The world hates change, yet it is the only thing that has brought progress. -Charles Kettering

IFRS 9 Arrived

Since almost a decade, large part of the global economy was anxiously waiting for the outcome of revolutionary change in the financial reporting world of banking sector i.e. implementation and initial impact of IFRS 9 or its local equivalent (hereinafter referred to as IFRS 9). Financial Statements of Banks and Financial Institutions (BFIs) for the year ending 2018 in many jurisdictions carry extensive story on this radical reform and its initial impact on their financial position.

IFRS 9 continues to retain mixed measurement model and the component wise (or building blocks) structure of its predecessor IAS 39. The measurement models from Balance Sheet perspective are two viz. Cost (or Amortised Cost) and Fair Value. The approaches to recognise the fair value changes in the statement of financial performance or Total Comprehensive Income are again two viz. Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI). In order to achieve the above, classification of financial assets and financial liabilities into different categories and the principles behind those classifications plays a critical role. Other two key building blocks of the standard are Impairment and Hedge Accounting[1]. IFRS 9 brings paradigm shift in all three building blocks of a high quality robust standard on financial instruments.

Objectives, Sample Size and Limitations

Primary objective of this study has been to identify the quantitative initial impact on the Equity of BFIs as of the transition date to IFRS 9. Another area reviewed for the study was the extent of impact on regulatory capital ratio (commonly known as Basel Capital Ratio) of BFIs, which is a key parameter applied to ensure soundness and stability of the banking sector. Impact on Statement of Profit or Loss or Income Statement could not be identified due to lack of published information in this area as most of the entities have opted for exemption from restating the comparative financial information.

The study was carried out solely by way of desk top review of audited financial statements of a total of 75 BFIs headquartered in 26 jurisdictions that use IFRS Standards. It is not an audit nor the findings are based on questionnaire survey or specific enquiries. Secondly, the entities for the study were selected on random basis and one of the driving factor here was availability of financial statements (F/S) in public domain, perhaps, as a result of this factor, the sample size mostly comprises large internationally active banks.

Key Findings- IFRS 9 Financial Instruments Initial Impact

Setting the context

It is very important to have a glance at a few high level information sets about the application of IFRS 9

[1] Macro Hedging aspects are consideration in Research Project 'Dynamic Risk Management'

so as to better understand the initial impact of IFRS 9 implementation. This information set relates to two areas of fundamental significance viz. Transition Exemptions in general and the overall approach towards Expected Credit Loss measurement, an area underpinning impairment loss recognition and measurement principles of IFRS 9.

Following tables summarises on the above key aspects.

Table 1: Transition Exemptions and Reliefs

Country Name	Total Sample	IFRS 9 Exemptions		Prepayment Features Early Adoption*	IFRS 4 – Insurance Subsidiary Exemption**
		No Restatement of Comparatives	Continuation of Use of IAS 39 Hedge Accounting		
Sri Lanka	4	4	1	NRA	NRA
Malaysia	4	4	2	1	1
Singapore	3	3	1	Nil	NRA
South Korea	4	4	Nil	NRA	2 -OLA
China* **	4	4	Nil	1	1
Australia	4	4	3	2	1
Hong Kong	2	2	2	1	NRA
Middle East – Part 1	10	10	4	1	Nil
Middle East – Part 2	10	10	5	Nil	Nil
Europe – Part 1	10	10	10	6	4 (1-OLA)
Europe – Part 2	10	10	10	3	2
Canada	6	6	6	Nil	Nil
South Africa	4	4	4	1	Nil
Total	**75**	**75**	**48**	**16**	**11**

Notes

**In October 2017, IFRS 9 was amended in this area:* Prepayment Features with Negative Compensation *(Amendments to IFRS 9)*
***IFRS 4 Insurance Contracts was amended in Sep 2016 to address concerns of application dates of IFRS 9 and new insurance standard IFRS 17. Amendments provide two optional approaches (a)temporary exemption from IFRS 9 (b)overlay approach*
NRA = Not readily available
OLA= Overlay approach prescribed under IFRS 4
Nil=Either NRA or No

It can be observed from the above table that all the 75 entities in the study have opted for exemption from restating the prior year comparative financial information. While this fact provides substantial operational relief to preparers, there would be loss of information about IFRS 9 initial impact on the

Income Statement. Further, majority of the entities have chosen to continue to apply the hedge accounting requirements of previous standard IAS 39. Less number of entities have used early adoption of an amendment (Prepayment Features with Negative Compensation) to IFRS 9 which was made very close to the mandatory effective date of IFRS 9; this amendment is considered to have significant bearing on a criteria considered in the classification of financial assets under Amortised Cost. In respect of IFRS 4 amendment, based on limited set of information there seems to be preference for temporary exemption from IFRS 9 rather than overlay approach.

Table 2: Expected Credit Loss Measurement Approaches

Country Name	Total Sample	Capital Transition relief used	ECL Measurement Approach			
			PD/LGD/EAD Model	Basel II Leveraged	No. of economic scenarios	No. of economic factors
Sri Lanka	4	1	4	NRA	3(4)**	5-6
Malaysia	4	1	4	NRA	3(2)	4(2)
Singapore	3	NP	3	2	3(1)	2-4(2)
South Korea	4	NP	4	NRA	NRA	3-8(3)
China	4	NRA	4	2	3(2)	3-6
Australia	4	NP	1	NRA	4(1)	4-5(2)
Hong Kong	2	NP	2	2	3	3-4
Middle East – Part 1	10	1	10	NRA	2-3(9)	2-8
Middle East – Part 2	10	1	10	2	3(6)	3-4(3)
Europe – Part 1	10	NRA*	10	9	2-5(8)	3-6(8)
Europe – Part 2	10	3	10	6	2-5	1-7(9)
Canada	6	1	6	2	3	3-6
South Africa	4	2	4	NRA	3-4	4-6(3)
Total	**75**	**10**	**72**	**25**	**-**	**-**

Notes

NRA = Not readily available NP = Not permitted by the national prudential regulator
**Though entities have not explicitly stated whether they have used transition relief for Basel Regulatory Relief, other information reported indicates that the transition relief available as per EU Regulation is used.*
***This is based on the no. of entities that reported this information. No. of entities who have reported this information is given bracket.*

An interesting finding is about the primary approach being used by the entities in the application of ECL model in relation to impairment loss component of IFRS 9. Substantial majority of 72 out of the total sample 75 entities have reportedly based their ECL computations on sophisticated credit risk measurement parameters viz. Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). This trend is on the expected line considering the advancement of credit risk measurement frameworks, both for prudential regulatory purposes or for internal risk management, expected in BFIs due to nature, size and complexity of their credit exposures and banking activities. However, it is unclear in many of these cases whether the entities have leveraged their infrastructure of Basel Capital Adequacy Frameworks used for prudential regulatory purposes. In another area of improvement introduced in IFRS 9 i.e. consideration of Forward Looking Information in ECL Measurement Techniques, generally 3 scenarios (e.g. Base case, Downside and Upside) have been considered and number of economic factors such as GDP, Inflation, Crude Oil Price, considered by the BFIs are reported in the range of 3 to 8.

Quantitative Impact

Overall Summary

Table 3: High level summary of quantitative impact in respect of a few critical parameters

Country Name	IFRS 9 Transition Impact (%) on				Credit Quality (%)		
	Equity	Total Assets	ECL Provision	CET1[$]	Stage 1	Stage 2	Stage 3
Sri Lanka	(3.2-4.7)	(0.3-0.5)	32-51	(0.08-0.13)	86-91	4-10	3-5
Malaysia**	(1.8–6.4)	(0.2-1.3)	27-70	(0.08-0.33)	89-95	4-9	0-2
Singapore	0.2-0.6	0.1	(2-10)	NRA	94-96	3-5	1
South Korea	(0.4-1.6)	(0.1-0.2)	9-25	NRA	87-96	4-12	1
China	(1.1-2.2)	NE	9-20	NRA	96-97	2	1-2
Australia	(0.7-2.2)	(0.1)	20-37	(0.06)	89	9-11	1-2
Hong Kong	(0.2-0.6)	(0.1)	5-67	NRA	95-96	4	1
Middle East – Part 1***	(0.2-8)	(0.2-1.10)	9-102	NRA	77-95	2-21	1-4
Middle East – Part 2#	(0.1-11.9)	(0.1-1.9)	13-62	NRA	74-96	3-22	1-4
Europe – Part 1^	(0.1-4)	(0.1-.0.3)	4-58	(0.01 -0.34)	91-96	3-8	1-4
Europe – Part 2^^	(0.1-5.5)	(0.1-0.4)	1-41	(0.20-1.36)	85-97	2-9	1-6
Canada^^^	(0.3-1.2)	NE	2-37	NRA	93-97	2-6	0.3-1.4
South Africa	(3.5-12.2)	(0.2-0.5)	26-58	(0.28-0.7)	86-91	6-10	3-5

Notes

**Numbers in bracket indicate reduction*
***In Malaysia, one entity had positive impact on equity and one entity had positive impact on CET 1*
****In Middle East-Part 1,one entity had positive impact on total assets and one entity had reduction in ECL provision*
 # In Middle East-Part 2, one entity had positive impact on equity ,one entity had positive impact on total assets and one entity had reduction in ECL provision
^In Europe-Part 1, one entity had positive impact on total assets ,one entity had reduction in ECL provision and two entities had positive impact on CET 1
^^ In Europe-Part 2, one entity had reduction in ECL provision
^^^In Canada, one entity had positive impact on equity and one entity had reduction in ECL provision
[$]CET1 on Fully loaded basis
NE= Negligible
NRA = Not readily available

Headline Messages

1) Total equity has had negative impact and in some jurisdictions viz. Malaysia, Middle East-GC, Europe-Part 2 and South Africa the impact is more pronounced. In other jurisdictions, impact appears to be not material.

2) Key components of IFRS 9 that made their presence felt are as follows.
   a) ECL Approach for recognition and measurement of impairment loss. Except in one jurisdiction, this component had resulted in reduction in Equity due to increased amount of impairment loss allowances. In some jurisdictions, the negative impact of ECL is partly offset by deferred tax benefits on these impairment loss allowances.
   b) Reclassification and consequential change in Measurement principles due to reclassification among measurement categories based on new criteria of IFRS 9. Overall, there is positive impact on equity on account of these reclassifications. The reclassifications are largely reported in FVTPL and FVOCI categories and due to application of SPPI Test. Though there are reclassifications of material gross carrying amounts, but its net quantitative initial impact on Equity is reportedly not material.
   c) IFRS 9 impact is reportedly concentrated in Financial Assets area. There have been hardly any changes in respect of Financial Liabilities except for one or two entities out of 75 entities.
   d) In relation to new Hedge Accounting Framework of IFRS 9, the BFIs have not reported any major observable impact.
3) Basel Regulatory Capital: IFRS 9 impact on regulatory capital has not been reported by all 75 BFIs included in this study. This data was readily available in case of only 19 BFIs and generally trend is reduction in CET1 ratio, but magnitude of reduction appears to be very low.
4) IFRS 15: No material impact on Equity has been observed. BFIs have generally reported some changes in the presentation and disclosure areas and not the recognition and measurement areas.

Jurisdiction wise Summary

Sri Lanka and Malaysia

Classification and Measurement
In these jurisdictions, substantial portion of financial assets (>80%) are classified under amortised cost. Percentage of financial assets classified under FVTPL is not material, only one out of eight BFIs have classified more than 5% of total financial assets under this category.

Equity Impact
Three out of eight banks have reported negative impact on equity ranging from 5.3% to 7.7% due to higher ECL provisions. But, overall negative impact on Equity is reported to be partly offset by positive impact of reclassification and tax benefits on ECL.

ECL Provisions

All banks have reported significant increase in overall ECL provisions, both in respect of On B/S as well as Off B/S exposures.

Credit Quality Distribution across ECL Buckets

All the banks have reported substantial percentage (>86%) of On- B/S credit exposures in Stage 1 bucket. Credit exposures reported in Stage 2 and Stage 3 (credit impaired) ranges from 4-10% and 2-5% respectively.

Six out of eight Banks have reported (=<30%) of total impairment loss allowances for Stage 1 & 2 bucket. While only two Malaysian Banks have reported very high percentage of ECL provision relating to Stage 1 & 2 bucket.

Singapore and South Korea

Classification & Measurement

In both jurisdictions, large majority of financial assets are classified under amortised cost category. Also, Three (3) banks have reported more than 10% in FVTPL category.

In case of Korean Banks, significant reclassification of financial assets from erstwhile AFS category to FVTPL category has been observed.

Equity Impact

Singapore Banks have reported positive impact on equity due to higher ECL (impairment loss allowance) balances at the start of transition date.

All Korean Banks have reported negative impact on equity but of negligible size.

ECL Provisions

In case of Singapore, all three banks have reported decrease in On-B/S impairment loss allowance whereas two banks have reported increase in Off- B/S impairment loss allowance.

In case of Korea, there is overall increase in ECL on account of transition to IFRS 9.

Credit Quality Distribution across ECL Buckets

In both jurisdictions, almost all banks have reported more than 90% of On-B/S exposure in Stage 1 bucket whereas large percentage of ECL provisions is reported for Stage 3 (credit impaired) bucket.

China, Australia and Hong Kong

Classification and Measurement

In case of China, substantial part of financial assets (>88%) are classified under Amortised Cost category. Banks have reported increase in FVTPL category due to reclassification of certain debt securities from previous classification of AFS/HTM categories and reclassification of Reverse repo balances from previous classification in Loans & Receivables (L&R) (Amortised Cost (AC)) category.

In case of Australia, around 68%-69% FAs are classified as Amortised Cost .Significant percentage of FAs are classified as FVTPL whereas percentage of FA classified as FVOCI category is not more than

5%. Two (2) banks have reported material reclassifications of financial assets in/from FVTPL and AC categories.

In case of Hong Kong, around 74-82% FAs are classified in Amortised Cost category. Significant percentage of FAs classified as FVOCI -around 14-21% whereas percentage of FA classified as FVTPL category is not more than 6%.There is no material reclassification reported between different categories of financial assets.

Equity Impact

The reduction in Equity is not more than 2.2%. Generally, negative impact on Equity is due to increase in ECL provisions which is partly offset by other IFRS 9 adjustments.

ECL Provisions

In case of China, all the four banks have reported net increase in ECL provisions. Similarly, in case of Australia, all four banks have reported net increase in ECL provisions in the range of 20 to 36%. In case of Hong Kong, one bank has reported substantial net increase in ECL provisions of 67.4% while other Bank have reported net increase of 4.5% in ECL provisions.

Credit Quality Distribution across ECL Buckets

In case of China, substantial part (>96%) of On-B/s credit exposures is reported in Stage 1 Bucket. Percentage of financial assets in Stage 2 and Stage 3 bucket is very low or negligible.
In case of Australia, percentage of financial assets in Stage1 is 89%. Percentage of financial assets in Stage 2 and Stage 3 bucket is in the range of 9-11% and 1-2%, respectively.

In case of Hong Kong, percentage of financial assets in Stage 1 and Stage 2 is around 96% and 4%, respectively. Percentage of financial assets in Stage 3 (credit impaired) bucket is very low or negligible.

In case of these jurisdictions, combined ECL provision for Stage 1 and 2 buckets is higher than ECL provision reported for Stage 3 (credit impaired) bucket which is between 28% to 44%.

<u>Middle East – GCC Part 1</u>

Classification & Measurement

Substantial percentage of financial assets is reported under Amortised cost category, the range is 81% to 99%. There have been significant reclassifications, primarily between FVTPL and previous AFS category due to reclassification of debt securities and equity securities. However, Amortised cost category does not appear to be impacted materially due to reclassifications.

Equity Impact

All Ten (10) banks have reported reduction in Equity primarily on account of higher ECL Provisions, and in one case equity has reduced by 7.6%.

ECL Provisions

Almost every bank has reported significant increase in overall ECL Provisions. However, four banks have not reported any increase in ECL provision for Off- B/S exposure. ECL Provisions as a percentage of outstanding Off-B/S exposures are generally negligible.

Credit Quality Distribution across ECL Buckets

Substantial percentage of On-B/s credit exposures is reported in Stage 1 Bucket. However, in case of three BFIs, material part of financial assets is reported in Stage 2 ranging from 12% to 21%.
Significant percentage of ECL Provisions is attributable to financial assets reported in Stage 2 & 3.

<u>Middle East – GCC Part 2</u>

Classification & Measurement

While large part of financial assets is classified under Amortised Cost category, 0.7%-14.9% is classified under FVOCI category. Use of FVTPL category is reportedly low.
There have been decreases in FVOCI category due to reclassification of debt securities and equity securities from previous classification of AFS category to Amortised cost on account of application of SPPI test.

Equity Impact

All BFIs have reported negative impact on Equity except for one bank which has shown negligible positive impact. Negative impact on Equity is primarily due to higher ECL Provisions.

ECL Provisions

Almost every bank has indicated significant increase in ECL Provision balances, primarily in respect of On- B/S exposures while one bank has reported material decrease of 15.5% in On-B/S ECL Provision.

Credit Quality Distribution across ECL Buckets

Majority of BFI's have reported substantial portion of exposure in Stage 1 bucket. However, two out of the Six (6) BFI's analysed in this study have reported sizeable portion in Stage 2 bucket.
Five (5) BFIs have reported large percentage (>60%) of On-B/S ECL provisions for Stage 3 (credit impaired) bucket. One (1) BFI has attributed comparatively lesser percentage i.e. 39% of On B/S ECL provisions to Stage 3 (credit impaired) bucket.

<u>Europe Part 1</u>

Classification & Measurement

Significant percentage of financial assets are reported under FVTPL category, the range is 20% to 45%.This Measurement category wise profile is significantly different from other jurisdictions.
Nine out of Ten banks have reported material reclassifications of financial assets in/from FVTPL and FVOCI categories. Further, three out of ten banks have reported reclassifications of financial assets in Amortised Cost category.

Equity Impact

No material impact on Equity has been reported except for one bank where a slightly comparatively higher percentage of 4% reduction in equity.

ECL Provisions

All banks have reported increase in ECL provisions, both in respect of On B/S as well as Off B/S exposures, except one bank which has reported substantial reduction in ECL provision for On B/S exposures. The reason for this reduction is reclassification of certain loans from Amortised Cost category into FVTPL.

Credit Quality Distribution across ECL Buckets

All the banks have reported substantial percentage (>90%) of On B/S credit exposures in Stage 1 bucket. 3 out 10 banks have reported 6-8% percentage in Stage 2 bucket. Credit exposures reported in Stage 3 (credit impaired) is very low from 1 to 4%.

Large majority of banks have reported sizeable part (>20%) of total impairment loss allowances for Stage 1 & 2 bucket. Only two banks have reported less than 20% for Stage 1 & 2 buckets

Europe Part 2

Classification & Measurement

There is significant diversity among banks in the measurement category wise profile of financial assets. Significant percentage of financial assets are reported under FVTPL category; Five out Ten Banks have reported well above 25% and two of these have reported 40 & 56% in FVTPL category. FVOCI category appears to be used to a minimal extent.

There are significant reclassifications into/from AC and FVTPL categories. Four banks had material reclassifications in AC category from previous category of AFS due to application of Business Model and SPPI test. All banks except one have reported some material reclassifications in FVTPL and FVOCI category. Seven banks have reported significant reclassifications in FVTPL category as a result of either SPPI or Business Model Test. Six of these banks have reported reclassifications of financial assets into FVTPL category.

Equity Impact

No material impact on Equity has been reported except in case of two banks where a slightly comparatively higher percentage of c.5% reduction in equity

ECL Provisions

All the banks have reported overall increase in ECL provisions except one bank where there is significant reduction. In another case, the increase in ECL provision is negligible.

Credit Quality Distribution across ECL Buckets

Large majority of banks have reported substantial percentage (>90%) of On B/S credit exposures in Stage 1 bucket. Two banks have reported comparatively lower percentages but still above 80%. In

stage 2 bucket, exposure reported is in the range of 2-9%. Four banks out of Ten Banks have reported 1% or less in Stage 3 (credit impaired).
There is diversity in the range of percentage of ECL distribution across different buckets of credit quality. Three banks have reported less than 15% for Stage 1 & 2.

Canada and South Africa

Classification & measurement

While large part of total financial assets are classified under Amortised Cost category, significant percentage of up to 36% is classified under FVTPL. Use of FVOCI is reportedly low and generally less than 10% of total financial assets except in two cases it is around 10-11%.
In case of Canada, almost all the banks have reported reduction in FVOCI category due to reclassification into other two categories. In case of South Africa, two banks have reported decrease in FVOCI category balances and remaining two have reported substantial increase in FVOCI category due to reclassification of certain debt securities from AC category.

Equity Impact

In case of Canada, impact on Equity has been reported very low and primarily on account of ECL adjustments. In case of South Africa, there is a noticeable reduction in Equity and in one case equity has reduced by more than 10%.

ECL Provisions

In case of Canada, five out of six banks have reported net increase in ECL provisions. However, in case of three banks the net increase is very low. Similarly, in case of South Africa, all four banks reported net increase in ECL provisions in the range of 26 to 58%. The increase in respect of Off B/S exposures is generally low or very low.

Credit Quality Distribution across ECL Buckets

In case of Canada, substantial part (>90%) of On B/s credit exposures is reported in Stage 1 Bucket. Percentage of financial assets in Stage 3 (credit impaired) bucket is very low or negligible, In case of South Africa, percentage of financial assets in stage 86 to 91%. Percentage of financial assets in Stage 3 (credit impaired) bucket is in the range of 3 to 4.8%.
In case of Canada, large percentage of ECL provisions is reported for Stage 1 and 2 buckets. In case of South Africa, large percentage of ECL provisions is reported for Stage 3 (credit impaired) bucket.

Qualitative Aspects

This study was primarily focussed on quantitative initial impact of the transition, hence no detailed findings are available regarding impact on the qualitative aspects of the F/S. However, the review did indicate improvement in the disclosures relating to credit quality of financial assets subject to IFRS 9 impairment loss requirements and the BFI's approach/methodologies for computation of expected credit loss. It was observed that manner of reporting information on allocation of credit exposures across different stages lacked uniformity, consistency and was not user friendly e.g. few entities have not reported this segregation for all financial assets subject to impairment requirements i.e. FAs categorised under FVOCI, Cash and Inter-bank exposures.

Prudential Regulators Guidance and Engagement

IFRS 9 has drawn active attention and early engagement of the prudential regulators responsible for the supervision of banking entities in various jurisdictions. It was observed that prudential regulators of almost all jurisdictions have issued timely and suitable instructions to BFIs. The Basel Committee on Banking Supervision (BCBS), an international supervisory forum of banking sector, issued a supervisory guidance in Dec 2015 'Guidance on credit risk and accounting for expected credit losses' containing 11 principles, 8 of which are applicable to banks and 3 are directed towards the national prudential regulators. Further, the BCBS has complemented the above guidance with another guidance in March 2017 'Regulatory treatment of accounting provisions – interim approach and transitional arrangements' that addresses a critical challenge of treatment of capital shock, if any, on the banks regulatory capital due to additional ECL provisions, if any, due to IFRS 9 implementation.

Overall, there is positive approach towards acceptance and implementation of IFRS 9 in entirety including the expected credit loss model for impairment loss recognition and measurement. This is evident from the finding that only three (3) jurisdictions out of 26 covered in the study have applied regulatory overrides to IFRS 9 ECL requirements. The areas that have drawn attention of prudential regulators for issuing suitable guidance to banks are as below.

- Regulator's expectation of effective and robust IFRS 9 implementation.
- Board and Senior Management's engagement and accountability in important areas like governance over IFRS 9 project, approving Business Model documents/policy for classification of financial assets etc.
- ECL related – policies and procedures of segregation of credit exposures across 3 stages of impairment loss buckets, use of low credit risk practical expedient for segregation, data quality and integrity of credit risk parameters such as Probability of Default, Loss Given Default, treatment of domestic sovereign credit exposures, classification of ECL provisions relating to Stage 1 & Stage into General Provisions (GP) and Specific Provisions (SP) for regulatory capital computations.
- Regulator Capital impact and transition relief- Many jurisdictions have been guided by the guidance given by BCBS but a few have either considered it not appropriate to provide transition relief or not found it necessary based on their informal consultations.
- Disclosures- high quality comprehensive disclosures have been emphasised.
- Regulatory Returns – Many jurisdictions have comprehensive periodical returns to be submitted to the prudential regulators, which contain elaborate financial information. Accounting changes brought in by IFRS 9 necessitate amendments to the contents and formats of these regulatory returns.

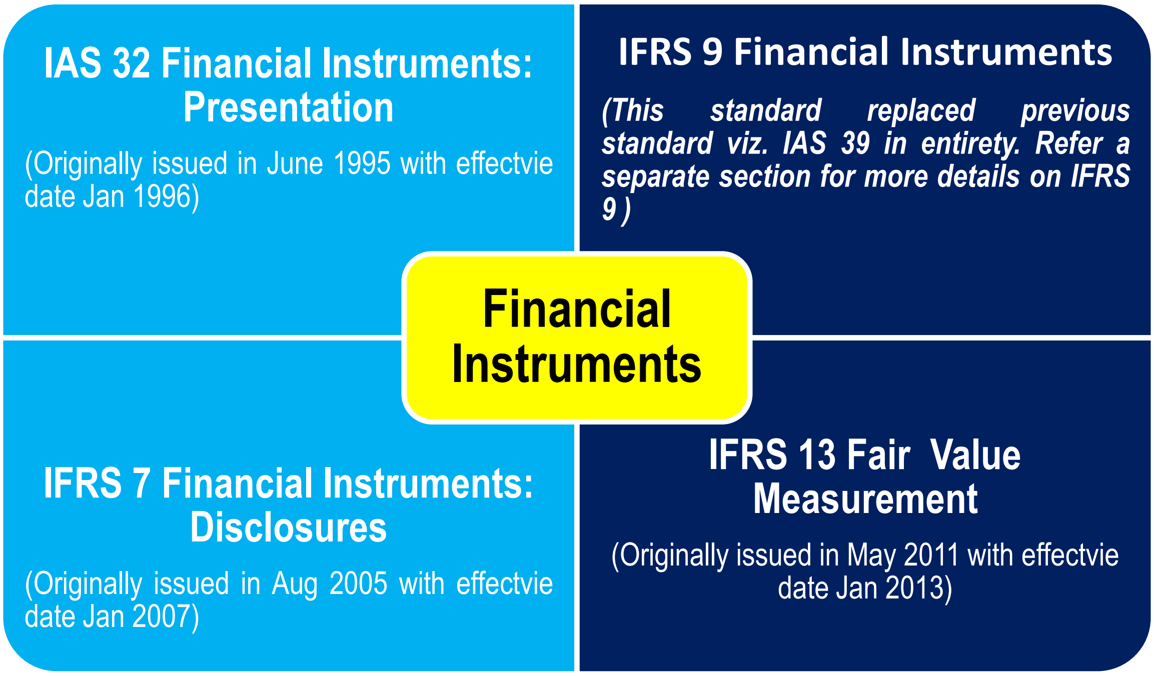
II. Introduction

Background

Banking Sector and Financial Instruments

Financial and Banking sector occupy a vital place in any economy wherein they play a critical role beginning from traditional financial intermediary function of deposit taking and lending, maturity transformation, custodians of payment & settlement systems to risk management facilitators. As a result, their role in economic development of a country and in the orderly functioning of society at large assumes greater significance. These entities are of significant public relevance because of the nature of their business. Therefore, across the globe, entities in this sector regardless of their legal structure or their participation in securities market are viewed as 'Public Interest Entities'. To ensure sound financial stability of this sector, the robust and dynamic prudential regulatory framework such as Basel Capital Adequacy Framework needs to be complemented with implementation of high quality financial reporting framework like IFRS Standards.

In view of the dynamic intermediary role of Banks and Financial Institutions (BFIs) in any economy, it is very natural that the large part of activities of these entities relate to Financial Instruments ranging from simple lending and deposit taking instruments to complex derivative products. As a result, substantial parts of the financial statements of these entities are affected by the accounting and reporting standards on Financial Instruments. In the IFRS Framework, there are Four (4) main IFRS Standards that cover the accounting and reporting aspects for Financial Instruments and accordingly, and have a high relevance to Banks and Financial Institutions.



Accounting Standards on Financial Instruments have always received greater attention by the global regulatory authorities and supervisory bodies e.g. In 1990s, the IOSCO[2] proposed to the IASC[3] to deliver standards on a most financial instruments by 1999 as part of two dozen 'core' standards for IOSCO to consider endorsing them for use by its regulator members.

The Standards on Financial Instruments, particularly IAS 39 Financial Instruments: Recognition and Measurement, have known to be complex and difficult to understand, apply and interpret. The IASB[4] had taken note of this in 2005 and has initiated a joint project with the US national standard-setter, the Financial Accounting Standards Board (FASB), with a long-term objective of improving and simplifying the reporting for financial instruments. However, in view of the huge criticisms emanating during the unprecedented Global Financial Crisis starting in 2007-08, where the banks were the epicentre of this crisis, G20[5] and other global bodies such as Financial Stability Board[6] instructed the IASB to accelerate the timelines for replacing IAS 39. (Refer Separate Section for more details about this replacement project and the IFRS 9).

Objectives and Key Aspects of the Study

As stated in the previous paragraph, the Accounting and Reporting the effect of Financial Instruments by BFIs is of critical importance and high relevance to the users of their financial statements. Any change in the financial reporting areas relating to Financial Instruments necessitates careful consideration and adjustment by the entities. IFRS 9 is a comprehensive standard covering a wide range of critical aspects pertaining to recognition and measurement of financial instruments. IFRS 9 is a complete overhaul of the previous accounting framework viz. IAS 39. This standard brings in substantial improvements in the fundamental building blocks of the Standard on financial instruments i.e. path breaking change in the approach towards classification of financial instruments which determines the subsequent measurement principles of these financial instruments, paradigm shift from 'Incurred Loss' Model to 'Expected Credit Loss (ECL)' Model for the recognition and measurement principles of impairment loss and the arrival of more principle based approach to hedge accounting which is closely aligned with the entities risk management approaches. As expected, there were plenty of concerns, varying views and anxieties among different stakeholders including BFIs and Prudential Regulators about the impact of IFRS 9 or its equivalent on BFIs. A few had expressed extreme concerns like Equity and Regulatory Capital of some banks will be significantly eroded upon adoption of IFRS 9 or its equivalent.

In the above context, it was decided by the Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI)[7] to undertake study about following two aspects.

[2] The International Organization of Securities Commissions (IOSCO) is a confederation of securities market regulators founded in 1983.

[3] The International Accounting Standards Committee (IASC) was the standard-setting arms of IASC Foundation, predecessor body of the IFRS Foundation.

[4] The International Accounting Standards Board (IASB) is the standard-setting arms of IFRS Foundation.

[5] The G20 (or Group of Twenty) is an international forum established for the Governments and Central Bank Governors from 19 countries and the European Union. Founded in 1999 with the aim to discuss policy pertaining to the promotion of international financial stability and since 2008 Heads of Governments, Finance Ministers and Foreign Ministers also attend.

[6] The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system. Its members comprise Central Banks, Securities Market Regulators, and Finance Ministries of various countries. It was established after the G20 London summit in April 2009 as a successor to the Financial Stability Forum.

[7] For Non-Banking sector, India had early adopted IFRS 9 converged local standard viz. Indian Accounting Standard 109, for the financial year 2015-16.In case of Banks and Insurance entities, IFRS 9 converged standard is yet to be adopted.

I) 'Quantitative Impact' study of implementation of IFRS 9 or its equivalent on BFIs in various jurisdictions. A financial reporting change of this magnitude is no doubt expected to also have major qualitative impact on the entity's financial and operating policy and procedures as well as qualitative aspects of the financial statements. Considering the lack of a uniform and consistent measure to evaluate qualitative changes, the Study only focusses on the quantitative impact in the following key aspects of the financial statements and regulatory capital.

II) Prudential Regulators' Guidance and Instructions: Historically, BFIs' across the globe are subject to robust prudential regulations and active engagement of prudential regulators, who have demonstrated keen interest in certain key aspects of financial reporting and accounting of BFIs. Particularly, in the aftermath of the recent global financial crisis, prudential regulators have evinced heightened interest in a few critical areas such as impairment loss for credit risk and fair value measurements. These areas have a direct impact on a few of their core regulatory aspects highlighted below.
   - Timeliness and Adequacy of Impairment Loss (commonly known as Loan Loss provisions or provision for Non-Performing Assets/Loans etc.),
   - Treatment of Fair Value Gains/Losses,
   - Bank's Regulatory Capital (commonly known as Basel Capital Regulations), and
   - Bank's Leverage Ratio
   - Regulatory Returns and Reports

The 'Quantitative Impact' part of study is intended to gain an understanding of the quantitative impact on certain key areas of changes in the classification and measurement, impairment loss recognition and measurement and hedge accounting.

Initial Impact as of Transition Date January 1, 2018[8]

❖ Impact on total equity as of transition date
   - Total impact due to IFRS 9 transition
   - ECL Model
   - Other Classification & Measurement

❖ Impact on Total Assets, Classification and Measurement categories
   - Amortised Cost (AC)
   - Fair Value through Profit and Loss (FVTPL)
   - Fair Value through Other Comprehensive Income (FVOCI)

❖ Impact on Financial Assets: Total and Measurement Category-wise
   - Financial Assets %age to Total Assets
   - Financial Assets: Measurement category-wise %ages

❖ Impact on ECL Provisions: On Balance Sheet and Off Balance Sheet Exposures

Analysis based on data at the end of first full year reporting under IFRS 9

❖ Credit Quality Analysis as of December 31, 2018
   - Gross Carrying Amounts – Stage wise %ages
   - ECL provisions- Stage wise %ages

The Study also contains certain background information about entity's approach towards IFRS 9 or its equivalent standards' implementation such as use of transition exemptions, ECL computation approach/ bass of ECL models etc.

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[8] In a few cases the transition dates are different from January 1, 2018. Refer Key Findings -Jurisdiction wise.

The second important aspect of the study relates to 'Prudential Regulators' Guidance and Instructions' and it is intended to identify and summarise the approach adopted by the national prudential regulator. It may be noted that global supervisory body of Banking Sector viz. BCBS has also issued certain guidelines for use by National Supervisory Authorities as well as by the Banks. The key aspects summarised in the findings section are as follows.

- ❖ Key areas where guidance is provided
- ❖ Parallel Run or Periodic Reporting Requirements, if any
- ❖ Transitional Provisions for Regulatory Capital Relief, if any

This part also includes quantitative impact of IFRS 9 or its equivalent on Banks' Regulatory Capital commonly known as Basel Regulatory Capital. This study has attempted to find out the IFRS 9 impact on a key component of Basel Regulatory Capital viz. Core Equity Tier 1 Regulatory Capital (CET 1) of the BFI on transition date. The CET 1 impact can be considered on two basis viz. Full impact on Day 1 (called Fully Loaded Basis) and Transition impact on Day 1 (Transitional Impact). More details about these two approaches are available in subsequent sections.

Sample size and Selection

The study is based on sample size of 75 BFIs headquartered in 26 jurisdictions
(Refer Appendix A for more details of banks covered in the study)

IFRS 9 TRANSITION IMPACT STUDY
SAMPLE SIZE COVERAGE-75 BANKS:26 JURISDICTIONS

Sample size and selection of banks for each jurisdiction is primarily based on following factors.

- ❖ Readily available reliable information in public domain.
- ❖ Size and ranking of operations of the bank based on public sources such as google search engine.
- ❖ It is important to note that in certain cases, jurisdictions have been combined together in the report primarily for ease of structuring the report and not on any other specific criteria. For similar reasons, in case of two jurisdictions viz. Middle East and Europe, the contents of this report are divided into two Parts.

Key Sources of Information

A) This study is primarily based on data and information reported in General Purpose Financial Statements (GPFS) of the various BFIs, which are available in public domain at the time of preparing this report. These financial statements relate to the first full year of application of IFRS 9 i.e. accounting year beginning on or after January 1st, 2018, except in once case where the entity had early adopted IFRS 9 in 2016. We have also observed few BFIs had also published a separate IFRS 9 Transition Report in the early of 2018 but there have been some changes to the final impact reported in annual financial statements.

B) Prudential Regulatory Guidance and Instructions issued by the jurisdictions' Central Bank or the Monetary Supervisory Authority.

Key Matters for Readers Attention

Few Assumptions

A) The study is based on small set of sample size in each jurisdiction, therefore, the observations of in this report cannot be assumed to hold good for all the BFIs in that entire jurisdiction.

B) In almost all cases, the study is based on full set of audited financial statements for the 1st year of application of IFRS 9. However, in two cases, entities 1st full year of IFRS 9 application ends only in Sep 2019, therefore, the study as of June 2019 is based on disclosures made in the latest annual financial statements about the expected impact of IFRS 9 adoption by these entities. In such cases, some areas of the analysis could not be performed at this stage. In another case, we have used the IFRS 9 Transition Report as the GPFSs were not yet available in public domain.

C) All the BFIs have also adopted another big IFRS Standard of the decade viz. IFRS 15 Revenue from Contracts with Customers or its equivalent starting from January 1, 2018. In almost all cases, the quantitative impact on IFRS 15 or its equivalent is reportedly either negligible or stated to be not material. Hence, IFRS 15 quantitative impact, if any, has not been separated from IFRS 9 quantitative impact for this study.

D) In certain cases the information or data is not readily available in public domain. A suitable note to this effect has been given in the report. However, it does not indicate or reflect that the entity has not complied with required accounting requirements,

E) Information of IFRS 9 impact on regulatory capital is not readily available in all the cases of our samples. Further, some of the banks have given this information only in IFRS 9 Transition report and not in audited annual financial statements. In such cases, the data in IFRS 9 Transition Reports is used which may differ if it was based on the final impact stated in the annual financial statements.

F) Accounting Framework applicable is primarily based on the disclosures in the Notes to Financial Statements - Basis of Presentation and the material published by the IFRS Foundation – Use of IFRS Standard by Jurisdiction[9].

[9] https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/

G) Computation of certain key impact indicators

a) Total Equity Impact on January 1, 2018: Represents the increase/decrease in the total equity on December 31, 2017 and post adoption of IFRS 9 or its equivalent at 1 January 2018.

b) ECL Impact on Equity on January 1, 2018: Represents the increase/decrease in the total equity due to decrease/increase impairment or loan loss provisions on December 31, 2017 and post adoption of IFRS 9 or its equivalent at 1 January 2018. The increase/decrease is considered on gross basis i.e. without considering the tax effect.

c) Other Re-measurement Impact on January 1, 2018: It is derived from deducting the ECL impact computed as per (b) above from the Total equity impact computed in (a) above.

d) Credit Quality of Financial Assets – as of end of IFRS 9 Transition Year

i) For the purpose of above analysis, the distribution of GCAs of financial assets across three stages of ECL recognition is considered. All financial assets within the scope of IFRS 9 impairment requirements are considered here. These financial assets are those classified under Amortised Cost and FVOCI categories. This analysis includes only On-B/S Exposures.

ii) In case of following type of financial assets, sometimes the segregation between Stage 1, 2 and 3 buckets is not reported or note readily available. In such cases, these are included in Stage 1 in view of the fact that either Nil or negligible amount of ECL provisions are reported against these items

1) Cash and Central Bank Balances
2) Investment securities e.g. domestic sovereign securities
3) Islamic Banking Products

H) In case of some BFIs, the information/data required is not readily available from the annual financial statements or annual reports. In such cases, the quantitative impact study do not include such BFIs, hence, some serial numbers will be found missing in the bar charts etc. in the Key Findings section.

Limitations

A) This study is not intended to be an Audit or Deep Dive Study of GPFSs of the BFIs, rather it is a high level review/analysis of the data reported in the audited financial statements. Further, the study is solely based on desk top review of GPFS available in public domain and no specific enquiry or questionnaire survey with the BFIs or any other party was undertaken.

B) The Study only captures the quantitative impact on the Statement of Financial Position or Balance Sheet. All the entities in our sample for the study have elected exemption available under transitional provisions of IFRS 9 from restating the comparative financial information. Therefore, the impact on Income Statement or Statement of Comprehensive Income is not readily and publicly available. Further, the entities those have published a separate IFRS 9 Transition Report have also not given this information on pro-forma basis as it was given in the past upon application of IAS 39 or its equivalent during the adoption first time adoption of IFRS Standards previously. The study has not attempted to estimate the impact from Income Statement perspective using other estimation techniques which would be highly judgemental.

C) In many cases, BFIs have reported reclassifications from one category say AFS to another category say FVTPL, but the reasons or rationale for these reclassifications have not been fully reported in all cases. Therefore, the comments in the Key Findings section about the rationale for reclassifications may not adequately capture the reasons for the reclassifications reported by the entity.

D) In some cases, summary of some of the jurisdictions Prudential Regulatory Guidance and Instructions are not being given due to non-availability of the same in public domain or language translation constraints.

III. IFRS 9 Financial Instruments – A Few Words

Why IAS 39 replaced with IFRS 9?

IAS 39 Financial Instruments: Recognition and Measurement has a long arduous history. This standard was a result of over two decades of research and work since 1988 by the IASC, predecessor of IASB. IAS 39 was originally issued by IASC in Dec 1998 and replaced in March 1999. Reportedly, it was developed by putting together relevant sections of US GAAP[10]. It was one of the most critical and controversial standards that was inherited by the IASB from its predecessor body IASC in April 2001 when the IASB commenced its operations. At the beginning of new millennium, the IASB had revised IAS 39 by adding clarifications and guidance, eliminating internal inconsistencies so as to reduce complexity.

IAS 39 prescribed the mixed measurement approach for financial instruments as against the full fair value model, a radically alternate measurement approach advocated by some. IAS 39 prescriptions were structured into appropriate sections viz. Scope and Definitions, Recognition and De-recognition, Classification and Measurement, Impairment and Uncollectability and Hedging. However, since its initial stages, IAS 39 had been a controversial standard and faced many criticisms. Many users, other stakeholders, auditors and prudential regulators found it to be complex and difficult to understand, apply and interpret. Similar problems were reported about US GAAP. As a result, the IASB and US national standard-setter, the Financial Accounting Standards Board (FASB) embarked on a joint project with a long-term objective of improving and simplifying the reporting for financial instruments. This initiative led to issuance of a Discussion Paper in March 2008 titled 'Reducing Complexity in Reporting Financial Instruments'. This discussion paper analysed two possible solutions viz.

(a) Intermediate approaches to measurement related problems and hedge accounting
(b) A long-term solution – a single measurement method for all types of financial instruments

Around the same time, the world economy suffered unprecedented global financial crisis where the accounting standards on financial instruments also came under severe criticism from various sections of the public at large. The problems drew attention of global forums such as G 20, FSB etc. as the banks across major economies were at the epicentre of the financial crisis and economic activities and credit flows in many economies came to a standstill. Impairment loss recognition requirements were criticised for delayed recognition of credit losses and the IAS 39 approach was labelled as *'Too Late and Too Little' model.* In the April 2009 summit at London, G 20 leaders[11] instructed accounting standard setters to take action by the end of 2009 in relation financial instruments accounting in particular:

- reduce the complexity of accounting standards for financial instruments;
- strengthen accounting recognition of loan-loss provisions by incorporating a broader range of credit information;
- improve accounting standards for provisioning, off-balance sheet exposures and valuation uncertainty.

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[10] Refer Chapter 6.1 of Aiming for Global Accounting Standards by Kees Camfferman and Stephen A.Zeff.
[11] G 20 April 2009 Declaration on strengthening the financial system and IASB's Response to G20 Conclusions

As a result, the IASB accelerated the timetable for replacing the financial instruments standards.

IFRS 9 Financial Instruments

A Long Journey of making of robust standard

The IASB was cognizant of the likely challenges and significant time and efforts required to replace a standard in an area involving vast array of instruments of wide ranging nature and categories. Also, considering the urgent need to improve the accounting for financial instruments and to make it easier for users of financial statements to understand the financial reporting information, the IASB followed an approach of 'Gradualism' and decided to replace the IAS 39 in Three phases as depicted below.

IAS 39 TO IFRS 9 – A LONG JOURNEY OF REFORMS
THREE PHASES IN TURBULENT TIMES

Few more related aspects	
De-recognition	In June 2010, IASB decided not to change IAS 39 principles & carried forward in IFRS 9
Fair value measurement	**Moved from IAS 39/IFRS 9 to IFRS 13 – a new** standard issued May 2011 & effective from Jan 2013

High level summary of IFRS 9 versus IAS 39

IAS 39 TO IFRS 9 – A LONG JOURNEY OF REFORMS
WHAT HAS CHANGED – HIGH LEVEL SUMMARY

	IFRS 9	*IAS 39*
Classification Categories (Financial Assets)	▪ Amortized cost (AC)	▪ Loans and Receivables ▪ Held to Maturity Investments
	▪ Fair Value through Other Comprehensive Income (FVOCI) – Debt Instruments ▪ Equity investments –OCI*	▪ Available for Sale Financial Assets *(Residual category or Free Choice exists)*
	▪ Fair Value through Profit and Loss (FVTPL)	▪ Held for Trading and Fair Value through P/L (FVO)
Impairment	▪ Expected Credit Loss Model ▪ Off B/S Exposures - IFRS 9 model applicable for On B/S Exposures	▪ Incurred Loss Model ▪ Off B/S Exposures – Apply IAS 37 method
Hedge Accounting	▪ Aligned with entity's risk management ▪ 80-125% bright line test removed ▪ Risk Component wise hedging simplified	▪ Hedge accounting needed to meet 80-125% effectiveness test ▪ Discontinuation of hedge accounting was a free choice

unlike IAS 39, no recycling to P/L of realised gains/losses upon disposal

Brief Summary of IFRS 9 Prescriptions

The following paragraphs briefly explain the key principles of new standard on financial instruments that may be useful to understand the findings of this study.

Classification and Measurement of Financial Assets

IFRS 9 introduces a complete overhaul of approach and principles towards the classification of financial assets. These classifications are the primary drivers of the bases of subsequent measurement of the financial assets i.e. Amortised Cost or Fair Value for Balance Sheet and recognition of the changes in those measurement bases in the Statement of Profit or Loss or Other Comprehensive Income.

Classification of financial assets for subsequent measurement are based on following two principles:

(a) Contractual cash flows test commonly referred to as "Solely Payment of Principal and Interest–SPPI' Test.
(b) The entity's business model for managing the financial asset commonly referred to as 'Business Model' Test

A financial asset which fails the SPPI test will be classified as Fair Value through Profit or Loss (FVTPL). A financial asset that passes the SPPI will be further evaluated against another test called 'Business Model' test, which has two strands as stated below.

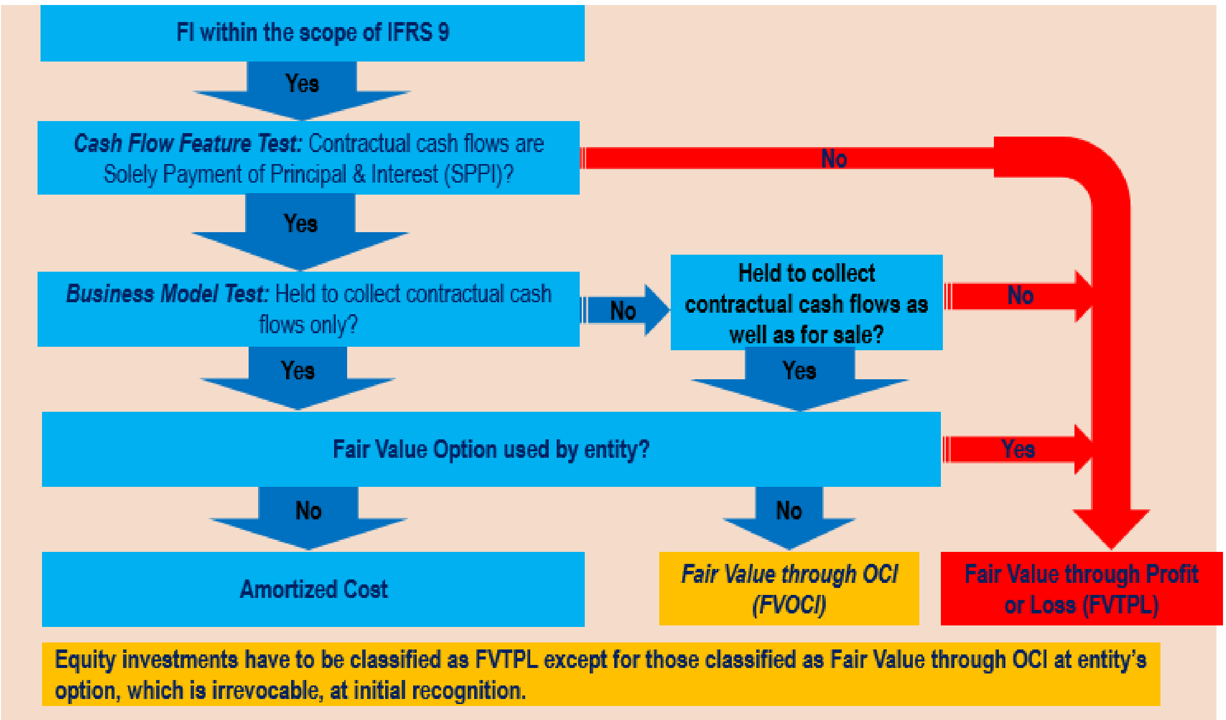
(a) Business Model to hold financial asset to collect contractual cash flows. Financial asset meeting this criteria will be classified under Amortised Cost category.
(b) Business Model whose objective is achieved by both collecting contractual cash flows and selling. Financial asset meeting this criteria will be mandatorily classified under Fair Value through other Comprehensive Income category.

It may be useful to note the following additional aspects.

- At entity has option to elect Fair Value Option (FVO) for financial assets meeting certain prescribed criteria (commonly known called Accounting Mismatch).
- There is no particular mandatory sequence in which the above mentioned are required to be performed. The Standard has detailed prescriptions and application guidance on these tests.
- Equity investments other than those held for trading or contingent consideration in a business combination, on instrument by instrument basis, can be classified under Fair Value through Other Comprehensive Income at the entity's option at initial recognition. This option is irrevocable and gains/losses upon disposal are not recycled to Statement of Profit or Loss.
- Embedded derivatives in financial assets are no longer segregated but considered while evaluating the SPPI test.

IFRS 9 Financial Asset Classification Model can be depicted as follows.

IFRS 9 CLASSIFICATION MODEL
FINANCIAL ASSETS



Impairment Loss Model

IFRS 9 brings in a paradigm shift in the concept and philosophy underpinning the impairment loss recognition and measurement. The new accounting model is based on 'Expected Credit Loss (ECL)' approach as against the 'Incurred Loss' approach of IAS 39. The underlying rationale for this major reform is to address the weaknesses of IAS 39 in respect of timeliness and adequacy of impairment loss recognition. More importantly, the new impairment loss approach takes into account wide range of credit information including forward looking information and not just the historical loss experience. Further, IFRS 9 model requires a single approach to be adopted for impairment loss of On-Balance Sheet credit exposures such as Customer Loans, Bonds as well as Off-Balance Sheet credit exposures such as Loan Commitments, Undrawn Credit facilities and Financial Guarantees. Under IAS 39, the latter type of exposures were within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The ECL approach is directionally aligned towards advanced credit risk measurement approaches prescribed for Banks under New Basel Capital Adequacy Framework introduced around 2006 (commonly referred to as Basel II Norms[12]). However, there are many differences exist between the two prescriptions and it is not necessary for the banks to follow the sophisticated credit risk measurement models expected under Basel II.

The new impairment loss general model or approach can be summarised as follows.

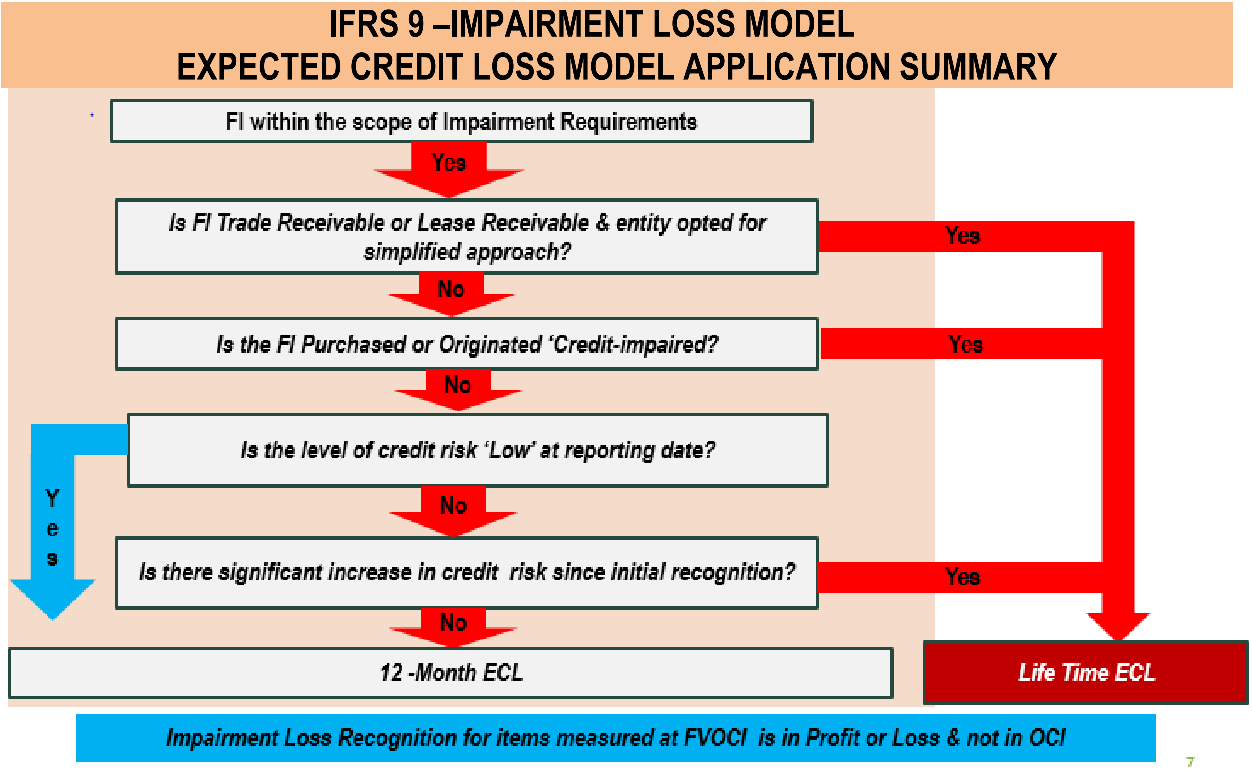
IFRS 9-IMPAIRMENT LOSS MODEL SUMMARY		
Impairment Loss Principles - Expected Loss Approach based on '3 Bucket ' Model		
FA Buckets based on concept of 'Increase in Credit Risk' since initial recognition		
Stage 1 Financial assets that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (e.g. above investment grade) at the reporting date	**Stage 2** Financial assets that have deteriorated significantly in credit quality since initial recognition (unless they have low credit risk at the reporting date) but that do not yet have objective evidence of a credit-impairment *-30 days past due is rebuttable presumption*	**Stage 3** Financial assets where credit risk has reached a point where it is considered as **Credit-impaired.** *90 days past due is rebuttable presumption of default*
Impairment Loss Recognition		
12-Month Expected Credit Loss	Lifetime Expected Credit Loss	Lifetime Expected Credit Loss
Interest Revenue Recognition		
EIR on gross carrying amount	EIR on gross carrying amount	EIR on amortized cost amount
Credit Loss is computed based on present value of estimated cash flows discounted at FA's original EIR		

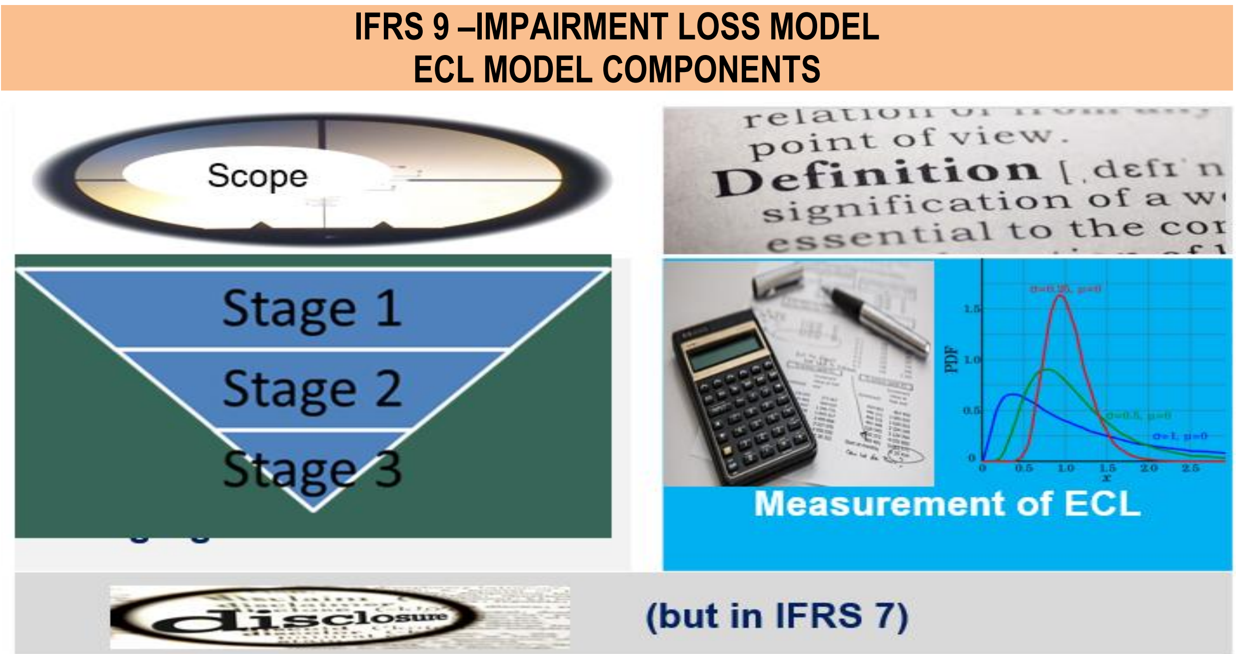
The above is commonly referred 'General Model' of impairment loss recognition. IFRS 9 has also a simplified approach for Trade Receivables and Lease Receivables arising from IFRS 15 Revenue form

[12] Basel II refers to the new capital adequacy framework issued by global banking supervisory body viz. Basel Committee on Banking Supervision (BCBS). Refer separate section Regulatory Capital for more details.

Contract with Customers and IFRS 16 Leases, respectively. However, these simplified approaches may have limited relevance to BFIs.

The following picture depicts the ECL model application.





Hedge Accounting

Why IASB undertook fundamental review of IAS 39 Hedge Accounting Model?

“The hedge accounting requirements in IAS 39 were developed when hedging activities were relatively new and not as widely understood as they are today. As a result of the increased use and sophistication of hedging activities the IASB decided to undertake a fundamental overhaul of all aspects of hedge accounting. Hedging risks and components of items has become common business practice.
Investors have said that they want to be able to understand the risks that an entity faces, what management is doing to manage those risks and how effective those risk management strategies are.”[13]

A few words about IFRS 9 Hedge Accounting Model

It is a substantial overhaul of the existing hedge accounting model and closely aligned with risk management practices of the entities, therefore, better reflects their risk management activities in the financial statements. The new model is supplemented by comprehensive disclosures. One of the major reform has been in the area of hedging non-financial risk wherein the new prescriptions enable hedge accounting for components of non-financial risk. IFRS 9 model eliminates the bright line threshold such as 80-125% and removes operational burdens in effectiveness tests. At the same time it introduces stringent norms for discontinuation of hedge accounting. However, IASB has not been able to address issues of specific accounting for open portfolios or macro hedging as part of the general hedge accounting requirements in IFRS 9. Therefore, it permits entities option to use exception in IAS 39 for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities. Further, IFRS 9 provides an accounting policy choice to continue to apply IAS 39 hedge accounting model in entirety instead of IFRS 9 model.

IFRS 9 hedge accounting model is expected to significantly benefit the entities that hedge non – financial risk i.e. non-financial institutions. It is also expected that new hedge accounting model of IFRS 9 may have limited impact.

[13] Project Summary November 2013 - IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) published by IASB.

IV. Key Findings

Any change, even a change for the better, is always accompanied by drawbacks and discomforts. -Arnold Bennett

This section is organised into individual jurisdiction-wise observations and information which are highlighted into following sub-topics.

- Background information IFRS 9 Application and Accounting Frameworks
- IFRS 9 Quantitative Impact Information
- Prudential Regulators' Guidance and Instructions- A Synopsis

Table 4: Background Information – Jurisdiction-wise Summary

Country Name	New Standard	Previous Standard	Carve-out IFRS 9*	Prudential Regulations**			Basis of formats of F/S
				P1	P2	P3	
Sri Lanka	SLFRS 9	LKAS 39	No	Yes	No	Yes	CB Circular
Malaysia	MFRS 9	MFRS 139	No	Yes	No	No	MFRS 101
Singapore	SFRS(I) 9	SFRS(I) 39	No	Yes	No	No	SFRS(I) 1
South Korea	K-IFRS 1109	K-IFRS 1039	No	No	No	No	K-IFRS 1001
China* **	IFRS 9	IAS 39	No	NA	No	NA	IAS 1
Australia	AASB 9	AASB 139	No	Yes	No	No	AASB 101
Hong Kong	HKFRS 9	HKFRS 39	No	No	No	No	HKFRS 1
Middle East - GCC							
UAE	IFRS 9	IAS 39	No	Yes	No	NRA	IAS 1
Saudi Arabia	IFRS 9	IAS 39	No	Yes	No	NRA	IAS 1
Oman	IFRS 9	IAS 39	No	Yes	No	No	IAS 1
Bahrain	IFRS 9	IAS 39	No	Yes	Yes+	No[R]	IAS 1
Kuwait	IFRS 9	IAS 39	No	NRA	Yes#	NA#	IAS 1
Qatar	IFRS 9	IAS 39	No	Yes	Yes$	Yes	IAS 1
Europe							
European Union	IFRS 9^	IAS 39^	Yes^	Yes	No	Yes	IAS 1
UK	IFRS 9^	IAS 39^	Yes^	Yes^^	No	Yes^^	IAS 1
Germany	IFRS 9^	IAS 39^	Yes^	Yes^^	No	Yes^^	IAS 1
France	IFRS 9^	IAS 39^	Yes^	Yes^^	No	Yes^^	IAS 1
Nederland	IFRS 9^	IAS 39^	Yes^	Yes^^	No	Yes^^	IAS 1
Spain	IFRS 9^	IAS 39^	Yes^	Yes^^	No	Yes^^	IAS 1
Italy	IFRS 9^	IAS 39^	Yes^	Yes^^	No	Yes^^	CB Circular
Finland	IFRS 9^	IAS 39^	Yes^	Yes^^	No	Yes^^	IAS 1
Denmark	IFRS 9^	IAS 39^	Yes^	Yes^^	No	Yes^^	IAS 1
Sweden	IFRS 9^	IAS 39^	Yes^	Yes^^	No	Yes^^	IAS 1
Others							

Table 4: Background Information – Jurisdiction-wise Summary

Country Name	New Standard	Previous Standard	Carve-out IFRS 9*	Prudential Regulations**			Basis of formats of F/S
				P1	P2	P3	
Switzerland	IFRS 9^^^	IAS 39^^^	No	Yes	No	Yes	IAS 1
Norway	IFRS 9^	IAS 39^	No	Yes^^	No	Yes	IAS 1
Canada	IFRS 9	IAS 39	No	Yes	No	No	IAS 1
South Africa	IFRS 9	IAS 39	No	Yes	No	Yes	IAS 1

Notes

**Carve out by Standard-setter in local equivalent of IFRS 9. NRA=Information Not readily available, R=To be decided by Regulator on case by case basis*

*** P1=Central Bank Implementation Guidance or other Instructions, P2= Prudential Regulatory overrides to IFRS 9 and P3=5 year transition period for CAR adjustment*

****This information is based on financial statements of 4 large Chinese Banks prepared under IFRS standards for Securities listed on HK Stock Exchange.*

+Excess impairment provisions as of transition date cannot be written back.

#Impairment Loss Allowance shall be higher of the provisions computed under CBK instructions or ECL under IFRS 9, Domestic Sovereign Exposes is not subject to ECL and Minimum Floors for PD/LGD/EAD prescribed.

$ Credit exposures of the Government of Qatar are exempted from application of ECL requirement of IFRS 9.

^IFRS Standards as endorsed by EU are mandatory for consolidated financial statements of listed companies of EU and EEA member states. IFRS 9 & IAS 39 endorsed by EU have optional carve-out relating to hedge accounting however, reportedly, this optional carve-out is not widely applied in practice.

^^These refer to EU Parliament & Council Regulations and Guidance issued by European Banking Authority.

^^^IFRS Standards issued by IASB are permitted

Sri Lanka and Malaysia

Table 5: Qualitative Background

	Sri Lanka				Malaysia			
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 1	Bank 2	Bank 3	Bank 4
Transition Year	2018	2018	2018	2018	2018	2018	2018	2018
Presentation currency & Rounding off	Rs 000	Rs 000	Rs 000	Rs 000	RM 000	RM 000	RM 000	RM 000
Separate Transition Report	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
Use of Exemptions/Early Adoptions								
A. Exemption from restatement of comparatives	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
B. Continuation of IAS 39 Hedge Accounting	NRA	NRA	NRA	Yes	NRA	NRA	Yes	Yes
C. Prepayment Features with Negative compensation' amendments early adoption	NRA	NRA	NRA	NRA	No	NRA	No	Yes
D.IFRS 9 exemptions to Insurance Subsidiaries	NRA	NRA	NRA	NRA	No	NRA	No	Yes
ECL Computation & Impact Adjustment								
3-5 year Transition Relief Used	NRA	NRA	Yes	NRA	NRA	Yes	NRA	NRA
PD/LGD/EAD Models used	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Basel II models are used as basis	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
ECL Computation- No. of Scenarios	3	3	3	3	3	NRA	NRA	3
ECL Computation- No. of Economic Factors	5	5	6	5	4	NRA	NRA	4

NRA= Not readily available

Accounting Framework

Sri Lanka

- The Financial Statements of the Bank are required to be prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) issued by The Institute of Chartered Accountants of Sri Lanka known as CA Sri Lanka, and compliance with the requirements of the Companies Act No. 07 of 2007 and other applicable special laws/rules e.g.
  - Banking Act No. 30 of 1988,
  - Insurance Industry Act No 43 of 2000
  - Finance Business Act No 42 of 2011
  - Listing rules of Stock Exchanges.

Malaysia

- The Financial Statements have to be prepared in accordance with Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards ('IFRS') and the requirements of the Companies Act 2016 in Malaysia.
- MFRS are issued by The Malaysian Accounting Standards Board was established under the Financial Reporting Act 1997.

Accounting Framework	
Sri Lanka	**Malaysia**
• Formats of the Financial Statements as per formats prescribed by Central Bank Sri Lanka in its circular no.2 of 2019 'Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licenced Banks'. • CA Sri Lanka is empowered with the sole authority to formulate accounting standards in Sri Lanka under Sri Lanka Accounting and Auditing Standards Act No: 15 of 1995. • Sri Lanka has adopted Sri Lanka Financial Reporting Standards, which are nearly identical to IFRS Standards. Sri Lanka made some modifications in adopting several IFRS Standards.	• In November 2011, the MASB issued the MFRS Framework which is Malaysian Financial Reporting Standards (MFRS) that are, in substance, word-for-word in agreement with all IFRS Standards in effect as of 1 January 2012. • Financial Statements prepared in accordance with the MFRS are required to include an explicit and unreserved statement of compliance with IFRS Standards.

IFRS 9 Quantitative Impact Information

Figure 1: Percentage of Financial Assets to Total Assets

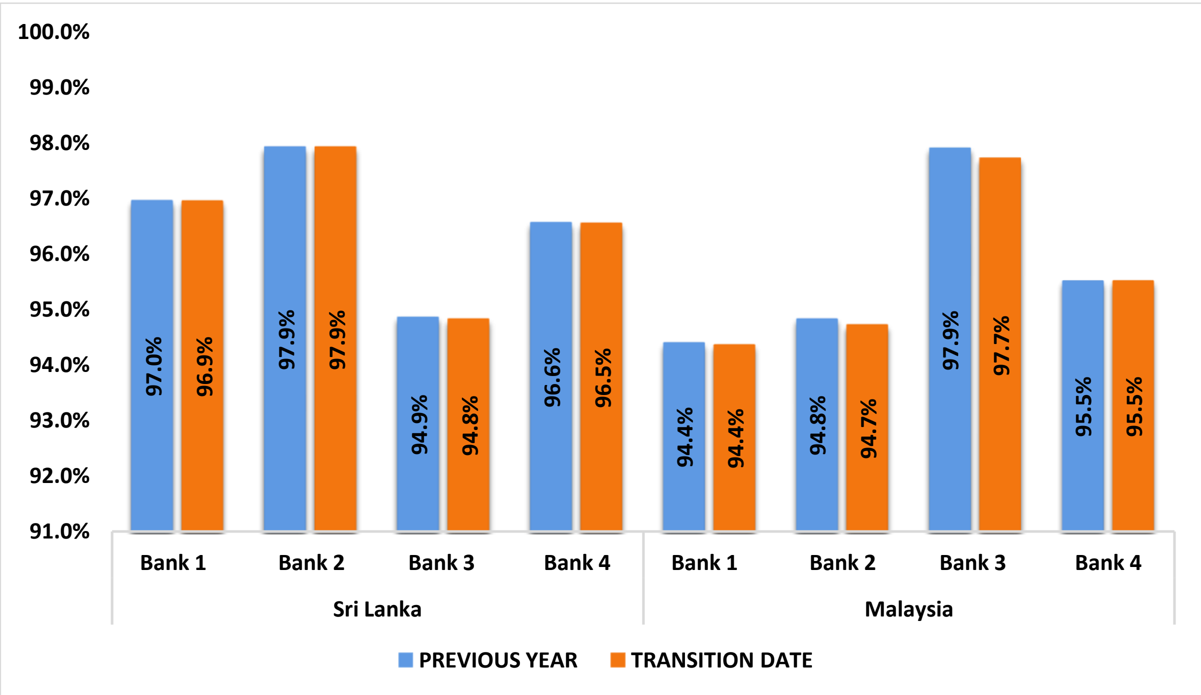


Figure 2: IFRS 9 Measurement Category-Wise distribution of Financial Assets

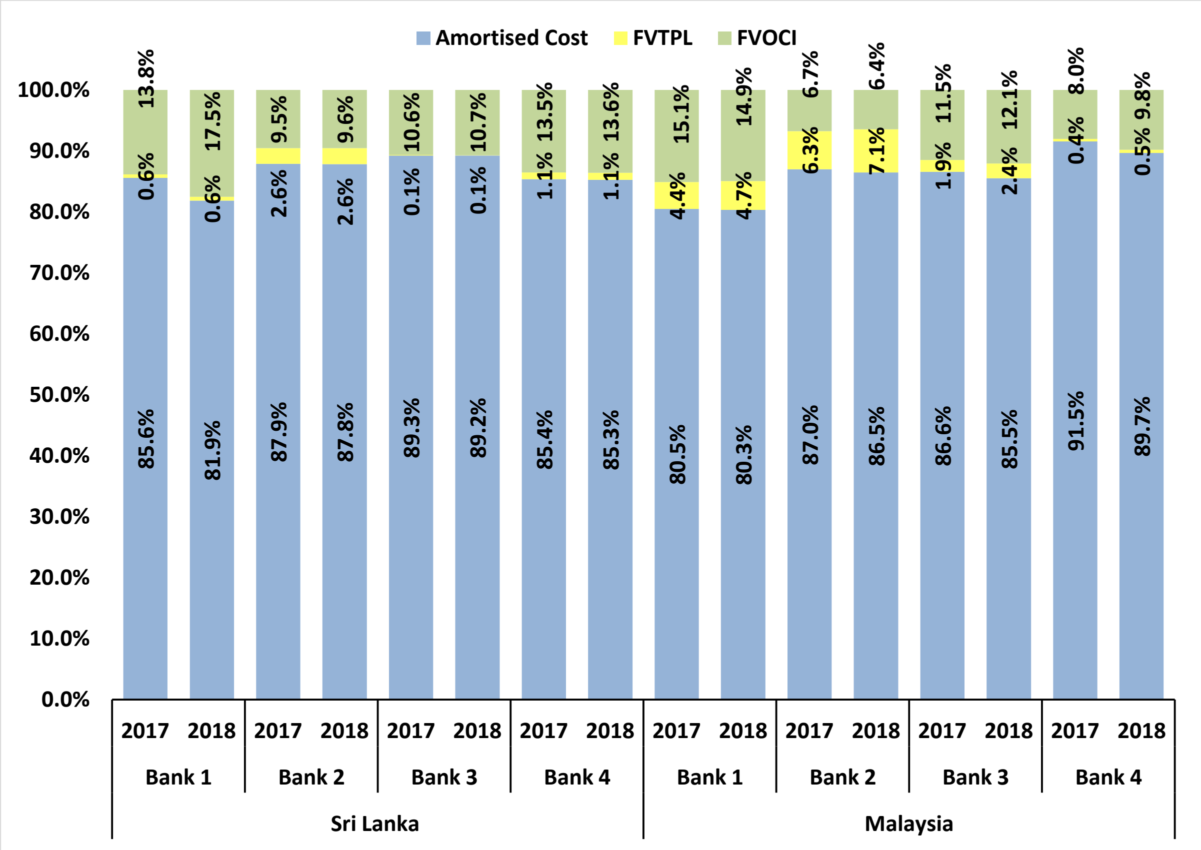
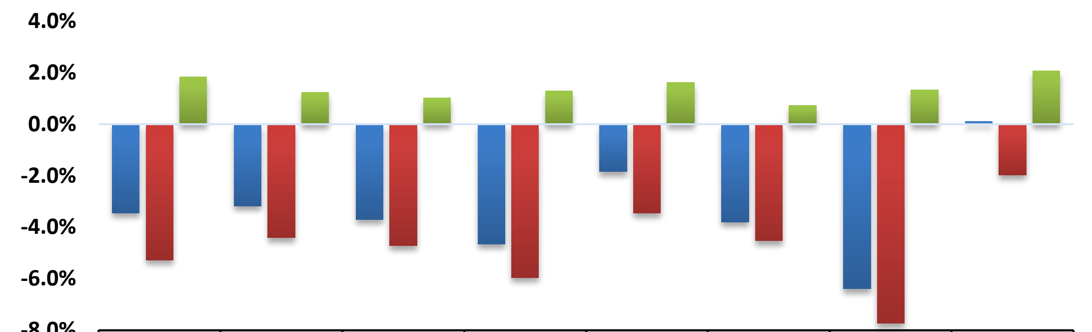
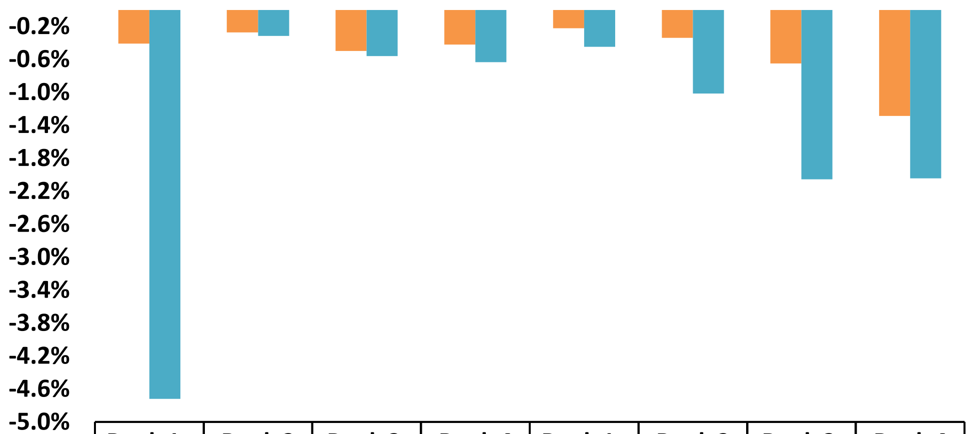


Figure 3: IFRS 9 Transition Impact on Total Equity



	Sri Lanka				Malaysia			
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 1	Bank 2	Bank 3	Bank 4
Total Equity	-3.5%	-3.2%	-3.7%	-4.7%	-1.8%	-3.8%	-6.4%	0.1%
ECL	-5.3%	-4.4%	-4.7%	-6.0%	-3.5%	-4.5%	-7.7%	-2.0%
Others	1.8%	1.2%	1.0%	1.3%	1.6%	0.7%	1.3%	2.1%

Figure 4: IFRS 9 Transition Impact on Total Assets and Financial Assets at Amortised Cost

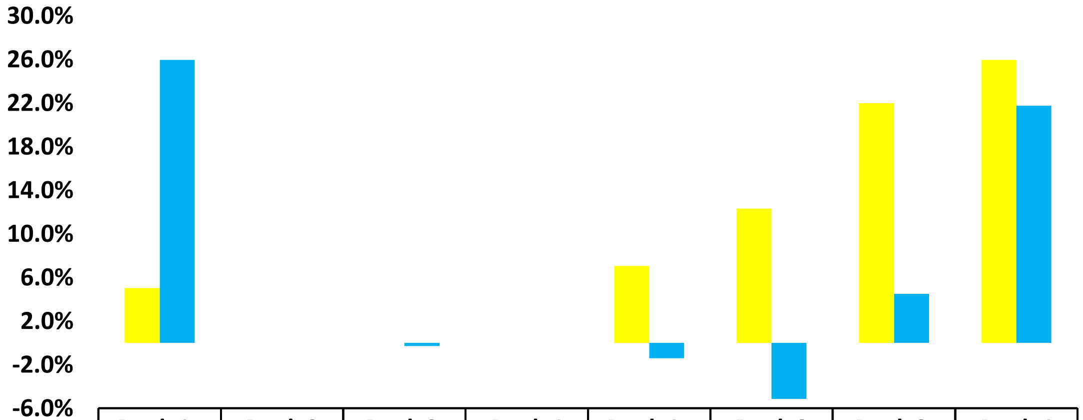


	Bank 1	Bank 2	Bank 3	Bank 4	Bank 1	Bank 2	Bank 3	Bank 4
	Sri Lanka				Malaysia			
Total Assets	-0.4%	-0.3%	-0.5%	-0.4%	-0.2%	-0.3%	-0.7%	-1.3%
Amortised Cost	-4.7%	-0.3%	-0.6%	-0.6%	-0.5%	-1.0%	-2.1%	-2.0%

Note:

a) Total Assets reduction is primarily attributable to increase in outstanding balances of ECL provisions which get deducted from GCA of financial assets (on-Balance sheet) for Balance Sheet presentation purposes.

Figure 5: IFRS 9 Transition Impact on Financial Assets at FVTPL and FVOCI



	Bank 1	Bank 2	Bank 3	Bank 4	Bank 1	Bank 2	Bank 3	Bank 4
	Sri Lanka				Malaysia			
FVTPL	5.0%	0.0%	0.0%	0.0%	7.1%	12.3%	22.0%	25.9%
FVOCI	26.0%	0.0%	-0.3%	0.0%	-1.4%	-5.1%	4.5%	21.7%

Notes:

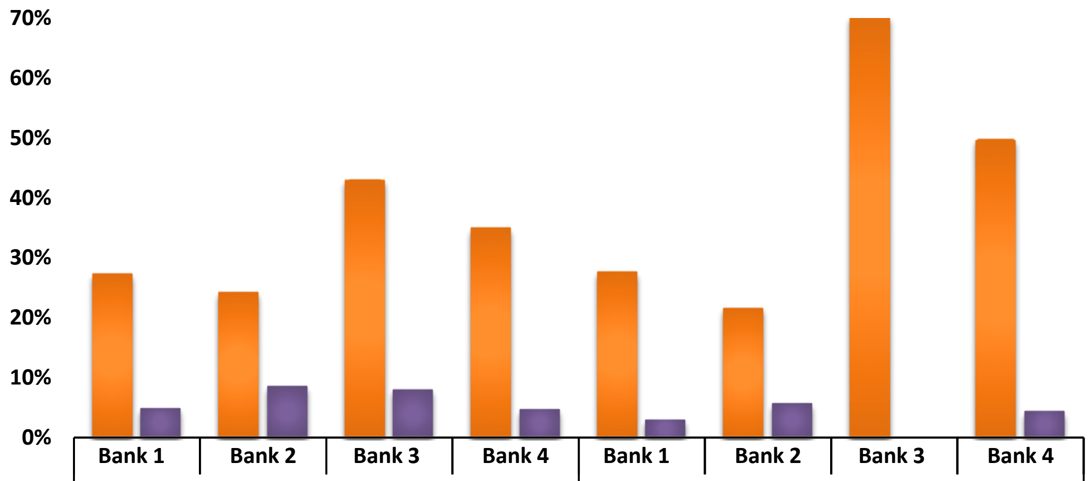
a) Bank 1 (Sri Lanka): Significant increase in FVOCI category is mainly due to reclassification Investment in Bonds from previous category of L&R (Amortised Cost) due to application of business model test.

b) Bank 1 (Malaysia): Significant increase in FVTPL category is mainly due to reclassification from previous category of AFS.

c) Bank 2 (Malaysia): Significant increase in FVTPL category is mainly due to reclassification from previous category of AFS.

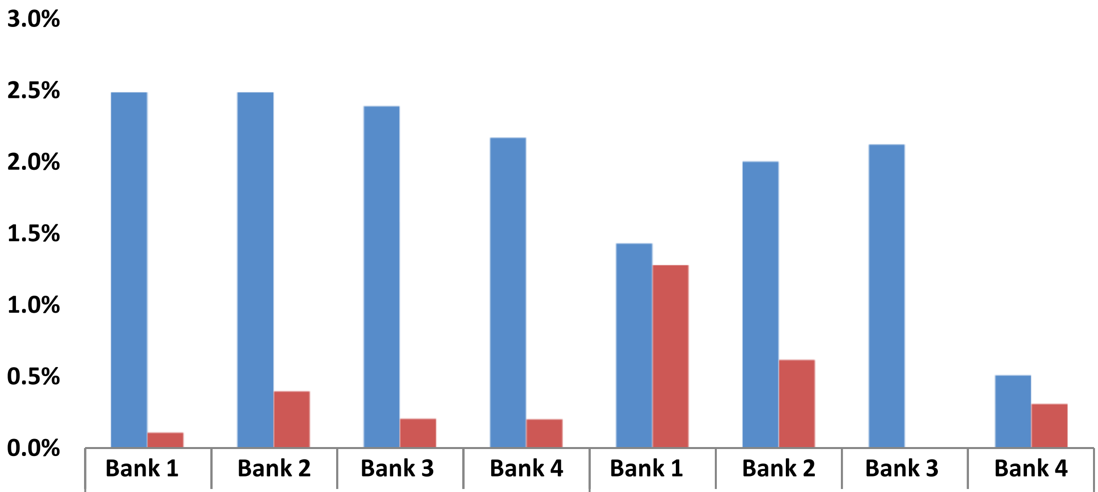
d) Bank 3 & 4 (Malaysia): Significant increase in FVTPL and FVOCI category appears to be on account of reclassification from previous category of HTM (Amortised Cost) into these categories.

Figure 6: IFRS 9 Transition Impact on Impairment Loss Allowance



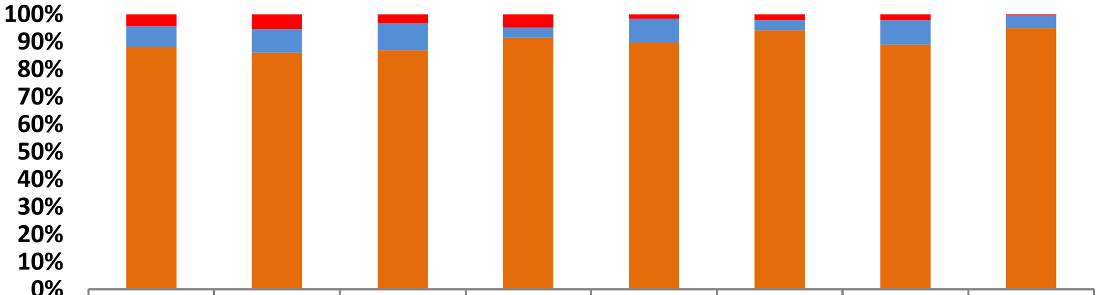
	Sri Lanka				Malaysia			
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 1	Bank 2	Bank 3	Bank 4
On B/S	27%	24%	43%	35%	28%	21%	70%	50%
Off B/s	4.7%	8.5%	7.8%	4.5%	3%	6%	0%	4%

Figure 7: Impairment Loss Allowance Percentage versus Outstanding Exposures at the end of transition year



	Sri Lanka				Malaysia			
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 1	Bank 2	Bank 3	Bank 4
On B/S	2.5%	2.5%	2.4%	2.2%	1.4%	2.0%	2.1%	0.5%
Off B/S	0.1%	0.4%	0.2%	0.2%	1.3%	0.6%	0.0%	0.3%

Figure 8: Credit Quality- Stage wise GCAs at the end of transition year



	Bank 1	Bank 2	Bank 3	Bank 4	Bank 1	Bank 2	Bank 3	Bank 4
	Sri Lanka				Malaysia			
Stage 3	4%	5%	3%	5%	2%	2%	2%	0%
Stage 2	8%	9%	10%	4%	9%	4%	9%	5%
Stage 1	88%	86%	87%	91%	90%	94%	89%	95%

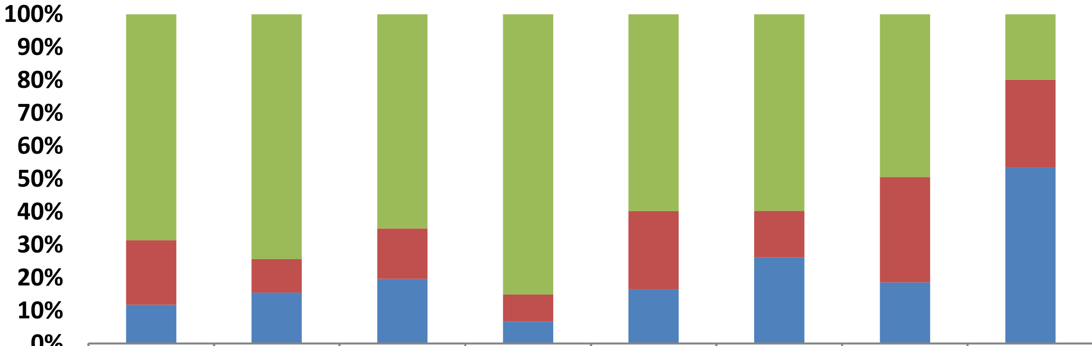
Notes:

a) For the purpose of above analysis, all financial assets within the scope of IFRS 9 impairment requirements are considered. These financial assets are those classified under Amortised Cost and FVOCI categories. However, this analysis includes only On- B/S Exposures.

b) In case of following type of financial assets, sometimes the segregation between Stage 1, 2 and 3 buckets is not reported or note readily available. In such cases, these are included in Stage 1 in view of the fact that either Nil or negligible amount of ECL provisions are reported against these items

i) Cash and Central Bank Balances
ii) Investment securities e.g. domestic sovereign securities
iii) Islamic Banking Products

Figure 9: Impairment Loss Allowance Stage wise Break-up at the end of transition year



	Bank 1	Bank 2	Bank 3	Bank 4	Bank 1	Bank 2	Bank 3	Bank 4
	Sri Lanka				Malaysia			
Stage 3	69%	74%	65%	85%	60%	60%	49%	20%
Stage 2	20%	10%	15%	8%	24%	14%	32%	27%
Stage 1	12%	15%	20%	7%	17%	26%	19%	53%

<table>
<tr><th colspan="2">Prudential Regulators' Guidance and Instructions – Sri Lanka</th></tr>
<tr><td>Regulatory Guidance</td><td>Guidelines to Licenced Banks on the Adoption of Sri Lanka Accounting Standard-SLFRS 9 – Financial Instruments (Central Bank of Sri Lanka circular No.04 of 2018 dated 31 December 2018)</td></tr>
<tr><td>Guidance Areas</td><td>

Classification and measurement of financial assets and financial liabilities
Management of credit risk
Impairment of financial assets
Valuation of collaterals
Role of the internal audit
Regulatory and reporting requirements; when preparing, presenting and publishing financial statements

</td></tr>
<tr><td>Key highlights of Regulations</td><td>

Classification of financial assets and liabilities is based on the business model as approved by the Board of Directors (BoD)
In line with the requirements of SLFRS 9, changes in business models and reclassifications shall be approved by the BoD and shall be notified to the Director of Bank Supervision within 7 working days of the date of such approval
When financial instruments are subsequently measured at fair value, licensed banks shall comply with the requirements given in SLFRS 13
At each reporting date, licensed banks shall measure the loss allowance for financial instruments at an amount equal to life-time expected losses, if the credit risk of a financial instrument has increased significantly since initial recognition (except for the purchased or originated credit-impaired financial assets).
For purchased or originated credit impaired financial assets, lifetime expected credit losses shall be measured.
At the reporting date, if the credit risk of a financial instrument has not increased significantly since the initial recognition, licensed banks shall measure the loss allowance for that financial instrument at an amount equal to 12 month expected credit loss.
Emphasis on availability of adequate data for computation of expected credit losses based on Probability of Default (PD) and Loss Given Default (LGD)
Stage 2 credit exposures- >30DPD Credit facilities, restructured loans, which are restructured up to two times, Under-performing credit facilities/exposures
Stage 3 credit exposures- >90DPD Credit facilities, restructured loans, which are restructured more than twice, non-performing credit facilities/exposures

</td></tr>
<tr><td>Reporting Requirements</td><td>Licensed banks are required to report the required information to the Bank Supervision Department within 30 days after the end of each quarter, commencing 31.12.2018.</td></tr>
<tr><td>Transition Relief for Capital Impact</td><td>ECL impact to be spread out throughout a transitional period of four years as given below for the purpose of calculating the Capital Adequacy Ratio:
<table>
<tr><th colspan="5">Cumulative Percentage of Absorption of First Day Impact</th></tr>
<tr><th>01.01.2018</th><th>31.12.2018</th><th>31.12.2019</th><th>31.12.2020</th><th>31.12.2021</th></tr>
<tr><td>12.5</td><td>25</td><td>50</td><td>75</td><td>100</td></tr>
</table>
</td></tr>
</table>

Prudential Regulators' Guidance and Instructions – Malaysia	
Regulatory Guidance	Bank Negara Malaysia (BNM), Central Bank of Malaysia has issued a revised policy relating to Financial Reporting under MFRS Framework (BNM/RH/PD 032-13 dated on 2 February 2018).
Guidance Areas	- Specific requirements on the application of the MFRS - Information to be disclosed in the financial statements - Application requirements for approval of a dividend payment - Requirements on submission and publication of the financial statements
Key Highlights of Regulations	- Sound methodologies for assessing credit risk and measuring the level of loss allowance - Loss allowance for non-credit-impaired exposures and regulatory reserves of no less than 1% of total credit exposures net of loss allowance for credit-impaired exposures to be maintained[14] - Credit-impaired credit facility: >90DPD; where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or less, and the credit facility exhibits weaknesses in accordance with the banking institution's credit risk measurement framework; rescheduled or restructured credit facility - Disclosure a movement schedule of financial instruments classified as credit-impaired with a breakdown by class of financial instrument (e.g. retail loans/financing, debt securities, loan commitments); a movement schedule of loss allowance with a breakdown by class of financial instrument and showing separately the loss allowance: (i) measured at an amount equal to 12-month expected credit losses; (ii) measured at an amount equal to lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired; (iii) measured at an amount equal to lifetime expected credit losses for financial instruments that are credit-impaired (excluding those that are purchased or originated credit-impaired); and (iv) for financial instruments that are purchased or originated credit-impaired
Parallel Run Reporting Requirements	None
Transition Relief for Capital Impact	Not given

[14] We understand the shortfall is to be recouped through appropriation of retained earnings. Hence, it does not result into carve-out.

Singapore and South Korea

Table 6: Qualitative Background

	Singapore			South Korea			
	Bank 1	Bank 2	Bank 3	Bank 1	Bank 2	Bank 3	Bank 4
Transition Year	2018	2018	2018	2018	2018	2018	2018
Presentation currency & Rounding off	S$000	S$000	S$000	₩ Mn	₩ Mn	₩ Mn	₩ Mn
Separate Transition Report	NRA	NRA	NRA	NRA	NRA	NRA	NRA
Use of Exemptions/Early Adoptions							
A. Exemption from restatement of comparatives	Yes	Yes	Yes	Yes	Yes	Yes	Yes
B. Continuation of IAS 39 Hedge Accounting	Yes	No	No	No	No	No	No
C. Prepayment Features with Negative compensation' amendments early adoption	No	No	NRA	NRA	NRA	NRA	NRA
D.IFRS 9 exemptions to Insurance Subsidiaries	NRA	NRA	NRA	No$	No$	NRA	NRA
ECL Computation & Impact Adjustment							
3-5 year Transition Relief Used	NP	NP	NP	NP	NP	NP	NP
PD/LGD/EAD Models used	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Basel II models are used as basis	Yes	NRA	Yes	NRA	NRA	NRA	NRA
ECL Computation- No. of Scenarios	3	NRA	NRA	NRA	NRA	NRA	NRA
ECL Computation- No. of Economic Factors	4	NRA	2	4	8	NRA	3

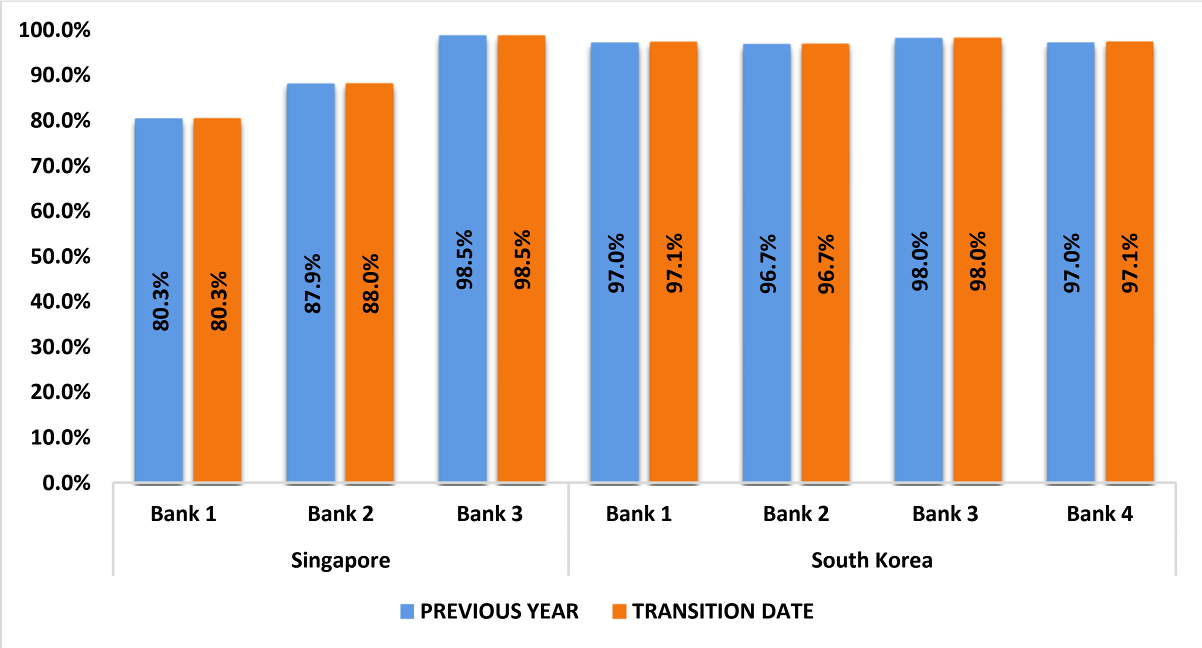
NRA= Not readily available, NP=Not Permitted by Regulator, NM=No material impact, $=Overlay Approach used

Accounting Framework

Singapore	South Korea
• Section 201 of the Companies Act requires preparation of financial statements in accordance with the Accounting Standards issued by Accounting Standards Council under Part III of the Accounting Standards Act 2007. • With effect from 1 Jan, 2018 Singapore incorporated companies listed on Singapore Stock Exchange Singapore Financial Reporting Standards (International) (SFRS (I)).	• As required by Act of External Audit of Companies, consolidated financial statements are required to be prepared as per Korean Financial Reporting Standards (K-IFRS). K-IFRS are the IFRS Standards issued by IASB and endorsed by Korean Accounting Standards Board.

IFRS 9 Quantitative Impact Information

Figure 10: Percentage of Financial Assets to Total Assets



Note:
a) Bank 1 (Singapore): Life Insurance Fund Financial Assets are not included in above analysis.

Figure 11: IFRS 9 Measurement Category-Wise distribution of Financial Assets

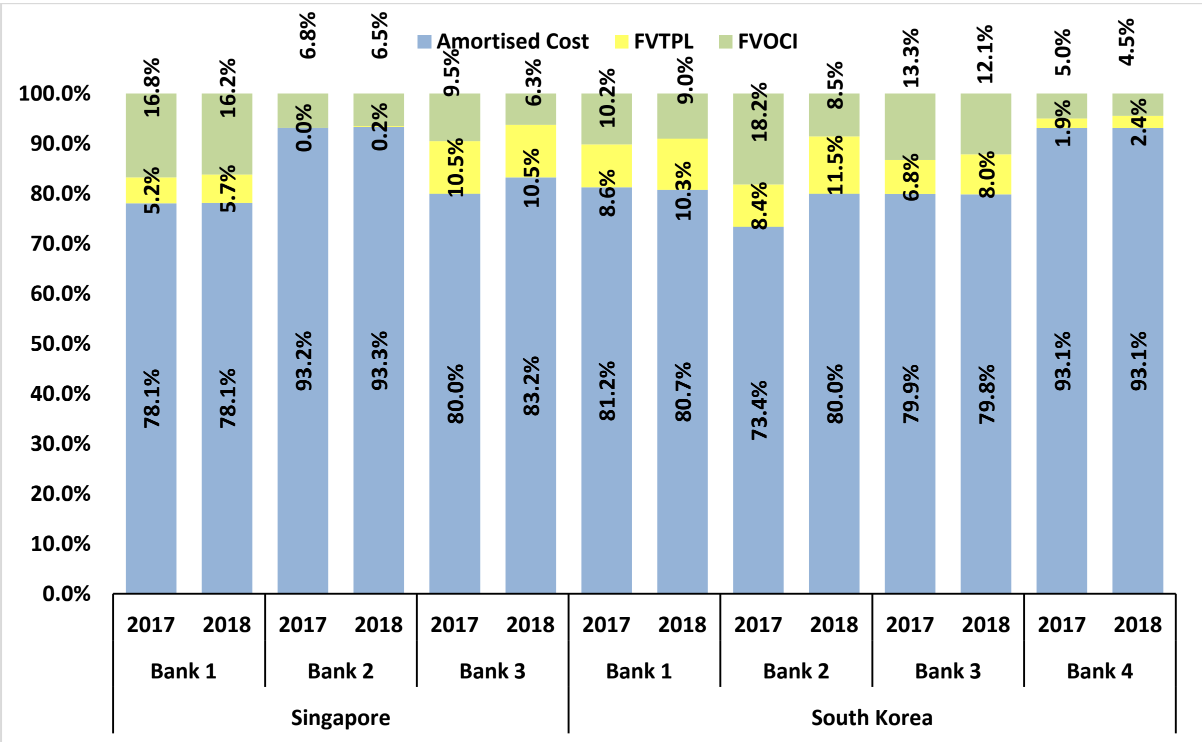
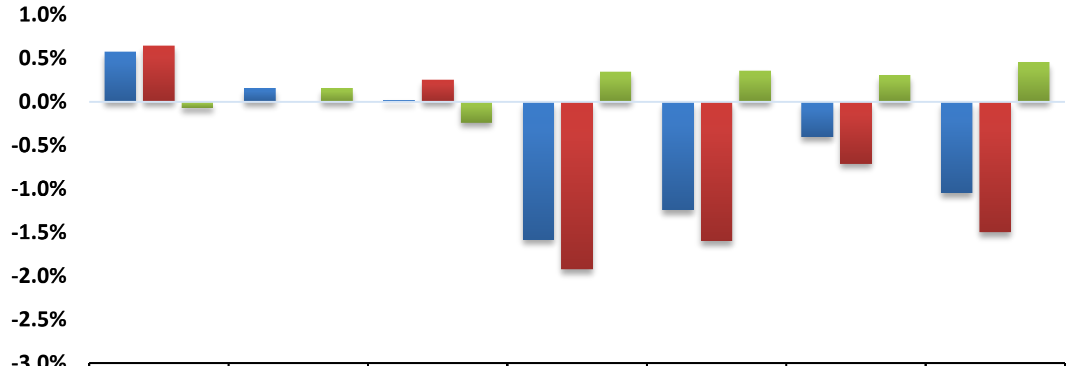


Figure 12: IFRS 9 Transition Impact on Total Equity

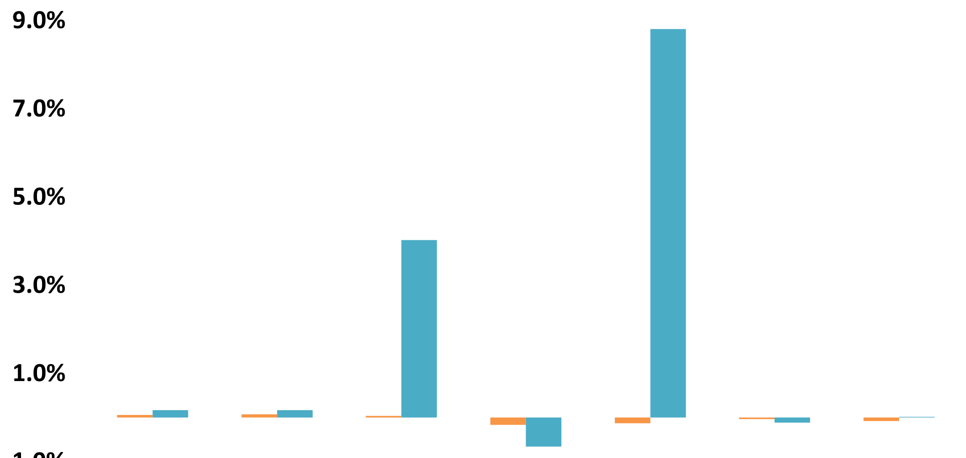


	Bank 1	Bank 2	Bank 3	Bank 1	Bank 2	Bank 3	Bank 4
	Singapore			South Korea			
Total Equity	0.6%	0.2%	0.0%	-1.6%	-1.2%	-0.4%	-1.0%
ECL	0.6%	0.0%	0.3%	-1.9%	-1.6%	-0.7%	-1.5%
Others	-0.1%	0.2%	-0.2%	0.3%	0.4%	0.3%	0.5%

Note:

a) Singapore banks have reported positive impact primarily due to excess impairment loss allowance balances vis-à-vis IFRS 9 ECL requirements.

Figure 13: IFRS 9 Transition Impact on Total Assets and Financial Assets at Amortised Cost

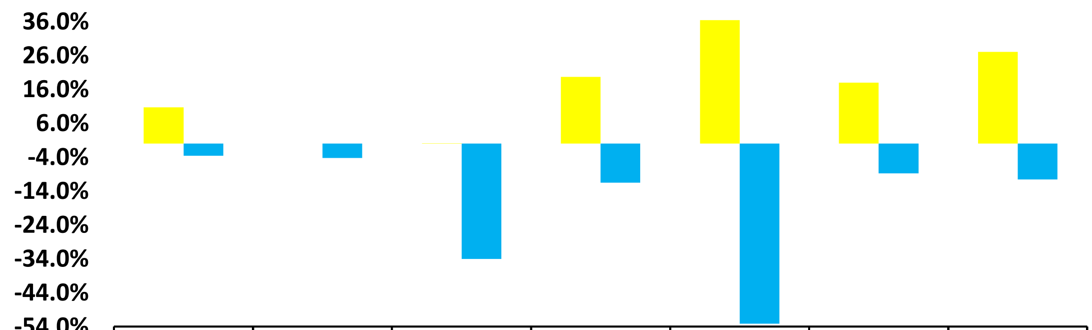


	Bank 1	Bank 2	Bank 3	Bank 1	Bank 2	Bank 3	Bank 4
	Singapore			South Korea			
Total Assets	0.1%	0.1%	0.0%	-0.2%	-0.1%	0.0%	-0.1%
Amortised Cost	0.2%	0.2%	4.0%	-0.7%	8.8%	-0.1%	0.0%

Note:

a) Bank 2 (South Korea): Significant increase in Amortised cost category is due to reclassification of debt securities from previous category of AFS.

Figure 14: IFRS 9 Transition Impact on Financial Assets at FVTPL and FVOCI



	Singapore			South Korea			
	Bank 1	Bank 2	Bank 3	Bank 1	Bank 2	Bank 3	Bank 4
FVTPL	10.7%	0.0%	0.1%	19.7%	36.4%	18.0%	27.1%
FVOCI	-3.6%	-4.2%	-34.0%	-11.6%	-53.2%	-8.8%	-10.6%

Notes:

a) Bank 1 (Singapore): Significant increase in FVTPL category balances is mainly attributable to reclassification of debt and equity securities from previous category of AFS.

b) Bank 2 (Singapore) has substantial transition impact on financial assets classified as FVTPL in terms of percentage. However, impact is not material in absolute terms. Hence, the impact is not considered and shown as Nil above.

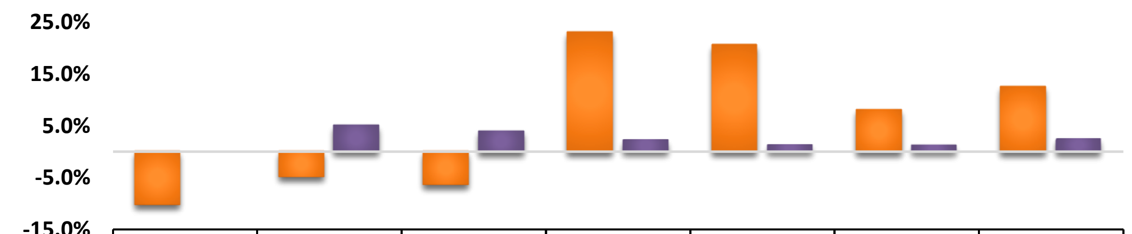
c) Bank 1 (South Korea): Significant increase in FVTPL category balances is mainly attributable to reclassification of debt and equity securities from previous category of AFS.

d) Bank 2 (South Korea): Significant increase in FVTPL category balances is mainly attributable to reclassification of debt and equity securities from previous category of AFS and certain Financial Assets relating to insurance contracts from Amortised Cost category. Further, decrease in FVOCI is also due to reclassification of debt securities into Amortised Cost category.

e) Bank 3 (South Korea): Significant increase in FVTPL category balances is mainly attributable to reclassification of debt and equity securities from previous category of AFS.

f) Bank 3 (South Korea): Significant increase in FVTPL category balances is mainly attributable to reclassification of debt and equity securities from previous category of AFS.

Figure 15 IFRS 9 Transition Impact on Impairment Loss Allowance



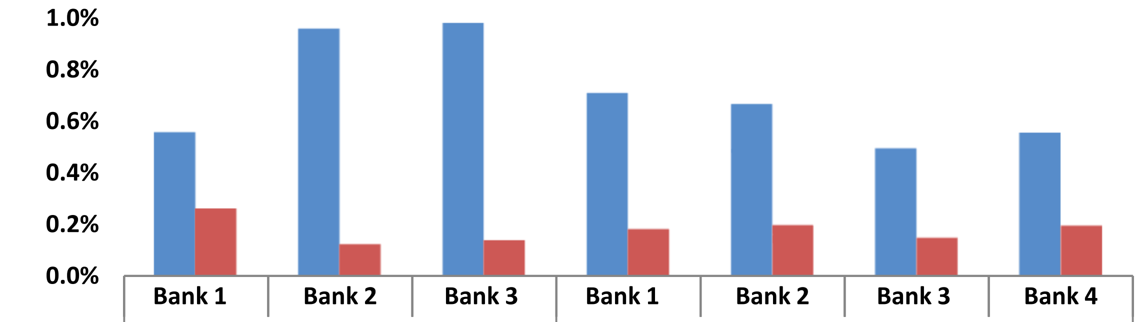
	Singapore			South Korea			
	Bank 1	Bank 2	Bank 3	Bank 1	Bank 2	Bank 3	Bank 4
On B/S	-10.2%	-4.9%	-6.3%	23.0%	20.6%	7.9%	12.5%
Off B/s	0.0%	4.9%	3.9%	2.1%	1.2%	1.2%	2.3%

Notes:

a) Percentages with negative sign indicate decrease in impairment loss allowances.

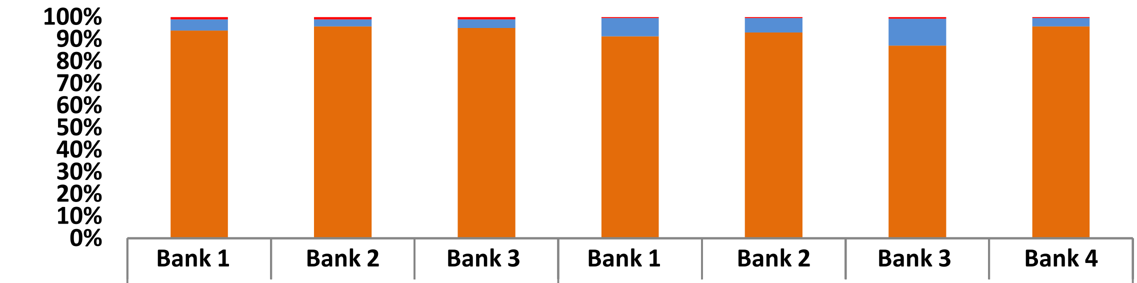
b) Singapore banks have reported reduction in ECL provisions on net basis.

Figure 16: Impairment Loss Allowance Percentage versus Outstanding Exposures at the end of transition year



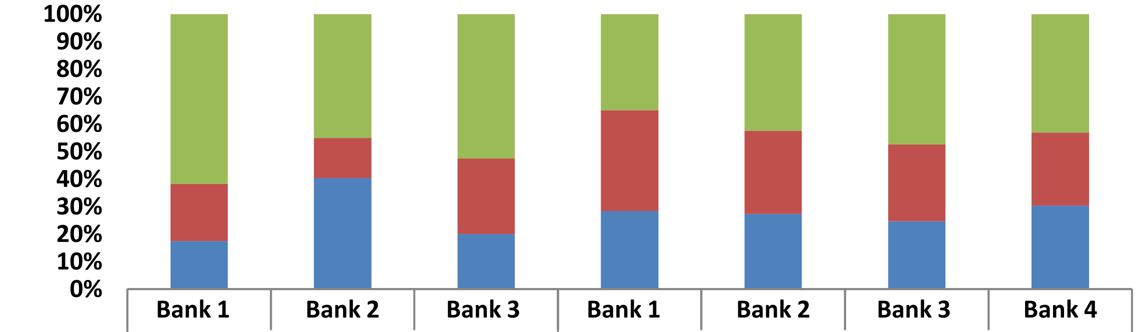
	Singapore			South Korea			
	Bank 1	Bank 2	Bank 3	Bank 1	Bank 2	Bank 3	Bank 4
On B/S	0.6%	1.0%	1.0%	0.7%	0.7%	0.5%	0.6%
Off B/S	0.3%	0.1%	0.1%	0.2%	0.2%	0.1%	0.2%

Figure 17: Credit Quality- Stage wise GCAs at the end of transition year



	Singapore			South Korea			
	Bank 1	Bank 2	Bank 3	Bank 1	Bank 2	Bank 3	Bank 4
Stage 3	1%	1%	1%	0%	1%	1%	1%
Stage 2	5%	3%	4%	8%	6%	12%	4%
Stage 1	94%	96%	95%	91%	93%	87%	96%

Figure 18: Impairment Loss Allowance Stage wise Break up at the end of transition year



	Singapore			South Korea			
	Bank 1	Bank 2	Bank 3	Bank 1	Bank 2	Bank 3	Bank 4
Stage 3	62%	45%	53%	35%	42%	47%	43%
Stage 2	21%	15%	27%	37%	30%	28%	27%
Stage 1	17%	40%	20%	28%	27%	25%	30%

Prudential Regulators' Guidance and Instructions – Singapore

Regulatory Guidance	Monetary Authority of Singapore Notice to Banks (MAS 612 29 December 2017 NOTICE TO BANKS BANKING ACT, CAP 19)
Guidance Areas	Credit Files, Grading and Provisioning
Key Highlights of Regulatory Guidance	- Categorisation of credit facilities based on assessment of the ability of the borrower to repay from the normal sources of income - At a minimum, credit facilities should be classified into five credit grades, namely (a) pass, (b) special mention, (c) substandard, (d) doubtful and (e) loss. - Based on repayment conduct, a bank shall, at the minimum, classify every credit facility: (a) where the principal or interest or both is past due for more than 90 days; (b) in the case of a revolving credit facility (such as an overdraft), where the outstanding amount, including interest, has remained in excess of the approved limit for a period of more than 90 days; or (c) where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or less, if the credit facility exhibits weaknesses that render a classification appropriate according to the credit grading framework. - ECL to be measured in accordance with FRS 109 - Minimum Regulatory Loss Allowance for a Locally-incorporated Domestic Systemically Important Bank- 1% of the gross carrying amount of the selected credit exposures net of collaterals
Parallel Run Reporting Requirements	None
Transition Relief for Capital Impact	Accounting Loss Allowance falls below the Minimum Regulatory Loss Allowance, the Locally-Incorporated D-SIB shall maintain the additional loss allowance6 in a non-distributable regulatory loss allowance reserve ("RLAR") account through an appropriation of its retained earnings. The additional loss allowance shall be maintained in the RLAR at all times. When the sum of the Accounting Loss Allowance and the additional loss allowance exceeds the Minimum Regulatory Loss Allowance, the Locally-Incorporated D-SIB may transfer the excess amount in the RLAR to its retained earnings.

Prudential Regulators' Guidance and Instructions – South Korea

Reportedly, none issued

China, Australia and Hong Kong

Table 7: Qualitative Background

	China #				Australia				HK	
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 1	Bank 2	Bank 3	Bank 4	Bank 1	Bank 2
Transition Year	2018	2018	2018	2018	Sep19!	Sep19!	Mar-19	2015^	2018	2018
Presentation currency & Rounding off	RMB Mn	RMB Mn	RMB Mn	RMB Mn	A$ Mn	A$ Mn	A$ Mn	A$ Mn	HK$ Mn	HK$ Mn
Separate Transition Report	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
Use of Exemptions/Early Adoptions										
A. Exemption from restatement of comparatives	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
B. Continuation of IAS 39 Hedge Accounting	No	No	NRA	NRA	Yes	Yes	No	Yes	Yes	Yes
C. Prepayment Features with Negative compensation' amendments early adoption	Yes	No	No	NRA	Yes	NA!	Yes	NA^	Yes	NRA
D.IFRS 9 exemptions to Insurance Subsidiaries	Yes	NRA	NRA	NMI	No	NA!	No	Yes	NRA	NRA
ECL Computation & Impact Adjustment										
3-5 year Transition Relief Used	NRA	NRA	NRA	NRA	NP	NP	NP	NP	NP	NP
PD/LGD/EAD Models used	Yes	Yes	Yes	Yes	NA!	NA!	Yes	NRA	Yes	Yes
Basel II models are used as basis	Yes	NRA	NRA	Yes	NA!	NA!	NRA	NRA	Yes	Yes
ECL Computation- No. of Scenarios	NRA	3	NRA	3	NA!	NA!	4	NRA	3	3
ECL Computation- No .of Economic Factors	6	5	3	5	NA!	NA!	4	5	4	3

#=F/S under HK Listing requirements, NRA= Not Readily Available, NP=Not Permitted by APRA,NMI=No material impact, ^AASB 9 early adopted in Sep 2015, !new standard applicable for FYE Sep 2019 but some info given above and quantitative impact is based on limited set of information given in Sep 2018 F/S

Accounting Framework

China

- The financial statements covered in the study are those published by the entities for compliance with securities listing requirements of Hong Kong Stock Exchange and are prepared in accordance with IFRS Standards issued by the IASB.

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Australia

- Australia has two sets of accounting standards i.e. Tier1 (Australian Accounting Standards) and Tier 2 (Australian Accounting Standards- Reduced Disclosure Requirements) for general purpose financial reports. Tier 1 is applicable to 'for-profit' entities in private sector that have public accountability and to Australian Governments.
- Australian Accounting Standards are issued by the Australian Accounting Standards Board (AASB) pursuant to section 334 of the Corporation Act, 2001 and the AASB is Australian Government agency under the

Accounting Framework

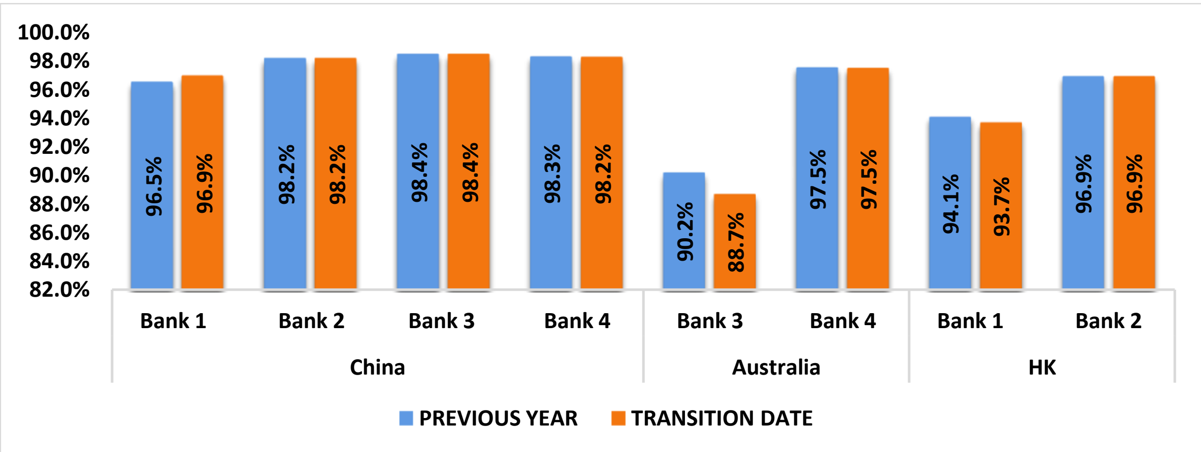
China	Australia
	Australian Securities and Investments Commission Act 2001 (ASIC Act 2001). • AASB has adopted IFRS Standards since 2005. Entities covered in our study have also made an unreserved statement of compliance with IFRS Standards issued by IASB. • Financial Statements are also required to comply with disclosures required under legislative requirements of the Corporations Act 2001 (Cth), the Banking Act 1959 (Cth) or and other regulators such as Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA)

Hong Kong

- Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").
- Companies Ordinance and HK Stock Exchange Rules.
- Generally Accepted Accounting Principles in Hong Kong.
- HKFRS are fully converged with IFRS standards since 2005 except some carve-outs in transitional provisions as of first time adoption in 2005 and HKFRS contain wording identical to the equivalent IFRS Standards.

IFRS 9 Quantitative Impact Information

Figure 19: Percentage of Financial Assets to Total Assets

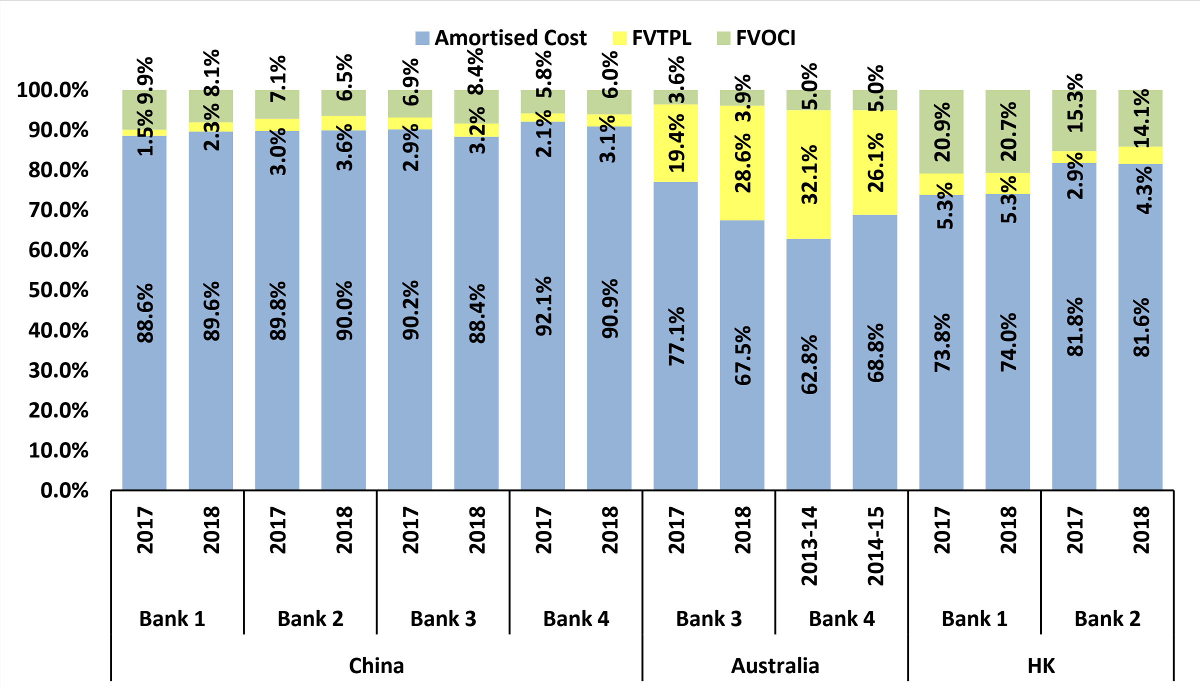


Notes:

a) In case of Bank 1 and Bank 2 of Australia, AASB 9 Financial Instruments is not yet applied and will be reflected in F/S for the year ending 30 September, 2019.Hence, these Banks have not been included in the above analysis.

b) There is no material impact observed on the percentage change of Financial Assets due to IFRS 9.

Figure 20: IFRS 9 Measurement Category-Wise distribution of Financial Assets



Notes:

a) In case of Bank 1 and Bank 2 of Australia, AASB 9 Financial Instruments is not yet applied and will be reflected in F/S for the year ending 30 September, 2019.Hence, these Banks have not been included in the above analysis.

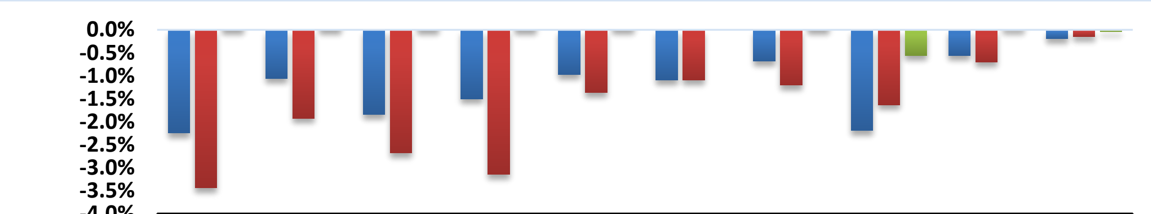
b) Bank 1-4 (China): Substantial part of financial assets are classified under Amortised Cost category and negligible percentage are classified under FVTPL. FA classified under FVOCI category are in the range of 6 to 10% to total FA.

c) Bank 3-4 (Australia): Large percentage of FAs are classified as Amortised Cost and significant percentage of FAs classified as FVTPL. Use of FVOCI category is minimal.

d) Bank 4 (Australia): It had adopted early adopted AASB 9 in the accounting year 2014-15.

e) Bank 1-2 (Hong Kong): Large percentage of FAs are classified as Amortised Cost and significant percentage of FAs classified within FVOCI category.

Figure 21: IFRS 9 Transition Impact on Total Equity

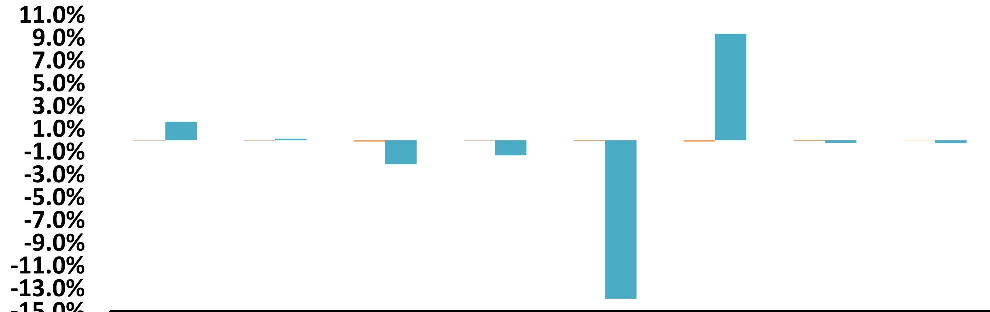


	China				Australia				HK	
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 1	Bank 2	Bank 3	Bank 4	Bank 1	Bank 2
Total Equity	-2.2%	-1.1%	-1.8%	-1.5%	-1.0%	-1.1%	-0.7%	-2.2%	-0.6%	-0.2%
ECL	-3.4%	-1.9%	-2.7%	-3.1%	-1.4%	-1.1%	-1.2%	-1.6%	-0.7%	-0.2%
Others	1.2%	0.9%	0.8%	1.6%	0.4%	0.0%	0.5%	-0.6%	0.1%	0.0%

Note:

a) There are no material negative impacts on Equity. Generally, negative impact on equity is due to increase in ECL provisions which is partly offset by other adjustments.

Figure 22: IFRS 9 Transition Impact on Total Assets and Financial Assets at Amortised Cost



	China				Australia		HK	
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 3	Bank 4	Bank 1	Bank 2
Total Assets	0.0%	0.0%	-0.1%	0.0%	-0.1%	-0.1%	-0.1%	0.0%
Amortised cost	1.6%	0.1%	-2.1%	-1.3%	-13.9%	9.3%	-0.2%	-0.2%

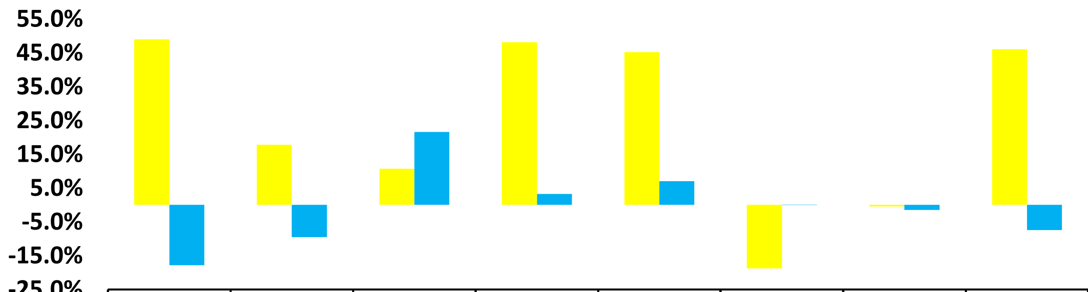
Notes:

a) In case of Bank 1 and Bank 2 of Australia, AASB 9 Financial Instruments is not yet applied and will be reflected in F/S for the year ending 30 September, 2019.Hence, these Banks have not been included in the above analysis.

b) Bank 3 (Australia): Significant decrease in Amortised Cost category balances is a mainly attributable to reclassification of reverse repo balances from L&R category due to business model of managing on fair value basis.

c) Bank 4 (Australia): Significant increase in Amortised Cost category balance is mainly attributable to reclassification of certain loans previously classified under FVTPL using FVO.

Figure 23: IFRS 9 Transition Impact on Financial Assets at FVTPL and FVOCI



	China				Australia		HK	
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 3	Bank 4	Bank 1	Bank 2
FVTPL	49.0%	17.8%	10.8%	48.2%	45.2%	-18.8%	-0.4%	46.1%
FVOCI	-17.8%	-9.5%	21.6%	3.2%	7.1%	0.0%	-1.5%	-7.4%

Notes:

a) In case of Bank 1 and Bank 2 of Australia, AASB 9 Financial Instruments is not yet applied and will be reflected in F/S for the year ending 30 September, 2019.Hence, these Banks have not been included in the above analysis.

b) Bank 1 (China): Significant increase in FVTPL attributable to reclassification of certain securities from previous category of AFS to eliminate accounting mismatch of certain derivatives held to manage the risk in those securities.

c) Bank 2 (China): Significant increase in FVTPL is attributable to reclassification of certain Bonds from previous category of AFS.

d) Bank 3 (China): Significant increase in FVOCI and FVTPL is attributable to reclassification of certain assets Loans & Receivables (AC) and certain debt securities from HTM (AC).

e) Bank 4 (China): Significant increase in FVTPL is attributable to reclassification of certain Reverse repo balances from Loans & Receivables (AC).

f) Bank 3 (Australia): Significant increase FVTPL is due to reclassification of reverse repo balances from L&R (AC) due to business model of managing on fair value basis.

g) Bank 4 (Australia): Significant decrease in FVTPL is mainly attributable to reclassification of certain loans previously classified under FVTPL using FVO into Amortised Cost category.

h) Bank 2 (Hong Kong): Significant increase in FVTPL category balances is attributable to reclassification of certain debt securities and equity investments from previous category of AFS due to application of SPPI test.

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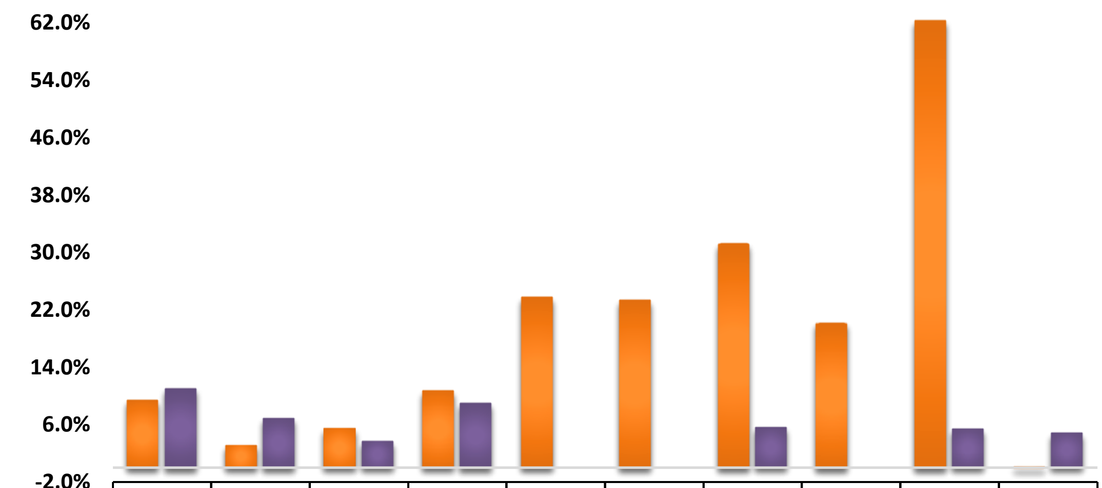
Figure 24: IFRS 9 Transition Impact on Impairment Loss Allowance



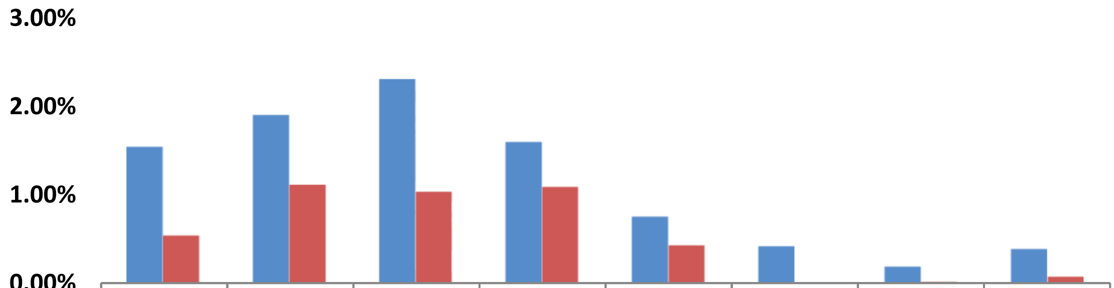
	China				Australia				HK	
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 1	Bank 2	Bank 3	Bank 4	Bank 1	Bank 2
On B/S	9.3%	3.0%	5.4%	10.6%	23.6%	23.2%	31.2%	20.0%	62.2%	-0.3%
Off B/s	10.9%	6.7%	3.6%	8.9%	0.0%	0.0%	5.5%	0.0%	5.3%	4.7%

Notes:

a) As shown in above figure, there is increase in On B/S ECL in all Banks except Bank 2 of Hong Kong which has indicated negligible decrease of 0.3%.There is substantial diversity in increase in On B/S ECL which ranges between 3% to 62%.

b) There is increase in Off B/S ECL in most of the Banks which ranges from 3.6% to 10.9%.

Figure 25: Impairment Loss Allowance Percentage versus Outstanding Exposures at the end of transition year

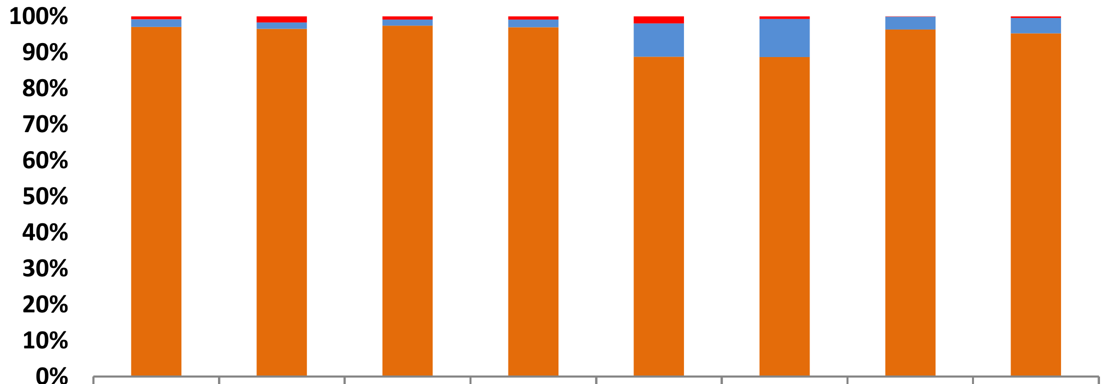


	Bank 1	Bank 2	Bank 3	Bank 4	Bank 3	Bank 4	Bank 1	Bank 2
	China				Australia		HK	
On B/S	1.54%	1.89%	2.29%	1.59%	0.75%	0.42%	0.19%	0.39%
Off B/S	0.53%	1.10%	1.02%	1.07%	0.42%	0.00%	0.02%	0.08%

Note:

a) In case of Bank 1 and Bank 2 of Australia, AASB 9 Financial Instruments is not yet applied and will be reflected in F/S for the year ending 30 September, 2019.Hence, these Banks have not been included in the above analysis.

Figure 26: Credit Quality- Stage wise GCAs at the end of transition year



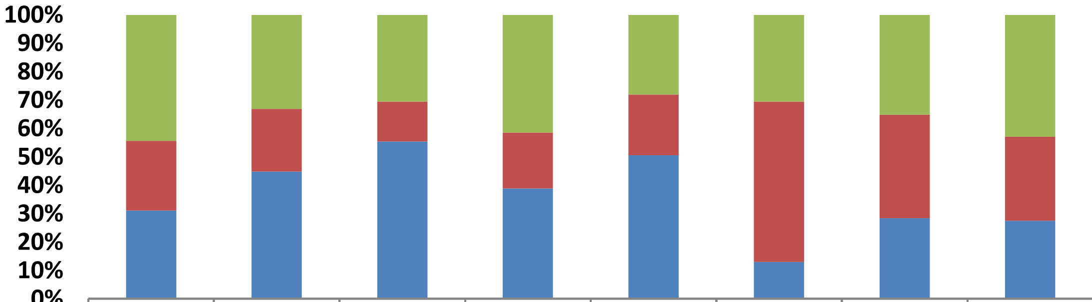
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 3	Bank 4	Bank 1	Bank 2
	China				Australia		HK	
Stage 3	1%	2%	1%	1%	2%	1%	0%	1%
Stage 2	2%	2%	2%	2%	9%	11%	4%	4%
Stage 1	97%	96%	97%	97%	89%	89%	96%	95%

Notes:

a) In case of Bank 1 and Bank 2 of Australia, AASB 9 will be applied at the date of initial application of 1st October, 2018 which will be reflected in F/S of September, 2019.Hence, these Banks have not been included in the above analysis.

b) All the banks have reported very substantial percentage (>95%) in Stage 1 bucket except two banks where the range is 89%. Percentage of credit exposures in Stage 2 & 3 buckets is very low except in case of two banks where 9 &11% are reported in Stage 2 bucket.

Figure 27: Impairment Loss Allowance Stage wise Break up at the end of transition year



	China				Australia		HK	
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 3	Bank 4	Bank 1	Bank 2
Stage 3	44%	33%	31%	41%	28%	31%	35%	43%
Stage 2	25%	22%	14%	20%	21%	56%	36%	30%
Stage 1	31%	45%	55%	39%	51%	13%	28%	28%

Notes:

a) In case of Bank 1 and Bank 2 of Australia, AASB 9 Financial Instruments is not yet applied and will be reflected in F/S for the year ending 30 September, 2019.Hence, these Banks have not been included in the above analysis.

b) Large majority of ECL provisions are reported against credit exposures in Stage 1 and Stage 2 buckets.

Prudential Regulators' Guidance and Instructions – China

Not considered for this study as the financial statements are for external securities listing requirements

Prudential Regulators' Guidance and Instructions – Australia

Regulatory Guidance by	Australian Prudential Regulation Authority (APRA) (Letter dated 4 July 2017 to All Authorised Deposit Taking Institutions)
Guidance Areas	How to categorise ECL provisions as General Provision (GP) or Specific Provision (SP) and Transition
Key Highlights of Regulatory Guidance	- Stage 1 (representing 12 months ECL provisions on performing loans): allocate to General Reserve for Credit Losses (GRCL) if held against future, presently unidentified losses and therefore freely available to meet losses that subsequently materialise - Stage 2 (representing lifetime ECL provisions on under-performing loans): considered SP for regulatory purposes. However, any portion that represents an amount for future, presently unidentified losses would qualify as GRCL - Stage 3 (representing lifetime ECL provisions on non-performing loans): considered SP for regulatory purposes
Parallel Run Reporting Requirements	None
Transition	Based on informal consultation of APRA, it is decided that regulated entities will not

Relief	need transitional arrangements. Entity requiring special consideration are required to approach APRA.

Prudential Regulators' Guidance and Instructions – Hong Kong	
Regulatory Guidance by	Hong Kong Monetary Authority (HKMA) a)Consultation Paper (CP 17.02 March 2017) Regulatory Treatment of Provisions under HKFRS 9 b) HKFRS 9 Implementation: Revisions to Regulatory Reporting 20 Dec 2017
Guidance Areas	a) How to categorise ECL provisions as General Provision (GP) or Specific Provision (SP) and Transition Arrangements b)Regulatory Returns
Key Highlights of Regulatory Guidance	a) The Consultation Paper discussed two aspects as follows: i) The relationship between the regulatory reserves currently maintained for unexpected credit losses and the HKFRS 9 provisions which are also now based on the expected credit loss approach. The CP proposed to create regulatory reserve based on minimum benchmark by way of appropriation from Retained Earnings. ii) Allocation of HKFRS 9 ECL between GP and SP for Prudential Regulations. It was proposed as follows; - Stage 1 & 2 ECL to be treated as GP - Stage 3 to be considered SP for regulatory purposes b) 20 Dec 2017 circular made changes in the regulatory returns consequent to the implementation of HKFRS 9.
Parallel Run Reporting Requirements	None
Transition Relief for Capital Impact	CP proposed no transitional provisions as it make the regulatory standard less prudent than the accounting standard.

Middle East - GCC – Part 1

(This section viz. Part I includes Banks with serial numbers 1 to 10 of samples for Middle East- GCC. Refer section Part II for Banks with serial numbers 11 to 20 of samples for Middle East- GCC)

Table 8: Qualitative Background

	ME-UAE				ME-Saudi Arabia				ME-Oman	
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
Transition Year	2018	2018	2018*	2018	2018	2018	2018	2018	2018	2018
Presentation currency & Rounding off	AED '000	AED '000	AED '000	AED '000	SAR '000	SAR '000	SAR '000	SAR '000	RO '000	RO '000
Separate Transition Report	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
Use of Exemptions/Early Adoptions										
A. Exemption from restatement of comparatives	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
B. Continuation of IAS 39 Hedge Accounting	No	No	NRA	Yes	No	Yes	Yes	Yes	No	No
C.Prepayment Features with Negative compensation' amendments	No	Yes	NRA	No	No	No	NRA	NRA	No	No
D.IFRS 9 exemptions to Insurance Subsidiaries	No	No	No	NRA	No	No	NRA	NRA	No	No
ECL Computation & Impact Adjustment										
3-5 year Transition Relief Used	NRA	NRA	NRA	3	NRA	NRA	NRA	NRA	NP	NP
PD/LGD/EAD Models used	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Basel II models are used as basis	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
ECL Computation- No. of Scenarios	3	3	3	3 - 5	3	NRA	>2	>2	3	3
ECL Computation- No. of Economic Factors	2	3	2	7	2	8	2	5	7	3

*NRA= Not readily available,*Previously adopted the first phase of the IFRS 9 with regard to classification and measurement and Adopted IFRS 9 with respect to impairment of financial assets with effect from 1 January 2018. NP=Not permitted by regulator*

Accounting Framework

UAE

- International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).
- Applicable of laws in UAE. The UAE Commercial Companies Law No 2 of 2015, which came into force on 1 July 2015, requires all companies to apply international accounting standards and practices when preparing their accounts.

Saudi Arabia

- In case of banks and insurance companies, The Saudi Arabian Monetary Authority (SAMA), which is the Saudi Arabian central bank) requires those entities to report under IFRS Standards.
- IFRS Standards are modified by SAMA for the accounting of zakat and income tax'.

Oman

- International Financial Reporting Standards

Accounting Framework

(IFRSs) issued by the International Accounting Standards Board (IASB).

- Regulations of Central Bank of Oman.
- Commercial Companies Law of Oman, as amended and the Capital Market Authority of the Sultanate of Oman.

Key Findings – IFRS 9 Quantitative Impact Information

Figure 28: Percentage of Financial Assets to Total Assets

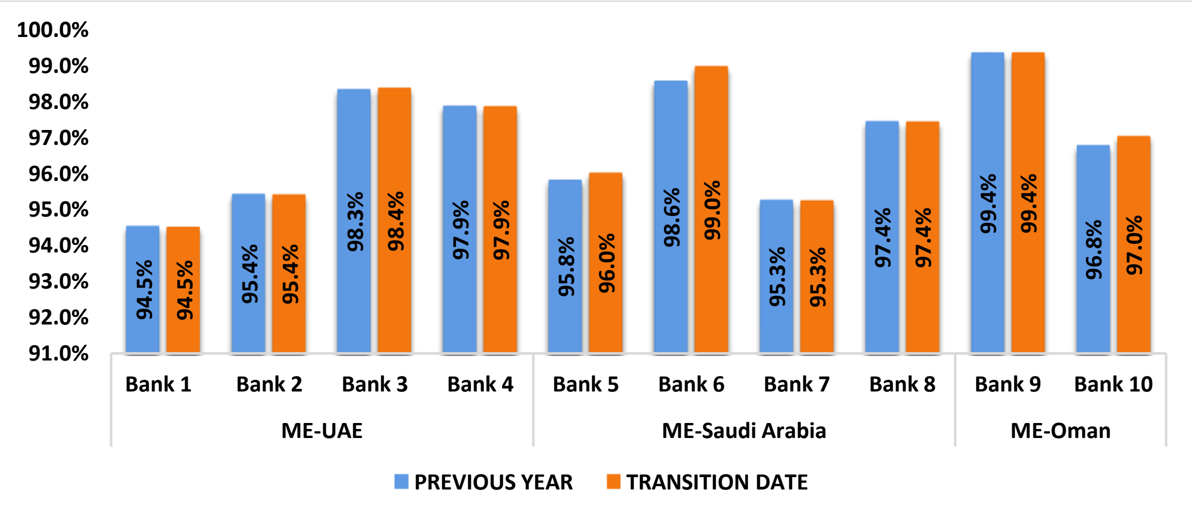
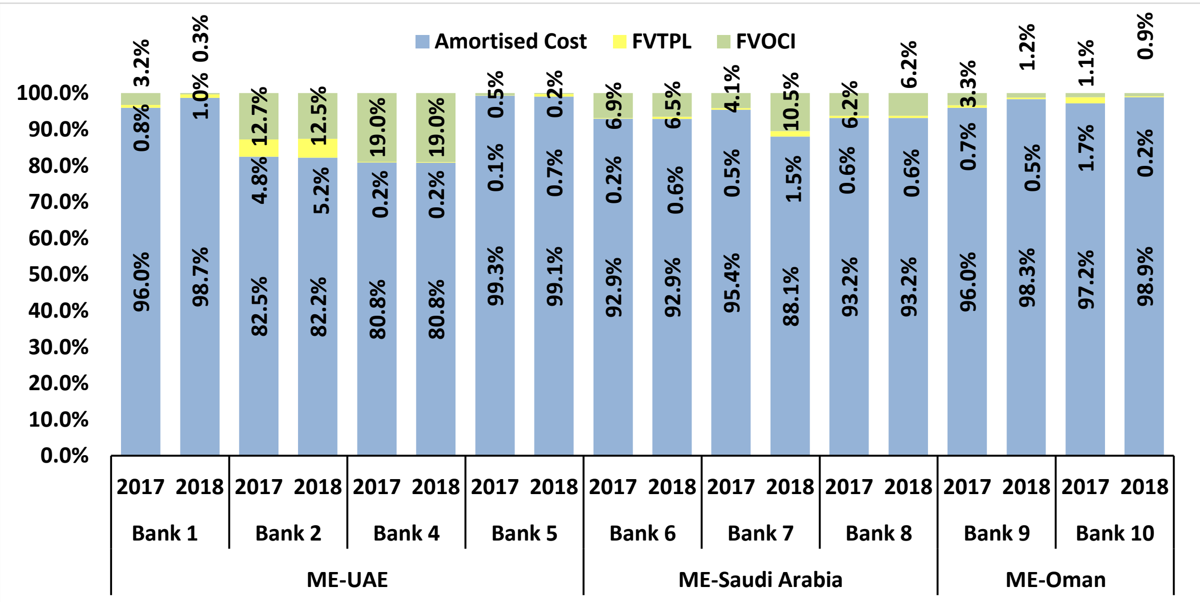


Figure 29: IFRS 9 Measurement Category-wise distribution of Financial Assets

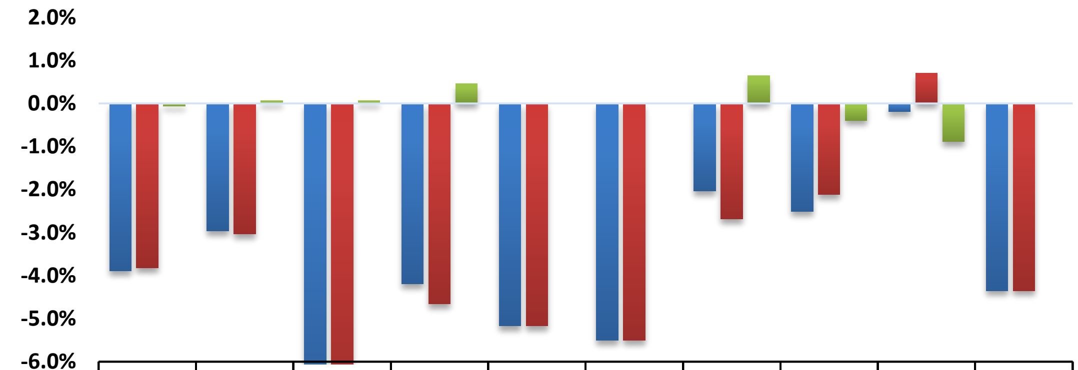


Notes:

a) Bank 3 in previous years had adopted Classification & Measurement Provisions as per previous versions of IFRS 9. Hence, it has been excluded from the current study of transition as of 1 Jan 2018.

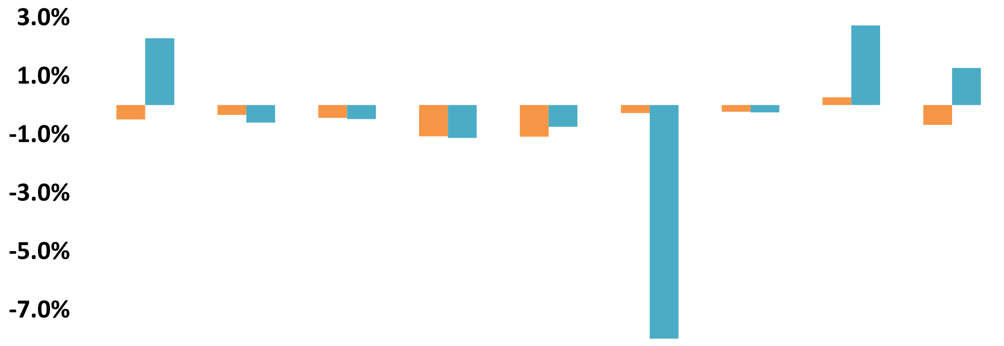
b) Substantial portion (>90%) of financial assets are categorised under Amortised Cost.

Figure 30: IFRS 9 Transition Impact on Total Equity



	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
	ME-UAE				ME-Saudi Arabia				ME-Oman	
Total Equity	-3.9%	-3.0%	-7.6%	-4.2%	-5.2%	-5.5%	-2.0%	-2.5%	-0.2%	-4.3%
ECL	-3.8%	-3.0%	-7.6%	-4.7%	-5.2%	-5.5%	-2.7%	-2.1%	0.7%	-4.3%
Others	-0.1%	0.1%	0.1%	0.5%	0.0%	0.0%	0.6%	-0.4%	-0.9%	0.0%

Figure 31: IFRS 9 Transition Impact on Total Assets and Financial Assets at Amortised Cost



	Bank 1	Bank 2	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
	ME-UAE			ME-Saudi Arabia				ME-Oman	
Total Assets	-0.5%	-0.3%	-0.4%	-1.1%	-1.1%	-0.3%	-0.2%	0.3%	-0.7%
Amortised Cost	2.3%	-0.6%	-0.5%	-1.1%	-0.7%	-8.0%	-0.3%	2.7%	1.3%

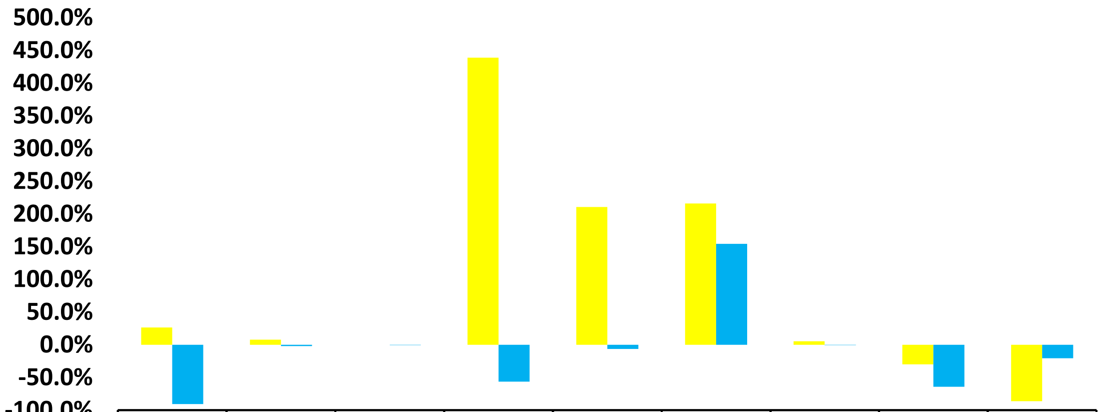
Notes:

a) Bank 3 in previous years had adopted Classification & Measurement Provisions as per previous versions of IFRS 9. Hence, it has been excluded from the current study of transition as of 1 Jan 2018 above.

b) Total Assets decrease is primarily attributable to increase in outstanding balances of ECL provisions which get deducted from GCA of financial assets (on-Balance sheet) for Balance Sheet presentation purposes.

c) Bank 7: Significant decrease in Amortised Cost category is mainly attributable to reclassification of Debt Securities into FVOCI.

Figure 32: IFRS 9 Transition Impact on Financial Assets at FVTPL and FVOCI



	Bank 1	Bank 2	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
		ME-UAE			ME-Saudi Arabia			ME-Oman	
FVTPL	26.6%	7.8%	0.0%	438.8%	210.9%	216.2%	5.3%	-29.5%	-86.1%
FVOCI	-90.6%	-1.8%	-0.3%	-56.0%	-6.0%	154.4%	-0.5%	-64.2%	-20.7%

Notes:

a) Bank 3 in previous years had adopted Classification & Measurement Provisions as per previous versions of IFRS 9. Hence, it has been excluded from the current study of transition as of 1 Jan 2018 above.

b) Bank 1: Significant increase in FVTPL category is mainly on account of reclassification of Equity Securities from previous category of AFS. Significant decrease in FVOCI is mainly attributable to reclassification of Debt Securities into Amortised Cost category and certain Equity Securities into FVTPL category.

c) Bank 2: Significant increase in FVTPL category is mainly on account of reclassification of Investment in Private Equity Securities from previous category of AFS.

d) Bank 5: Significant increase in FVTPL category is mainly on account of reclassification of Investment in Mutual Funds from previous category of AFS due to failure to meet SPPI Test. For similar reasons, certain Islamic Banking product viz. Sukuk was reclassified into FVTPL category.

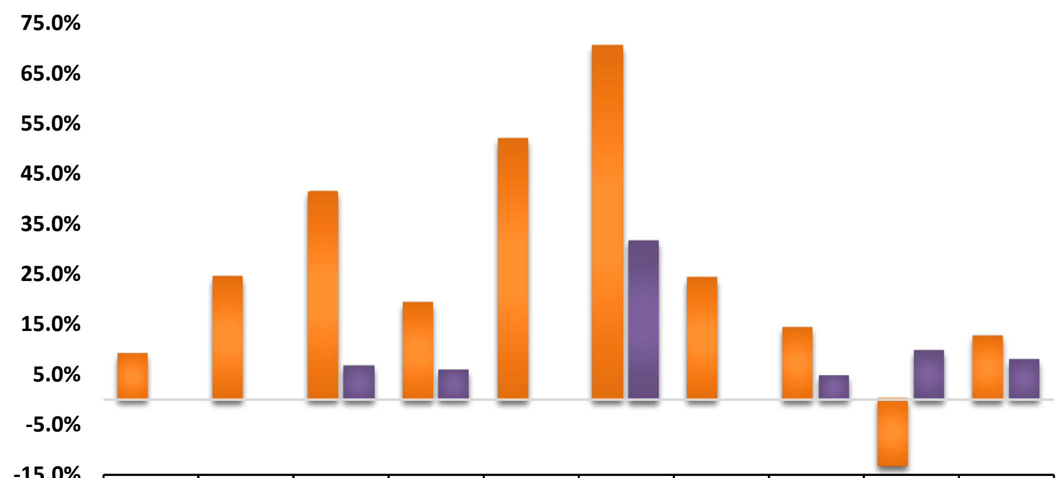
e) Bank 6: Significant increase in FVTPL category is mainly on account of reclassification of Debt Securities from previous category of AFS.

f) Bank 7: Significant increase in FVTPL category is mainly on account of reclassification of Debt Securities from previous category of AFS. Significant increase in FVOCI category is mainly on account of reclassification of Debt Securities from previous category of AFS partly offset by reclassifications of certain Debt securities into FVTPL category.

g) Bank 9: Significant decrease in FVTPL category is mainly due to reclassification of Debt Securities into Amortised Cost category partly offset by reclassification of Equity Securities from previous category of AFS into this category. Significant decrease in FVOCI category is mainly on account of reclassification of Debt Securities and Equity Securities into Amortised Cost and FVTPL.

h) Bank 10: Significant decrease in FVTPL cost category is due to reclassification of certain debt securities from this category into Amortised Cost category partly offset by reclassification into certain equity securities this category from previous category of AFS. Significant decrease in FVOCI category is mainly on account of reclassification of Debt Securities FVTPL category.

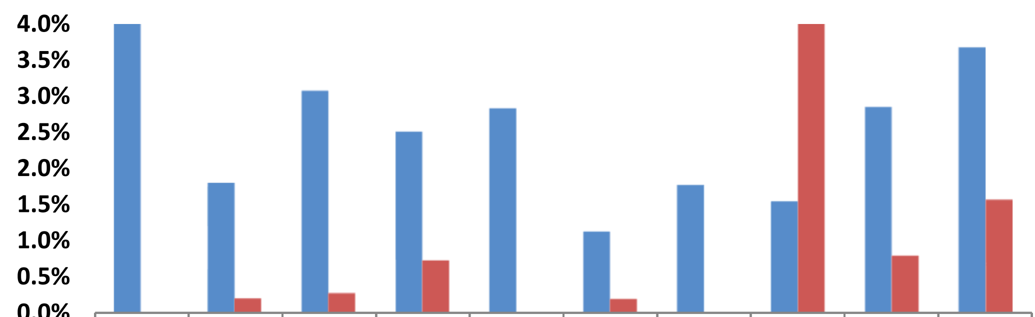
Figure 33: IFRS 9 Transition Impact on Impairment Loss Allowance Balances



	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
	ME-UAE				ME-Saudi Arabia				ME-Oman	
On B/S	9.0%	24.4%	41.5%	19.1%	51.9%	70.6%	24.1%	14.2%	-13.3%	12.6%
Off B/s	0.0%	0.0%	6.6%	5.7%	0.0%	31.4%	0.0%	4.5%	9.6%	7.8%

Note: Introduction of ECL model for impairment loss recognition indicate an upward trend and of significant percentages except in one case.

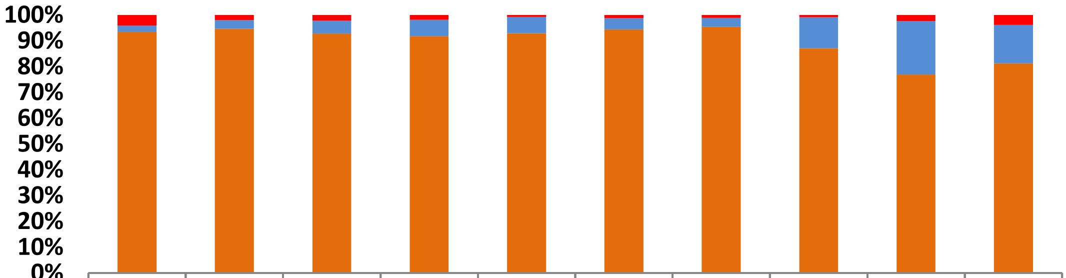
Figure 34: Impairment Loss Allowances versus Outstanding Exposures at the end of transition year



	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
	ME-UAE				ME-Saudi Arabia				ME-Oman	
On B/S	5.2%	1.8%	3.1%	2.5%	2.8%	1.1%	1.8%	1.5%	2.8%	3.7%
Off B/S	0.0%	0.2%	0.3%	0.7%	0.0%	0.2%	0.0%	7.9%	0.8%	1.6%

Note: In case of Bank 1, 5 and 7 segregation between Off B/S and On B/S ECL is not readily available.

Figure 35: Credit Quality - Stage-wise GCAs at the end of transition year



	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
	ME-UAE				ME-Saudi Arabia				ME-Oman	
Stage 3	4%	2%	2%	2%	1%	1%	1%	1%	2%	4%
Stage 2	2%	3%	5%	6%	6%	4%	3%	12%	21%	15%
Stage 1	93%	95%	93%	92%	93%	94%	95%	87%	77%	81%

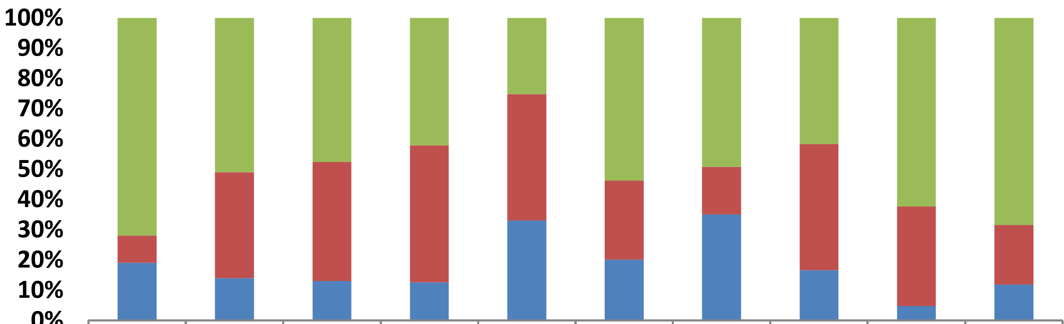
Notes:

a) For the purpose of above analysis, all financial assets within the scope of IFRS 9 impairment requirements are considered. These financial assets are those classified under Amortised Cost and FVOCI categories. However, this analysis includes only On- B/S Exposures.

b) In case of following type of financial assets, sometimes the segregation between Stage 1, 2 and 3 buckets is not reported or note readily available. In such cases, these are included in Stage 1 in view of the fact that either Nil or negligible amount of ECL provisions are reported against these items

i) Cash and Central Bank Balances
ii) Investment securities e.g. domestic sovereign securities
iii) Islamic Banking Products

Figure 36: Impairment Loss Allowance Stage wise Break up at the end of transition year



	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
	ME-UAE				ME-Saudi Arabia				ME-Oman	
Stage 3	72%	51%	48%	42%	25%	54%	49%	42%	62%	69%
Stage 2	9%	35%	39%	45%	42%	26%	16%	42%	33%	20%
Stage 1	19%	14%	13%	13%	33%	20%	35%	17%	5%	12%

Prudential Regulators' Guidance and Instructions – UAE	
Regulatory Guidance	Central Bank of the UAE (CBUAE) (Circular No. CBUAE/BSD/2018/458 Final Guidance Note on IFRS 9 dated 30 April 2018) GUIDANCE NOTE TO BANKS AND FINANCE COMPANIES ON THE IMPLEMENTATION OF IFRS 9 (FINANCIAL INSTRUMENTS) IN THE UAE
Guidance Areas	Clarification of Regulatory Expectations i)Governance and Controls ii)Classification and Measurement of Financial Instruments iii)Impairment and Expected Credit Loss iv)Impact of provisions on Regulatory Capital v)Transition Requirements
Key Highlights of Regulatory Guidance	✚ All Banks and Financial Institutions (BFIs) are required to publish IFRS Financial Statements starting from 1st Jan, 2018. Early adoption of IFRS 9 not permitted. ✚ BFIs should endeavour to develop robust models to determine expected credit loss under IFRS 9 considering the guidance on Credit risk and accounting for expected credit losses issued by BCBS. ✚ BFIs should provide for impairment losses as per the requirements of IFRS 9 ✚ BFIs should have a minimum of 5 years credit data to start with and thereafter move to collect at least 10 years data. ✚ Sound governance controls over data quality, classification changes, models, assumptions for forecasting. ✚ Board Committees should oversee the effectiveness and reliability of reporting under IFRS 9. ✚ Business models policy should be approved by the Board. ✚ Covers guidance on assessment of significant increase in credit risk (Stage2)- ✓ Suitable approximations assessing PD etc. for loans originated before IFRS 9, ✓ changes in credit risk to consider both counter party level and individual credit level, sources of credit information to considered ✓ Uncollateralised bullet repayment loan should be classified at a minimum Stage 2 ✓ Default definition should be as per CB circular no.28/2010 ✚ Stage 1 & 2 ECL to be considered as General Provision for Basel Regulatory Capital purposes.
Parallel Run Reporting Requirements	None
Transition Relief for Capital Impact	Shortfall of regulatory provisions via-a-vis IFRS 9 ECL provision shall be met by creating Impairment Reserve as an appropriation for net profit.

Prudential Regulators' Guidance and Instructions – Saudi Arabia	
Regulatory Guidance by	CFO Sub-committee of Saudi Arabia Monetary Authority (SAMA) Draft guidance on implementation and application of IFRS 9 in the Kingdom of Saudi Arabia, to be endorsed by SAMA

Guidance Areas	The draft document provides extensive commentary on IFRS 9 prescriptions and guidance on its implementation and is structured into following topics. 1)IFRS 9 Governance and Risk Frameworks 2)Classification and Measurement 3)Impairment 4)Hedge Accounting
Key Highlights of Regulatory Guidance	Refer above
Parallel Run Reporting Requirements	NRA
Transition Relief for Capital Impact	NRA

Prudential Regulators' Guidance and Instructions – Oman	
Regulatory Guidance	Central Bank of Oman (CBO) (Circular no. BM.1149 dated 13 April 2017)
Guidance Areas	Implementation of IFRS 9 on Financial Instruments
Key Highlights of Regulatory Guidance	✚ Early adoption of IFRS 9 not permitted ✚ Classification and measurement of financial instruments based on IFRS 9 ✚ Banks and FLCs to concurrently compute the total provisions for impairment as required by guidelines on provisioning for non-performing and restructured loans ✚ General provision for standard and special mention assets and reserve interest for non-performing loans to be included ✚ In the first year of implementation, where the aggregate specific and general provisions along with reserve interest as per CBO requirements is higher than the impairment allowance computed under IFRS 9, the difference should be transferred to an impairment reserve as an appropriation from the net profit after taxes ✚ In subsequent years, where the impairment loss together with reserve interest based on CBO requirements is higher than impairment loss computed under IFRS 9, the difference should be transferred to an impairment reserve as an appropriation from the net profit after taxes ✚ Any subsequent utilisation of impairment reserve would require prior approval of Central Bank ✚ The details of difference between impairment allowance and impairment losses as per IFRS 9 and CBO requirements to be disclosed in the notes to financial statements along with the impact on the profit if additional provisions as per Central Bank requirements had been made ✚ Banks and FLCs to ensure that ECL should be arrived at considering all reasonably available information, particularly forward looking information on macroeconomic factors such as GDP, oil prices, etc. ✚ In arriving at the LGD, banks and FLCs to make reasonable and supportable

	estimates of the value of collateral - Guidance on certain events indicating significant increase in credit risk, such as, fall of 25% or more in the turnover or in EBIT, erosion in net worth by more than 20%, etc. - Low credit exemption to determine significant increase in credit risk: Banks should be prudent in using this exemption - Mapping of internal credit risk ratings to external rating definitions - Banks and FLCs are advised to desist from structuring loans and advances in a manner to delay or avoid recognition of lifetime credit losses.
Parallel Run Reporting Requirements	- Quarterly update on the progress of implementation to be submitted to CBO in a specified format - Banks and FLCs to submit proforma financial statements for the year ending December 31, 2017 based on IFRS 9
Transition Relief for Capital Impact	Shortfall of regulatory provisions via-a-vis IFRS 9 ECL provision shall be met by creating Impairment Reserve as an appropriation for net profit.

Middle East - GCC – Part 2

(This section viz. Part II includes Banks with serial numbers 11 to 20 of samples for Middle East- GCC. Refer section Part I for Banks with serial numbers 1 to 10 of samples for Middle East- GCC)

Table 9: Qualitative Background

	ME-Bahrain			ME-Kuwait				ME-Qatar		
	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20
Transition Year	2018	2018*	2018	2018	2018	2018	2018	2018	2018	2018
Presentation currency & Rounding off	US$ mn	US$ '000	US$ mn	KD '000	KD '000	KD 000	KD 000	QAR '000	QAR '000	QAR '000s
Separate Transition Report	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
Use of Exemptions/Early Adoptions										
A. Exemption from restatement of comparatives	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
B. Continuation of IAS 39 Hedge Accounting	No	Yes	No	NM	No	No	Yes	Yes	Yes	Yes
C. Prepayment Features with Negative compensation' amendments early adoption	No	NRA	NRA	No	No	NRA	NRA	No	No	NRA
D.IFRS 9 exemptions to Insurance Subsidiaries	No	NRA	NRA	No	No	NRA	NRA	No	No	NRA
ECL Computation & Impact Adjustment										
3-5 year Transition Relief Used	NRA	2 **	NRA	NRA	NRA	NRA	NRA	NP	NP	NP
PD/LGD/EAD Models used	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Basel II models are used as basis	NRA	Yes	Yes	NRA	NRA	NRA	NRA	NRA	NRA	NRA
ECL Computation- No. of Scenarios	3	3	3	3	NRA	NRA	NRA	3	3	NRA
ECL Computation- No. of Economic Factors	3	4	NRA	NRA	4	NRA	NRA	NRA	NRA	NRA

*NRA= Not readily available, NM=No material impact, NP=Not permitted by regulator *Previously early Adopted the first phase of the IFRS 9 with regard to classification and measurement and Adopted IFRS 9 with respect to impairment of financial assets with effect from 1 January 2018. **with the specific approval of regulator*

Accounting Framework

Bahrain

- International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB.
- Regulations of Central Bank of Bahrain and Financial Institutions Law.
- Bahrain Commercial Companies Law.

Kuwait

- International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). However, as per the regulations issued Central Bank of Kuwait (CBK), expected credit loss ("ECL") on credit facilities are required to be measured at the higher of the amount computed under IFRS 9 or the provisions as required by CBK instructions.

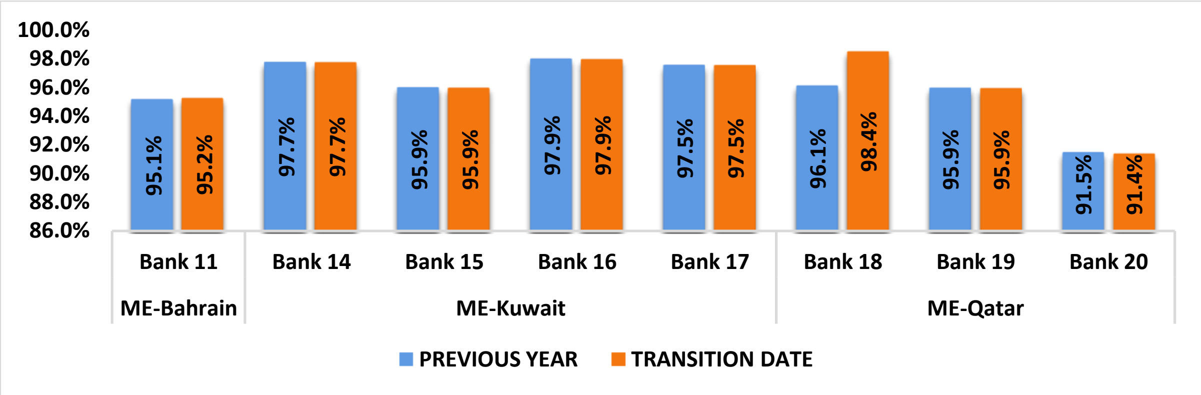
Accounting Framework

Qatar

- International Financial Reporting Standards (IFRSs) issued by the IASB.
- Qatar Central Bank ('QCB') regulations

Key Findings – IFRS 9 Quantitative Impact Information

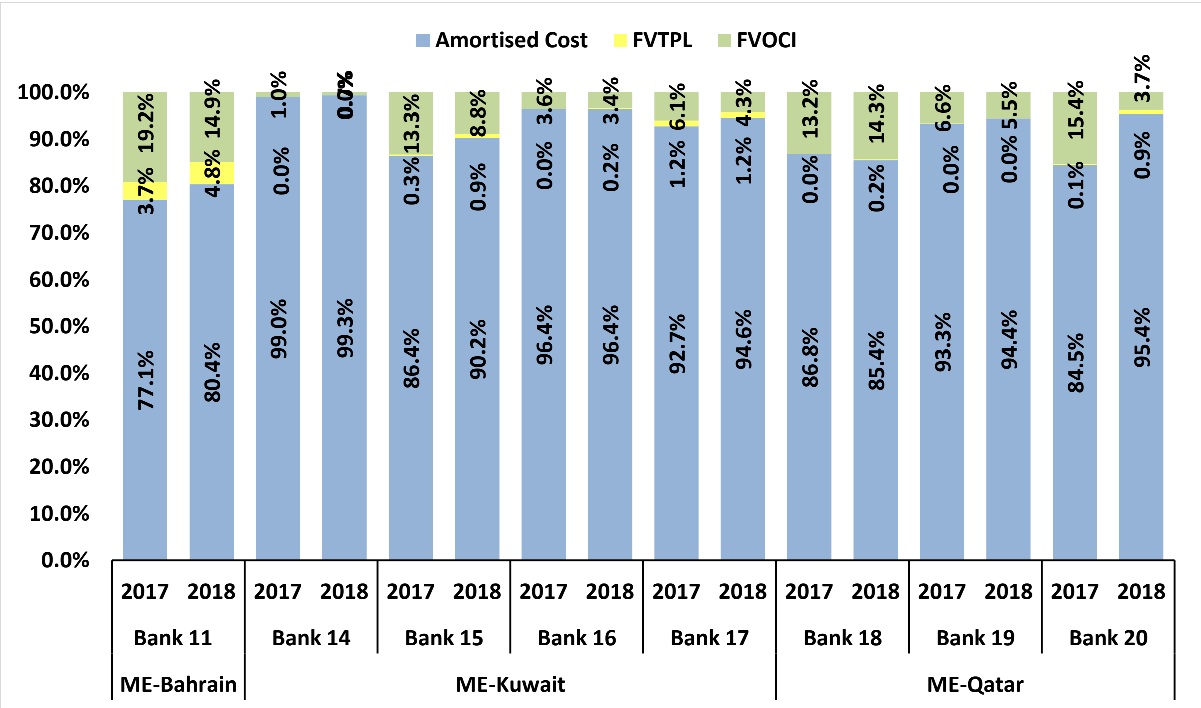
Figure 37: Percentage of Financial Assets to Total Assets



Note:

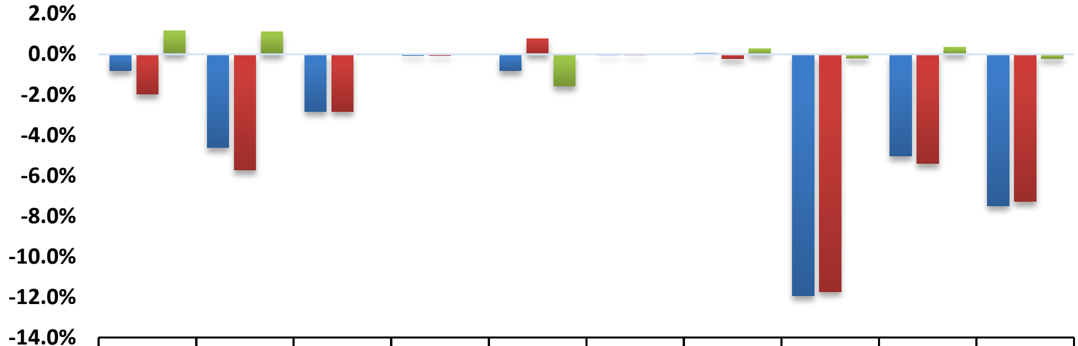
a) Bank 12 & 13 in previous years had adopted Classification & Measurement Provisions as per previous versions of IFRS 9. Hence, these have been excluded for above analysis.

Figure 38: IFRS 9 Measurement Category-Wise distribution of Financial Assets



Note: Bank 12 & 13 in previous years had adopted Classification & Measurement Provisions as per previous versions of IFRS 9. Hence, these have been excluded from the above analysis as of 1 Jan 2018.

Figure 39: IFRS 9 Transition Impact on Total Equity

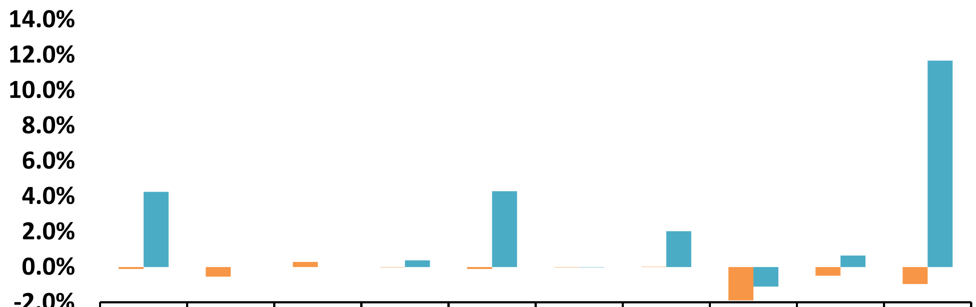


	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20
	ME-Bahrain			ME-Kuwait				ME-Qatar		
Total Equity	-0.8%	-4.6%	-2.8%	-0.1%	-0.8%	-0.1%	0.1%	-11.9%	-5.0%	-7.5%
ECL	-2.0%	-5.7%	-2.8%	-0.1%	0.8%	-0.1%	-0.2%	-11.7%	-5.4%	-7.3%
Others	1.2%	1.1%	0.0%	0.0%	-1.6%	0.0%	0.3%	-0.2%	0.4%	-0.2%

Note:

a) Three BFIs out of 10 have reported material negative impact on Equity, primarily due to increase in ECL provisions.

Figure 40: IFRS 9 Transition Impact on Total Assets and Financial Assets at Amortised Cost



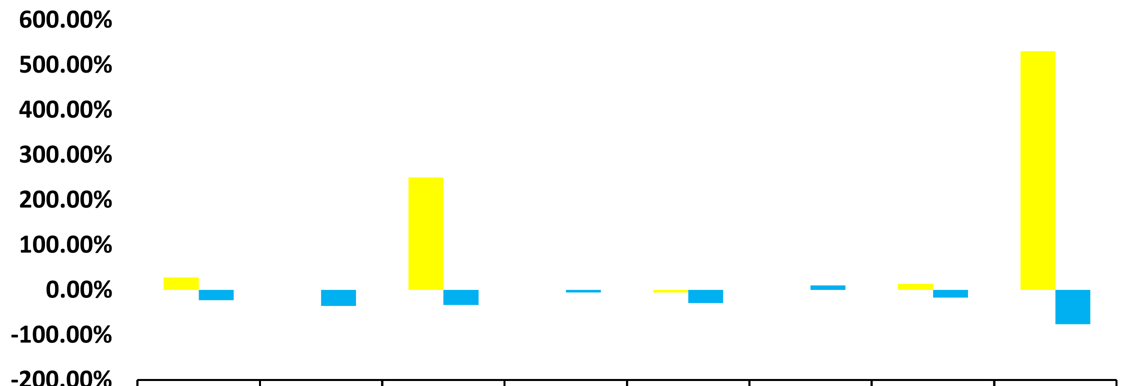
	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20
	ME-Bahrain			ME-Kuwait				ME-Qatar		
Total Assets	-0.1%	-0.6%	0.3%	0.0%	-0.1%	0.0%	0.0%	-1.9%	-0.5%	-1.0%
Amortised Cost	4.2%	0.0%	0.0%	0.4%	4.3%	0.0%	2.0%	-1.1%	0.7%	11.7%

Notes:

a) Bank 12 & 13 in previous years had adopted Classification & Measurement Provisions as per previous versions of IFRS 9. Hence, it has been excluded from the current study of transition as of 1 Jan 2018.

b) Total Assets reduction is primarily attributable to increase in outstanding balances of ECL provisions which get deducted from GCA of financial assets (on-Balance sheet) for Balance Sheet presentation purposes.
c) Bank 20: Significant increase in Amortised Cost category is mainly due to reclassification of Debt Securities from previous category of AFS.

Figure 41: IFRS 9 Transition Impact on Financial Assets at FVTPL and FVOCI



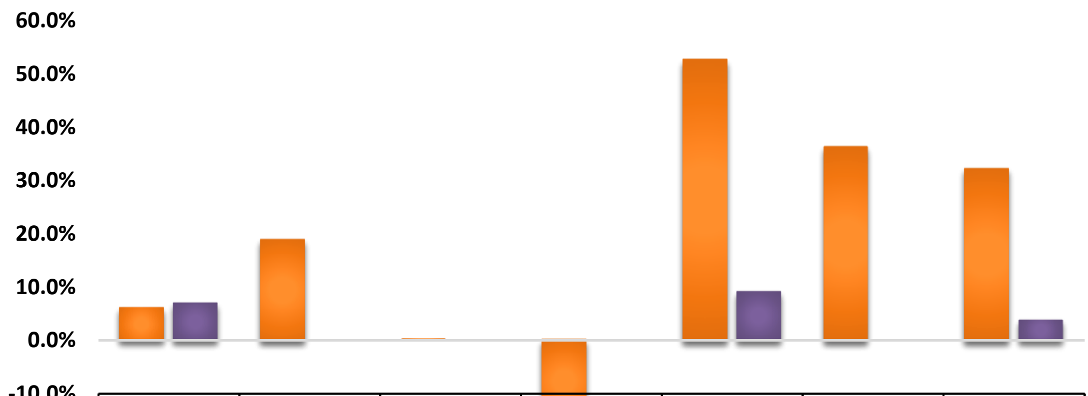
	Bank 11	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20
	ME-Bahrain	ME-Kuwait				ME-Qatar		
FVTPL	27.78%	0.00%	249.70%	0.00%	-5.77%	0.00%	13.80%	530.33%
FVOCI	-22.54%	-35.76%	-33.67%	-5.80%	-29.63%	9.59%	-17.10%	-76.01%

Notes:
a) Bank 12 & 13 in previous years had adopted Classification & Measurement Provisions as per previous versions of IFRS 9. Hence, it has been excluded from the current study of transition as of 1 Jan 2018.
b) Bank 11: Significant decrease in FVOCI category is due to reclassification of certain debt securities from previous category of AFS into FVTPL and into Amortised Cost following application of SPPI test and Business Model test, respectively.
c) Bank 14: Significant decrease in FVOCI category is due to reclassification of Debt Securities from previous category of AFS into Amortised cost category.
d) Bank 15: Significant increase in FVTPL category balances is due to reclassification of Equity Securities from previous category of AFS. Significant decrease in FVOCI is due to reclassification of Debt Securities from previous category of AFS into Amortised cost category and equity securities into FVTPL category, respectively.
f) Bank 16: It terms of %ages there is very abnormal increase in FVTPL. But, in terms of absolute amounts it is very negligible, hence, considered as zero increase.
g) Bank 17: Significant decrease in FVTPL category balances is due to reclassification of investments in managed funds into FVOCI. Significant decrease in FVOCI is due to reclassification of Debt Securities from previous category of AFS into Amortised cost category and partly offset by increase on account of reclassification from FVTPL stated above.
h) Bank 18: Significant increase in FVOCI is due to reclassification of Debt Securities from HTM (Amortised cost) category.
i) Bank 19: Significant decrease in FVOCI is due to reclassification of Debt Securities from previous category of AFS into Amortised cost category. Significant increase in %age terms in FVTPL

category is due to reclassification of equity investments from previous category of AFS, but in terms of absolute amounts, the increase is not material.

j) Bank 20: Significant increase in FVTPL category is due to reclassification of debt securities and equity investments from previous category of AFS. Further, significant decrease in FVOCI is due to reclassification of Debt Securities into Amortised cost category.

Figure 42: IFRS 9 Transition Impact on Impairment Loss Allowance



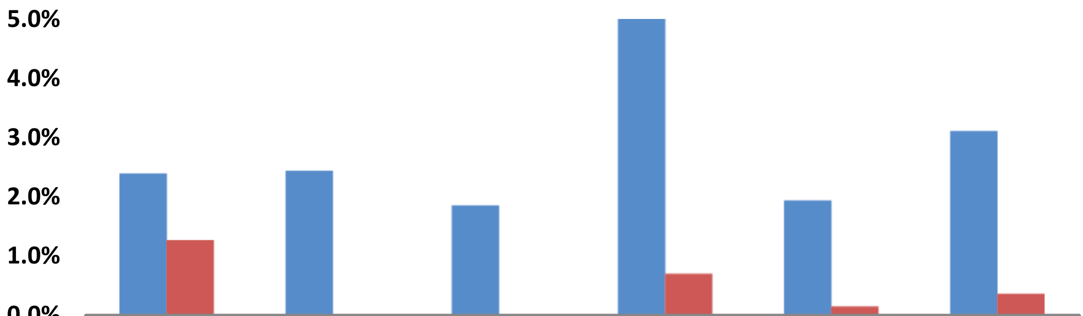
	Bank 11	Bank 13	Bank 14	Bank 15	Bank 18	Bank 19	Bank 20
	ME-Bahrain		ME-Kuwait		ME-Qatar		
On B/S	5.9%	18.9%	0.2%	-15.5%	52.7%	36.3%	32.1%
Off B/s	7.0%	0.0%	0.0%	0.0%	9.0%	0.0%	3.7%

Notes:

a) Information regarding IFRS 9 transition Impact on ECL is not readily available for Bank 12, Bank 16 and Bank 17. Hence, the said banks are excluded from the above analysis.

b) Significant increase in ECL provision balances can be observed, primarily in respect of On B/S exposures.

Figure 43: Impairment Loss Allowance Percentage versus Outstanding Exposures at the end of transition year

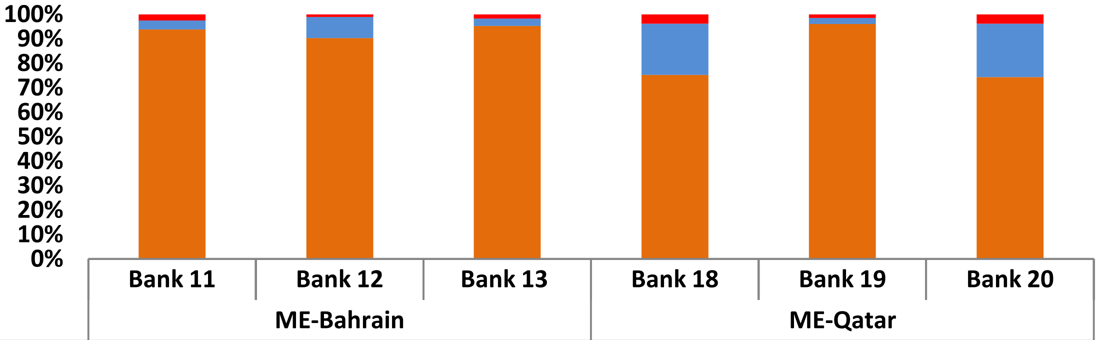


	Bank 11	Bank 12	Bank 13	Bank 18	Bank 19	Bank 20
	ME-Bahrain			ME-Qatar		
On B/S	2.4%	2.4%	1.9%	5.4%	1.9%	3.1%
Off B/S	1.2%	0.0%	0.0%	0.7%	0.2%	0.4%

Note:

a) In view of non-availability of required data for Kuwait based banks, they have been excluded from above analysis.

Figure 44: Credit Quality- Stage wise GCAs at the end of transition year

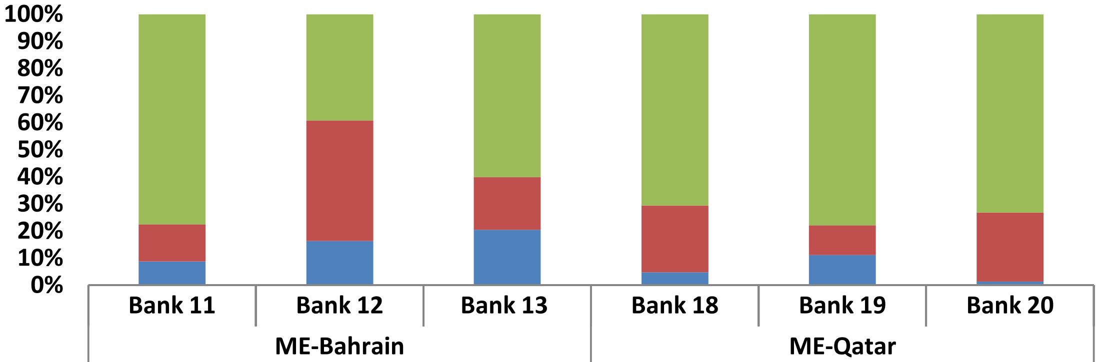


	Bank 11 (ME-Bahrain)	Bank 12 (ME-Bahrain)	Bank 13 (ME-Bahrain)	Bank 18 (ME-Qatar)	Bank 19 (ME-Qatar)	Bank 20 (ME-Qatar)
Stage 3	3%	1%	2%	4%	1%	4%
Stage 2	4%	9%	3%	21%	3%	22%
Stage 1	94%	90%	95%	75%	96%	74%

Note:

a) In view of non-availability of required data for Kuwait based banks, they have been excluded from above analysis.

Figure 45: Impairment Loss Allowance Stage wise Break up at the end of transition year



	Bank 11 (ME-Bahrain)	Bank 12 (ME-Bahrain)	Bank 13 (ME-Bahrain)	Bank 18 (ME-Qatar)	Bank 19 (ME-Qatar)	Bank 20 (ME-Qatar)
Stage 3	78%	39%	60%	71%	78%	73%
Stage 2	14%	45%	20%	25%	11%	25%
Stage 1	9%	16%	20%	5%	11%	1%

Notes:

a) For the purpose of above analysis, all financial assets within the scope of IFRS 9 impairment requirements are considered. These financial assets are those classified under Amortised Cost and FVOCI categories. However, this analysis includes only On- B/S Exposures.

b) In case of following type of financial assets, sometimes the segregation between Stage 1, 2 and 3 buckets is not reported or note readily available. In such cases, these are included in Stage 1 bucket in view of the fact that either Nil or negligible amount of ECL provisions are reported against these items

i) Cash and Central Bank Balances
ii) Investment securities e.g. domestic sovereign securities
iii) Islamic Banking Products

c) In case of ME-Kuwait, Stage-wise analysis of ECL is not given for all categories of financial assets. Hence, Kuwait Banks have not been included in the above analysis.

Prudential Regulators' Guidance and Instructions – Bahrain	
Regulatory Guidance	Central Bank of Bahrain a)CBB Letter dated 15 Nov, 2015- IFRS 9:Quantitative Impact Assessment b)EDBS/KH/C/56/2016 dated 28th Dec 2016 – Guidelines for IFRS 9 ECL Implementation by Banks and Finance Companies
Guidance Areas	IFRS 9:Quantitative Impact Assessment & ECL Implementation

Key Highlights of Regulatory Guidance	a) IFRS 9:Quantitative Impact Assessment (QIA)
	- The QIA advised banks to assess the impact of IFRS 9 impairment requirements on regulatory capital.
	b) Advised banks to submit their detailed plan of implementation
	- Banks must submit to CBB a clear policy statement on ECL provisioning approved by the their Board
	- Banks shall continue to suspend interest for credit facilities with 90 days past due.
	- Restructured facilities must be classified as Stage 2 at least for 12 months after restructuring.
	- Data Quality and Availability
	  ✓ Corporate exposures banks must have adequate historical data for computation of PD and LGD.
	  ✓ PD/LGD/EAD Models and ECL computation shall be subject to internal and external validation.
	- Basel regulatory capital
	  ✓ Collective Provisions relating to Stage 1 and Stage 2 will be considered as Tier 2 capital subject 1.25% of total RWA as was done for general provisions.

Parallel Run Reporting Requirements	- QIA results to be submitted by Feb 2016.
Transition Relief for Capital Impact	- No. Additional provisions required as of transition date must be deducted from CET1. Banks facing difficulty should approach CBB. - Excess provision, if any, at the transition date cannot be written back.

Prudential Regulators' Guidance and Instructions –Kuwait	
Regulatory Guidance	Central Bank of Kuwait (CBK)
Guidance Areas	Implementation of IFRS 9 on Financial Instruments
Key Highlights of Regulatory	**A) The implementation of the International Financial Reporting Standard "IFRS 9"- "Financial Instruments Circular No. (2/BS/425/2018) dated 25**

Guidance	**Dec 2018 and subsequent clarifications** - ECL provisions shall be higher of the provisions required as per IFRS 9 or the Central Bank Instructions concerning the Rules and Regulations for Classification of Credit Facilities, Calculation of their Provisions and Method for Treating the Revenues Resulting Therefrom. - The bonds, treasury bills, public debt instruments and Islamic financial instruments of the Central Bank of Kuwait and the Government of the State of Kuwait are not excluded from the scope of IFRS 9 ECL requirements. - Disclosures of comparative size of ECL as per IFRS 9 and CBK Instructions **B) Guidelines on the Application of IFRS 9 "Financial Instruments" by Local Banks for 2018** - ECL provisions shall be computed based on an Internal Credit Rating System and PD, LGD and EAD. - Proper co-ordination shall exist between Finance Department, Risk Management, IT Department, Internal Audit and Credit, - Minimum thresholds or floors set for PD, LGD and EADs - Use of Low Credit Risk Exemptions is subject to prior approval of CBK - Further Guidelines exist in relation transfer of exposures into Stage 2, Haircuts on Collaterals - Lays down certain responsibilities for external auditors
Parallel Run Reporting Requirements	Not readily available
Transition Relief for Capital Impact	Not readily available

Prudential Regulators' Guidance and Instructions – Qatar	
Regulatory Guidance	Qatar Central Bank (QCB) (**Circular no.: 9/2017 dated 9 Feb 2017)**
Guidance Areas	IFRS 9 Implementation Guidelines in connection with Classification and Measurement of Financial Assets and Liabilities and Derivatives to make the local regulations consistent with FAS 30, 'Impairment and Credit Losses' issued by AAOIFI
Key Highlights of Regulatory Guidance	- Classification and measurement of financial instruments based on IFRS 9- applied by the conventional banks only - Use of Fair value option (FVO) should be notified to QCB and Reclassifications due to change in business model require no objection from QCB. - Any credit exposures to the Government of Qatar, represented by the Ministry of Finance and QCB are exempted from the application of expected credit loss model - Three-stage' model for recognition of credit impairment based on changes in credit quality since initial recognition - Stage 1-Performing-ECL calculation to be done for 12 months Stage 2- Performing-Assets with significant increase in credit risk since initial recognition-ECL calculation to be done for lifetime Stage 3- Non-performing-ECL calculation to be done based on QCB guidelines

	- QCB requires that banks use the following general model to measure the provision for ECL for assets in stage 1 and stage 2: Probability of default (PD) x Loss given default (LGD) x Exposure at default - These models and techniques should be capable of providing forward-looking information - In order to derive forward-looking PD information, banks are required to overlay specific macroeconomic information to the PD information - QCB requires banks to map their internal credit risk rating models to Moody's credit rating (QCB accepts equivalent other credible credit rating systems) - Low credit risk assets defined specifying criteria for assessment as low credit risk - Guidance on backward transition- 12 month cooling-off period from Stage 3 to Stage 2 and from Stage 2 to Stage 1 - QCB requires banks to provide to QCB before the end of each quarter details about all the exposures that they intend to transfer from stage 2 to stage 1, and the value of change in credit loss provision and its impact on the statement of profit or loss, in order to obtain QCB's relevant No Objection. - QCB requires banks to at least use two scenarios when estimating ECL. This typically includes various scenarios of LGD loss rate, e.g. execute mortgage on the collateral or restructure of facility, or refrain from taking any action. However, banks are free to use up to five scenarios. - QCB gives number of notches downgrade across rating scale for considering movement from stage 1 to 2. - QCB circular provides guidance on type of assets that can be considered as 'Low Credit Risk'. - Advises banks to put in robust project governance structure to migrate to IFRS 9, use existing risk management infrastructure and asks Finance and Risk Management Department to work together.
Parallel Run Reporting Requirements	Banks should prepare the first report on the credit rating of performing balances between the first and second stages as at June 30, 2017. QCB should be provided with the report no later than the 1 September 2017, together with a report from the bank's external auditor on the bank's compliance with the requirements of IFRS 9 and QCB instructions.
Transition Relief for Capital Impact	Not provided

Europe - Part 1

(This section viz. Part I includes Banks with serial numbers 1 to 10 of samples for Europe. Refer section Part II for Banks with serial numbers 11 to 20 of samples for Europe)

Table 10: Qualitative Background

	EU-UK					EU-Germany		EU-France		
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
Transition Year	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018
Presentation currency & Rounding off	US$ M	£ M	US$ M	£ M	£ M	€ M	€ M	€ M	€ M	£ M
Separate Transition Report	Yes	Yes	Yes	Yes	Yes	Yes	NRA	NRA	NRA	NRA
Use of Exemptions/Early Adoptions										
A. Exemption from restatement of comparatives	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
B. Continuation of IAS 39 Hedge Accounting	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes#	Yes#
C. Prepayment Features with Negative compensation' amendments early adoption	Yes	No	No	NRA	Yes	Yes	NI	Yes	Yes	Yes
D.IFRS 9 exemptions to Insurance Subsidiaries	NRA	NRA	NRA	Yes	NRA	NRA	NRA	Yes	Yes	OLA
ECL Computation & Impact Adjustment										
3-5 year Transition Used	NRA	NRA	NRA	NRA	Yes	No	NRA	NRA	NRA	NRA
PD/LGD/EAD Models used	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Basel II models are leveraged	Yes	Yes	Yes	NRA	Yes	Yes	Yes	Yes	Yes	Yes
ECL Computation- No. of Scenarios	3	5	3	4	5	2	NRA	3	NRA	R
ECL Computation- No. of Economic Factors	4	3	5	4	4	3	NRA	6	NRA	5

NRA= Not Readily Available, NI=No Impact, NMI=No Material Impact, #=EU Hedge Carve-out applied, OLA=Overlay approach of IFRS 4, R=Reasonable Number of scenarios

Accounting Framework

EU	UK
• International Financial Reporting Standards (IFRSs) issued by the IASB and as endorsed by EU are followed as required by EU Regulations (EU Regulation No.1606/2002 IAS Regulations). IFRS 9 and IAS 39 endorsed by EU has carve-outs in relation certain aspects of hedge accounting. • The above regulations apply to consolidated financial statements of publicly traded companies. Above regulations also provide that Member states have option to either mandate or allow above referred IFRS	• International Financial Reporting Standards (IFRSs) issued by the IASB and as endorsed by EU are followed as required by EU Regulations (EU Regulation No.1606/2002 IAS Regulations). IFRS 9 and IAS 39 endorsed by EU has optional carve-outs in relation certain aspects of hedge accounting. However, many internationally active banks do choose this option and also make explicit unreserved statement of compliance with IFRS Standards issued by IASB.

Accounting Framework	
EU	**UK**
Standards to unlisted entities and separate financial statements of listed entities.	
Germany	**France**
• International Financial Reporting Standards (IFRSs) issued by the IASB and as endorsed by EU are followed as required by EU Regulations (EU Regulation No.1606/2002 IAS Regulations). IFRS 9 and IAS 39 endorsed by EU has optional carve-outs in relation certain aspects of hedge accounting. However, many internationally active banks do choose this option and also make explicit unreserved statement of compliance with IFRS Standards issued by IASB.	• International Financial Reporting Standards (IFRSs) issued by the IASB and as endorsed by EU are followed as required by EU Regulations (EU Regulation No.1606/2002 IAS Regulations). IFRS 9 and IAS 39 endorsed by EU has optional carve-outs in relation certain aspects of hedge accounting. However, many internationally active banks do choose this option and also make explicit unreserved statement of compliance with IFRS Standards issued by IASB.

Key Findings – IFRS 9 Quantitative Impact Information

Figure 46: Percentage of Financial Assets to Total Assets

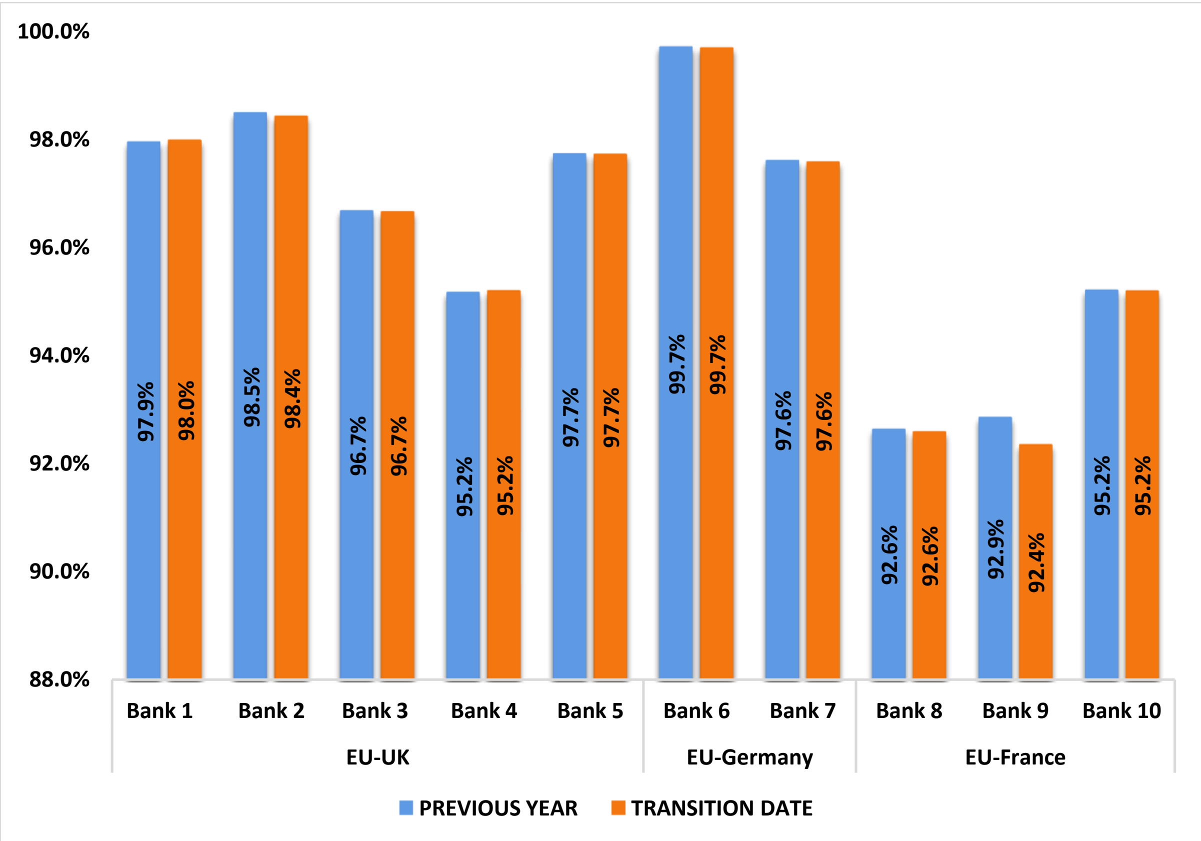
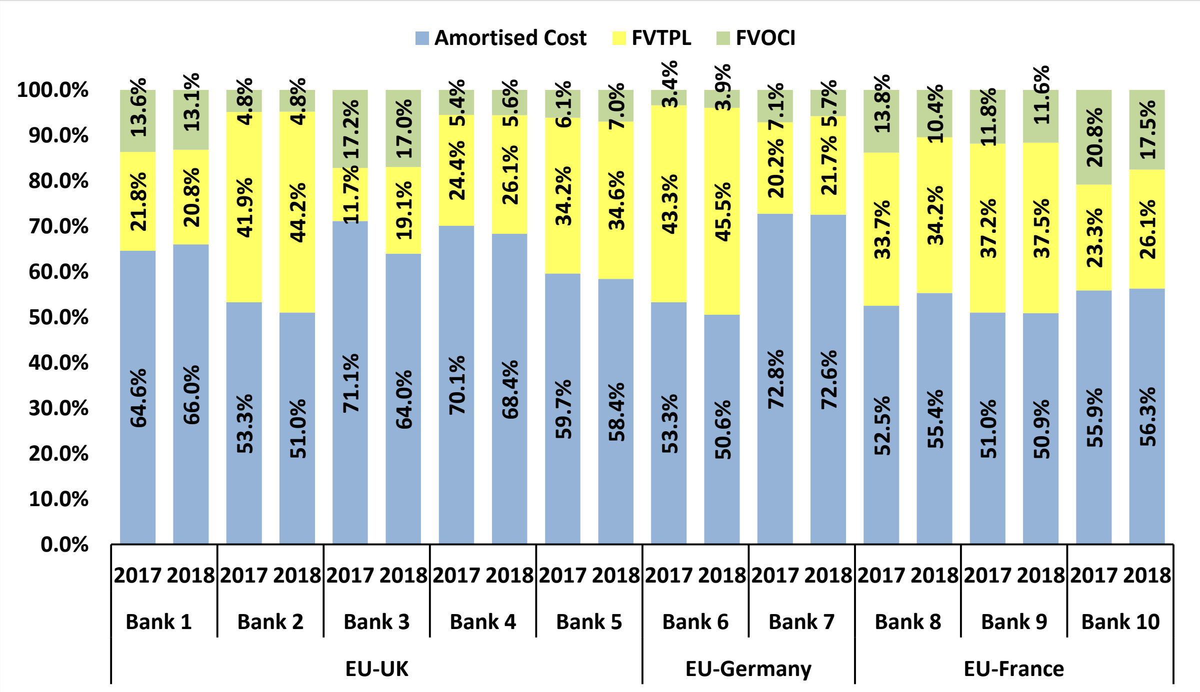


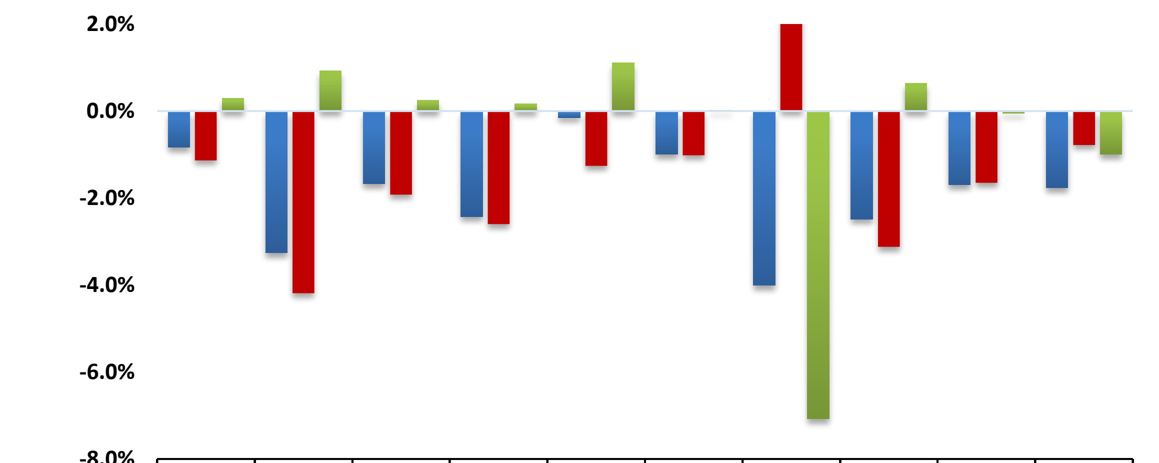
Figure 47: IFRS 9 Measurement Category-Wise distribution of Financial Assets



Note:

a) Significant percentage of financial assets are reported under FVTPL category, the range is 20% to 45%.This Measurement category wise profile is significantly different from other jurisdictions.

Figure 48: IFRS 9 Transition Impact on Total Equity

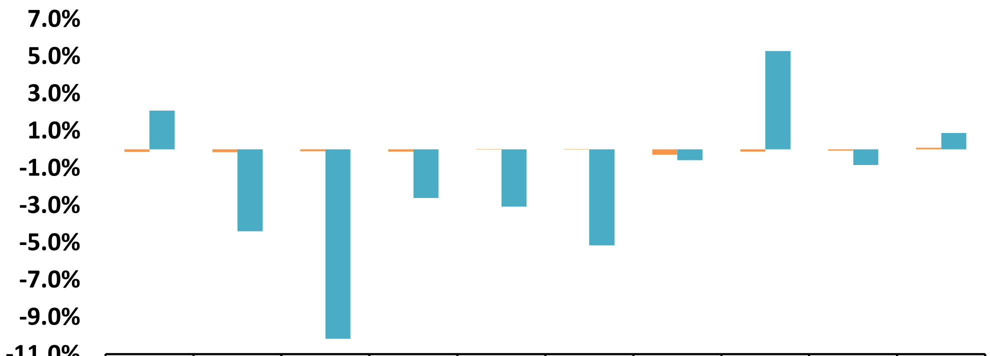


	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
	EU-UK					EU-Germany		EU-France		
Total Equity	-0.8%	-3.3%	-1.7%	-2.4%	-0.1%	-1.0%	-4.0%	-2.5%	-1.7%	-1.8%
ECL	-1.1%	-4.2%	-1.9%	-2.6%	-1.3%	-1.0%	3.1%	-3.1%	-1.6%	-0.8%
Others	0.3%	0.9%	0.3%	0.2%	1.1%	0.0%	-7.1%	0.6%	0.0%	-1.0%

Note:

a) No material impact on Equity has been reported except for one bank where a slightly comparatively higher percentage of 4% reduction in equity.

Figure 49: IFRS 9 Transition Impact on Total Assets and Financial Assets at Amortised Cost



	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
	EU-UK					EU-Germany		EU-France		
Total Assets	-0.1%	-0.2%	-0.1%	-0.1%	0.0%	0.0%	-0.3%	-0.1%	-0.1%	0.1%
Amortised cost	2.1%	-4.4%	-10.2%	-2.6%	-3.1%	-5.2%	-0.6%	5.3%	-0.8%	0.9%

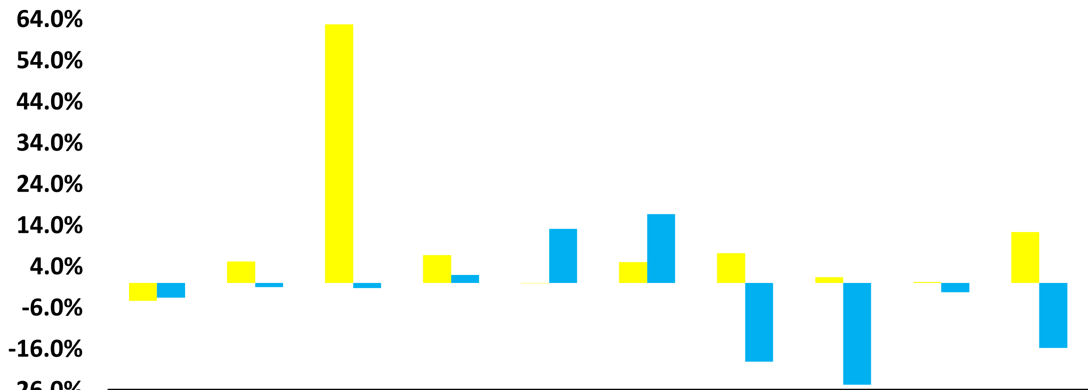
Notes:

a) Decrease in Total Assets is primarily attributable to increase in outstanding balances of ECL provisions which get deducted from GCA of financial assets (on-Balance sheet) for Balance Sheet presentation purposes.

b) Bank 3: Significant decrease in Amortised Cost (AC) category balances is mainly due to reclassification of Reverse Repo balances into FVTPL category.

c) Bank 8: Significant increase in AC category balances is primarily attributable to reclassification from previous category of AFS of certain Treasury Bills held in ALM book due to application of new business model test. This has corresponding decrease in FVOCI balances.

Figure 50: IFRS 9 Transition Impact on Financial Assets at FVTPL and FVOCI



	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
	EU-UK					EU-Germany		EU-France		
FVTPL	-4.3%	5.2%	62.7%	6.8%	-0.1%	5.0%	7.2%	1.4%	0.2%	12.3%
FVOCI	-3.6%	-1.1%	-1.3%	1.9%	13.1%	16.7%	-19.1%	-24.7%	-2.3%	-15.8%

Notes:

a) Bank 3: Significant increase in FVTPL category balances is mainly due to reclassification of Reverse Repo balances from Amortised Cost category.

b) Bank 4: Significant increase in FVTPL category balances and reduction in AC category balances is due to reclassification from AC to FVTPL for two reasons i.e. partly (i)Assets relating to Insurance & Investment business to FVTPL – due to newly introduced business model test and (ii) failure to meet SPPI test – Notes of Securitisation vehicles

c) Bank 5: Significant increase in FVOCI category balances is mainly due to reclassification from previous category of L&R (AC).

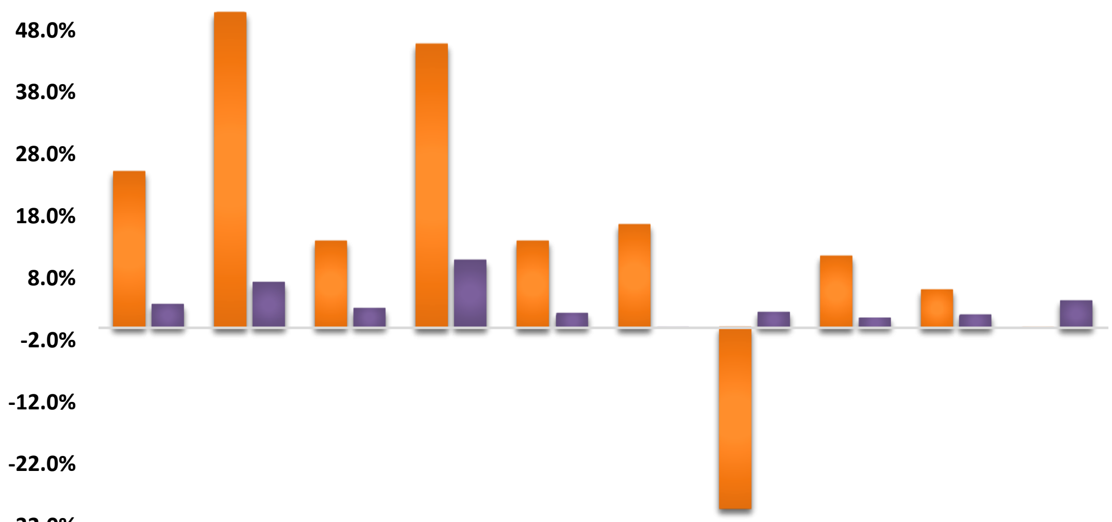
d) Bank 6: Significant increase in FVTPL category balances is mainly to reclassification from AC. Further, significant increase in FVOCI category balances is due to classification from FVTPL category.

e) Bank 7: There have been a few major reclassifications reported among different categories. On a net basis, significant increase in FVTPL due to reclassification of certain securities from previous category of AFS which was required due to application of new business model test.

f) Bank 8: Significant decrease in FVOCI category balances is primarily attributable to reclassification from previous category of AFS of certain Treasury Bills held in ALM book into Amortised Cost category due to application of new business model test.

g) Bank 10: Significant increase in FVTPL category balances is primarily attributable to reclassification of equity investments which are mandatorily required to be classified under FVTPL (unless irrevocable option to classify under FVOCI is used) from previous category of AFS and debt instruments from AFS and AC that do not meet SPPI test.

Figure 51: IFRS 9 Transition Impact on Impairment Loss Allowance



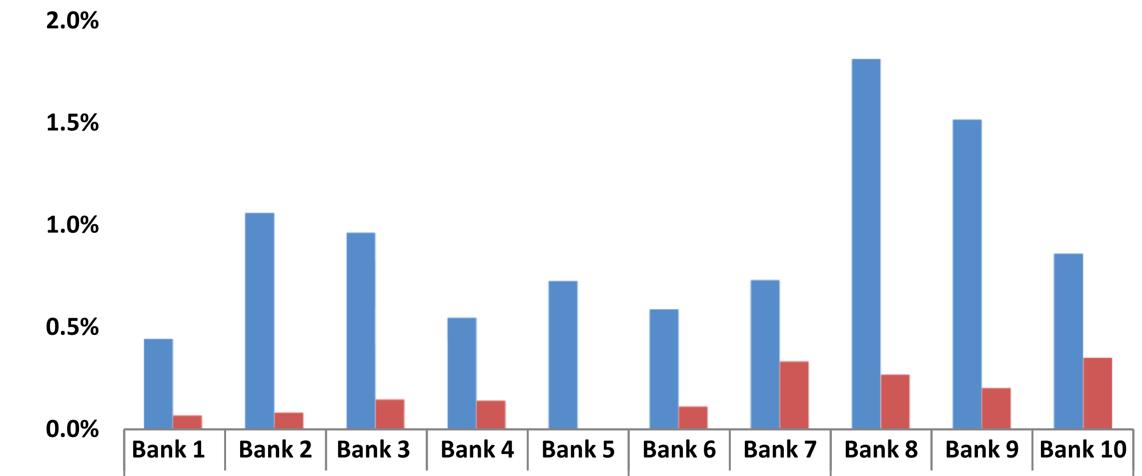
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
			EU-UK			EU-Germany			EU-France	
On B/S	25.0%	50.8%	13.9%	45.8%	13.9%	16.5%	-29.2%	11.4%	5.9%	-0.1%
Off B/s	3.6%	7.2%	3.0%	10.8%	2.2%	-0.1%	2.4%	1.4%	2.0%	4.3%

Notes:

a) Bank 7: Primary reason attributable to significant reduction in ECL is due to reversal of loan loss provision upon reclassification of certain Loans from previous category of L&R (AC) to FVTPL category.

b) All banks have reported increase in ECL provisions, both in respect of On B/S as well as Off B/S exposures, except one bank (Bank 7) which has reported substantial reduction in ECL provision for On B/S exposures.

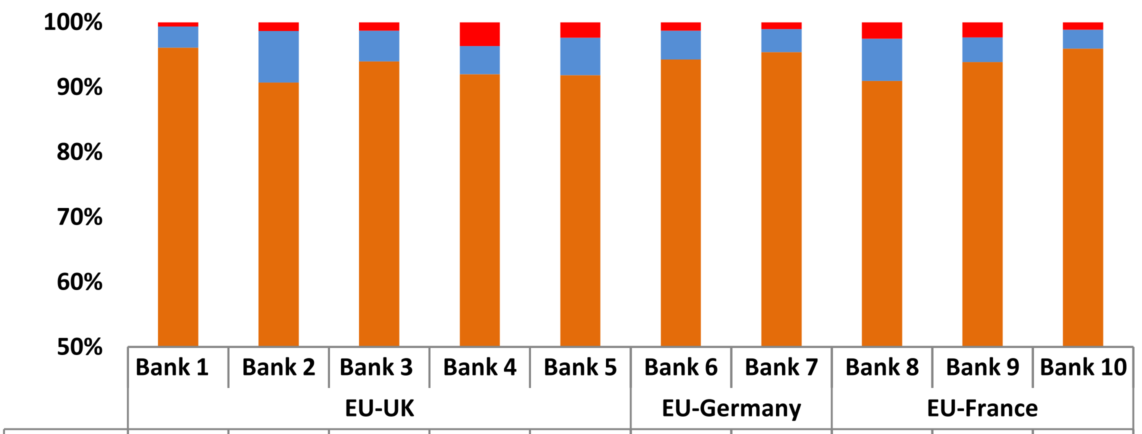
Figure 52: Impairment Loss Allowance Percentage versus Outstanding Exposures at the end of transition year



	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
	EU-UK					EU-Germany		EU-France		
On B/S	0.4%	1.1%	1.0%	0.5%	0.7%	0.6%	0.7%	1.8%	1.5%	0.9%
Off B/S	0.1%	0.1%	0.1%	0.1%	0.0%	0.1%	0.3%	0.3%	0.2%	0.3%

Note: Bank 5: ECL balances for Off B/S exposure are not readily available.

Figure 53: Credit Quality- Stage wise GCAs at the end of transition year



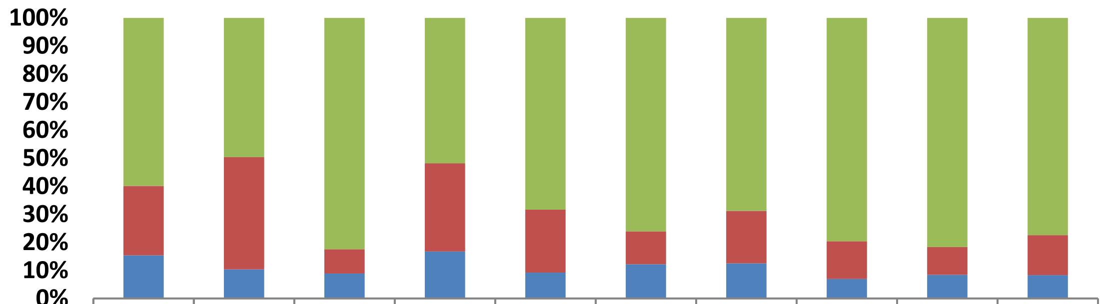
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
	EU-UK					EU-Germany		EU-France		
Stage 3	1%	1%	1%	4%	2%	1%	1%	3%	2%	1%
Stage 2	3%	8%	5%	4%	6%	4%	4%	7%	4%	3%
Stage 1	96%	91%	94%	92%	92%	94%	95%	91%	94%	96%

Notes:

a) For the purpose of above analysis, all financial assets within the scope of IFRS 9 impairment requirements are considered. These financial assets are those classified under Amortised Cost and FVOCI categories. However, this analysis includes only On- B/S Exposures.

b) All the banks have reported substantial percentage (>90%) of On B/S credit exposures in Stage 1 bucket. 3 out 10 banks have reported 6-8% percentage in Stage 2 bucket. Credit exposures reported in Stage 3 (credit impaired) is very low from 1 to 4%.

Figure 54: Impairment Loss Allowance Stage wise Break up at the end of transition year



	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10
	EU-UK					EU-Germany		EU-France		
Stage 3	60%	50%	82%	52%	68%	76%	69%	80%	82%	77%
Stage 2	25%	40%	9%	31%	22%	12%	19%	13%	10%	14%
Stage 1	15%	10%	9%	17%	9%	12%	12%	7%	8%	8%

Note:

a) Large majority of banks have reported sizeable part (>20%) of total impairment loss allowances under Stage 1 & 2 bucket. Only two bank has reported less than 20% in Stage 1 & 2 buckets.

Prudential Regulators' Guidance and Instructions – EU

Regulatory Guidance by	**1)** EU Parliament and Council Regulation (EU) 2017/2395 of 12 December 2017) **2) EBA** **a)** Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses (EBA/GL/2017/06 dated 12 May 2017) b) Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds dated (EBA/GL/2018/01 dated 12 Jan 2018) c) FIRST OBSERVATIONS ON THE IMPACT AND IMPLEMENTATION OF IFRS 9 BY EU INSTITUTIONS (20 Dec 2018)
Guidance Areas	ECL Model implementation and Capital impact transitional relief
Key Highlights of Regulatory Guidance	**EBA** **a)** Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses (EBA/GL/2017/06 dated 12 May 2017) Above guidelines are largely based on the guidelines issued by BCBS in Dec 2015.

	b) Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds dated (EBA/GL/2018/01 dated 12 Jan 2018) Above guidelines prescribe a template for disclosures of comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs
Parallel Run Reporting Requirements	Note readily available
Transition Relief for Capital Impact	As per EU Parliament Regulation mentioned above, credit institutions are given an option to include the additional ECL provisions as of IFRS 9 Transition Date over a maximum transition period of 5 years and inform the competent authority accordingly. Further, specific disclosure requirements are specified.

Prudential Regulators' Guidance and Instructions – UK	
Regulatory Guidance by	Bank of England – Prudential Regulatory Authority (PRA). I. Deputy Governor (PRA) Letter dated 25 Nov 2016 II. Deputy Governor (PRA) Letter dated 7 Aug 2017 III. Deputy Governor (PRA) Letter dated 25 Sep 2017 IV. Executive Director (PRA) Letter dated 8 January 2018 V. Executive Director (PRA) Letter dated 15 April 2019
Guidance Areas	I. Deputy Governor Letter (dated 25 Nov 2016) to the CEOs of the larger UK credit institutions to set out the PRA's expectations as regards the implementation of International Financial Reporting Standard 9's (IFRS 9's) expected credit loss accounting (ECL) requirements and the approach PRA will follow in the light of those expectations. II. Deputy Governor Letter (dated 7 Aug 2017) to CEO's of the larger UK credit institutions advising larger UK credit institutions to provide—either in their 2017 (or 2017/2018) annual reports or in transition packs issued shortly thereafter—disclosures that will enable investors to transition effectively from IAS 39 numbers to IFRS 9 numbers and about the IFRS 9 implementation. III. Deputy Governor Letter (dated 25 Sep 2017) to CEO's the larger UK credit institutions seeking inputs on their bank's plans to use Basel Capital Transition Relief advised by BCBS and if not how the bank has satisfied itself about adequacy of its capital resources. The letter also indicated that the option is likely to be left to individual banks. IV. Executive Director Letter (dated 8 January 2018) to CFO's focuses on the requirements of Transition Disclosures about ECL. V. Executive Director Letter (dated 15 April 2019) to CFO's of select deposit takers about the findings of thematic audit conducted about ECL approaches adopted in IFRS 9 implementation

Key Highlights of Regulatory Guidance	I. In the Deputy Governor Letter dated 25 Nov 2016, PRA focuses to achieve greater consistency in application of ECL provisions. It also mentions that firms need to provide public disclosures and regulatory data that enable market participants and the PRA to work with the ECL numbers. II. In the Deputy Governor Letter dated 7 Aug 2017, the PRA envisages the core disclosures would at least cover the following: - Reconciliations, together with explanations, of the IAS 39 incurred loss provision to the ECL estimate, supported by analyses of the types of product mainly responsible for each type of difference - Disclosures that enable market participants to understand how key IAS 39 impairment concepts have been incorporated into the ECL methodology, the ECL estimate and the amounts allocated to each of the 3 ECL-related stages - A description of the main judgments made in arriving at the ECL estimate and a description and estimated quantification of the impact those judgements have for the ECL estimate, the amounts allocated to each of the three ECL stages and for the other ECL-related numbers disclosed - An explanation of the implications arising for the firm's capital position and capital planning from the ECL estimate often being bigger, more volatile and differently cyclical compared to the IAS 39 incurred loss number. - Information about the measurement uncertainty inherent in the ECL estimate and the amounts allocated to each of the three ECL-related stages and their sensitivity to key drivers. This disclosure should explain the implications of this for the capital position and for capital planning - Information that enables market participants to understand the volatility of the ECL estimate, including information that makes it possible for market participants to make their assessments of future ECL provisions that reflect their own view of future economic conditions. - An explanation of any changes to governance and risk management organisation, processes and key functions made in the light of the move to ECL, including disclosures that enable market participants to navigate between key ECL-related numbers and the firm's key risk metrics. III. The purpose of the Deputy Governor Letter (dated 25 Sep 2017) was to : - summarise the rationale for transitional arrangements; - outline the main features of the transitional arrangements which have been considered within Europe thus far; - set out the PRA's views on UK firms using the arrangements;

	- note the tight timeframes within which UK firms will probably need to make a final decision; and - request a response by [date] on whether the firms in UK intend to use the transitional arrangements IV. The Executive Director Letter dated 8 January 2018 states the content of the minimum transition disclosures: - A quantitative reconciliation of the closing IAS 39 provision number to the ECL provision as at the effective date of IFRS 9, showing separately the impact of each of the main differences between IAS 39 and ECL provisioning models - The reconciliation will be supplemented by explanations of the main reconciling items and from which products and portfolios they mainly arise. - The reconciliation will usually be provided at the balance sheet level but, where the relative size of the reconciling items would be very different for a major product or portfolio, more detail will be provided to help market participants understand the implications of ECL for those products or portfolios. - It also provides details on sensitivity disclosures V. The annexure in the letter consists of a summary of thematic findings that relate to the implementation of the Expected Credit Loss (ECL) approach in IFRS 9.
Parallel Run Reporting Requirements	Not mentioned
Transition Relief for Capital Impact	The PRA envisaged a 5 year transition period. During that time, specified percentages of 'new' provisions due to adoption of IFRS 9 are added back to CET1 capital. Subject to the need for sufficient resilience at the end of the transitional period, the PRA's intention is that all aspects of supervision of a firm using the transitional arrangements would be carried out using 'transitional' data on capital resources and not 'fully loaded' figures. In particular, since stress tests should reflect how stress would be experienced in reality, such tests will fully take account of transitional arrangements

Prudential Regulators' Guidance and Instructions – Germany	
Regulatory Guidance by	Deutsche Bundesbank IFRS 9 from the perspective of banking Supervision (Monthly Report of January 2019)
Guidance Areas	The report contains analysis of the following aspects: a)Initial IFRS 9 impact in German Banks b)Key Requirements of IFRS 9 c) Critical appraisal of new accounting requirements

	d) Challenges for credit institutions e) The actual impact on own funds and loss allowances f) Regulatory guidelines on accounting for expected credit losses – The Basel “Guidance on credit risk and accounting for expected credit losses” g) Current regulatory treatment of accounting loss allowances h) Impact of IFRS 9 on the prudential capital requirements for credit risk i)IFRS 9 transitional arrangements in the European Capital Requirements Regulation (CRR) j) Possible effects on business models and the stability of credit institutions k)Conclusion and outlook
Key Highlights of Regulatory Guidance	Impact of IFRS 9 on the Prudential capital requirements for credit risk - the EBA incorporated the Basel Committee’s guidelines into guidelines of its own19 and called on Member States to implement them in their national law via the “comply or explain” mechanism. The ECB has declared its intention to comply with the EBA guidelines for its jurisdiction – SIs in the euro area. - Two regulatory approaches are permitted for calculating the prudential capital requirements for credit risk – the standardised approach for credit risk (CRSA) and the internal ratings- based (IRB) approach. - Existing regulatory treatment of loss allowances will be retained at least until the interaction between the capital requirements and the ECL accounting frameworks has been subjected to a thorough conceptual and quantitative analysis. - Under this “interim solution”, jurisdictions would extend their existing approaches to categorising loss allowances as specific or general credit risk adjustments IFRS 9 transitional arrangements in the European Capital Requirements Regulation (CRR) and Guidance on calculation of Capital add-back during transitional arrangements - High- level requirements are set out by the Basel Committee, Regulation (EU) 2017/ 2395 effective as of 27 December 2017 amended the European Capital Requirements Regulation (CRR) as regards transitional arrangements for International Financial Reporting Standard (IFRS) 9. Transitional rule can be found in Article 473a of the CRR. - Application of the transitional arrangements is optional. Institutions were given until 1 February 2018 to notify their competent authority whether they wish to apply the arrangements. Where an institution has received the prior permission of the competent authority, it may reverse once, during the transitional period, its initial decision. - Institutions are permitted, over a five- year transitional period starting in 2018, to add back to their Common Equity Tier 1 (CET1) capital a portion of the additional loss allowances (provisions) incurred due to application of ECL accounting. - Capital add- back needs to be calculated separately for portfolios under the

	standardised approach for credit risk (CRSA) and the internal ratings-based (IRB) approach in order to ensure that only provisions in excess of the regulatory expected loss (EL) are included in own funds. - Add- back amount is made up of a static and a dynamic component, with institutions having the option to deselect the latter. - The static component is to mitigate the increase in loss allowances resulting from day one application of IFRS 9 at the effective date of transition from International Accounting Standard (IAS) 39 to IFRS 9. - The dynamic component serves to dampen the potential subsequent impact in future periods, but it is confined to loss allowances for non-defaulted exposures. - To prevent institutions from benefiting twice from the provisioning adjustments, these shall be effected in a consistent manner under the regulatory regime, which – besides adjustments to CET1 capital – also necessitates changes to other regulatory items that are impacted directly or indirectly by the “adjusted” provisions. This calls for a number of adjustments, in particular to the capital deductions for deferred tax assets, the (CRSA) exposure values and the provisions included in Tier 2 capital. - If an institution decides to apply the transitional arrangements or not, it must communicate its decision in the regulatory Pillar III report. Institutions that decide to apply the IFRS 9 transitional arrangements are furthermore required to calculate and disclose all capital ratios and the leverage ratio both with and without the application of Article 473a of the CRR. **Conclusion and outlook** - At this stage, it is not possible to make a clear statement on the long- term material impact of the new standard going forward. In the short term, the biggest challenge for banks and supervisors will continue to be that of ensuring the proper implementation of the revised framework, which will entail considerable changes in institutions’ accounting processes and systems.
Parallel Run Reporting Requirements	Not mentioned
Transition Relief for Capital Impact	- Application of the transitional arrangements is optional. - Institutions are permitted over five- year transitional period. - Institutions are permitted to almost fully neutralise the impact of transitioning to the new impairment regime during the first transition period.

Europe - Part 2

(This section viz. Part II includes Banks with serial numbers 11 to 20 of samples for Europe. Refer section Part I for Banks with serial numbers 1 to 10 of samples for Europe)

Table 11: Qualitative Background

	EU-NL	EU-SP		EU-Italy		EU-SW	EU-FN	EU-SW	EU-DE	EU-NO
	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20
Transition Year	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018
Presentation currency & Rounding off	€ Mn	€ Mn	€ Mn	€ K	€ Mn	US$ Mn	€ Mn	SEK Mn	DKK Mn	NOK Mn
Separate Transition Report	NRA	Yes	NRA	Yes	NRA	NRA	NRA	NRA	NRA	NRA
Use of Exemptions/Early Adoptions										
A. Exemption from restatement of comparatives	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
B. Continuation of IAS 39 Hedge Accounting	C	Yes	Yes	Yes	C	Yes	C	Yes	Yes	Yes
C. Prepayment Features with Negative compensation' amendments early adoption	NRA	No	Yes	No	No	Yes	No	NRA	No	Yes
D.IFRS 9 exemptions to Insurance Subsidiaries	Yes	No	NMI	NRA	Yes	NRA	NMI	NRA	No	NRA
ECL Computation & Impact Adjustment										
3-5 year Transition Relief Used	NRA	Yes	NRA	No	Yes	NRA	NRA	No	Yes	NRA
PD/LGD/EAD Models used	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Basel II models are leveraged	Yes	NRA	NRA	Yes	Yes	Yes	NRA	Yes	NRA	Yes
ECL Computation- No.of Scenarios	3	5	3	3	2	4	3	2	3	M
ECL Computation- No.of Economic Factors	3	4	1	3	6	6	4	5	7	NRA

NRA= Not Readily Available, NI=No Impact, NMI=No Material Impact, C=EU Hedge Carve-out applied, M=Multiple
NL=Nederland, SP=Spain,SW=Switzerland,FN=Finland,SW=Sweden,DE=Denmark,NO=Norway

Accounting Framework

Nederland

- International Financial Reporting Standards (IFRSs) by the IASB and as endorsed by EU are followed as required by EU Regulations (EU Regulation No.1606/2002 IAS Regulations). IFRS 9 and IAS 39 endorsed by EU has optional carve-outs in relation certain aspects of hedge accounting. However, many internationally active banks do choose this option and also make explicit unreserved statement of compliance with IFRS Standards issued by IASB.

Spain

- International Financial Reporting Standards (IFRSs) by the IASB and as endorsed by EU are followed as required by EU Regulations (EU Regulation No.1606/2002 IAS Regulations). IFRS 9 and IAS 39 endorsed by EU has optional carve-outs in relation certain aspects of hedge accounting. However, many internationally active banks do choose this option and also make explicit unreserved statement of compliance with IFRS Standards issued by IASB.

Italy

- International Financial Reporting Standards

Denmark

- International Financial Reporting Standards

Accounting Framework	
(IFRSs) by the IASB and as endorsed by EU are followed as required by EU Regulations (EU Regulation No.1606/2002 IAS Regulations). IFRS 9 and IAS 39 endorsed by EU optional carve-outs in relation certain aspects of hedge accounting. • F/s are to be prepared in the formats prescribed by the Italian Banking Regulator (Banca d'Italia) (circular 262 of 22 December 2005 and subsequent amendments laid down the formats for the financial statements and explanatory notes used to prepare these Accounts. Above circular was updated by Banca d'Italia on 22 December 2017 circular in the context of the requirements of IFRS 9 Financial Instruments.	(IFRSs) issued by the IASB and as endorsed by EU are followed as required by EU Regulations (EU Regulation No.1606/2002 IAS Regulations). IFRS 9 and IAS 39 endorsed by EU optional carve-outs in relation certain aspects of hedge accounting. • Danish FSA's Executive Order No. 1306 dated 16 December 2008 on the use of IFRSs by undertakings subject to the Danish Financial Business Act.
Finland	**Sweden**
• International Financial Reporting Standards (IFRSs) by the IASB and as endorsed by EU are followed as required by EU Regulations (EU Regulation No.1606/2002 IAS Regulations). IFRS 9 and IAS 39 endorsed by EU optional carve-outs in relation certain aspects of hedge accounting.	• International Financial Reporting Standards (IFRSs) by the IASB and as endorsed by EU are followed as required by EU Regulations (EU Regulation No.1606/2002 IAS Regulations). IFRS 9 and IAS 39 endorsed by EU optional carve-outs in relation certain aspects of hedge accounting.
Switzerland (Swiss)	**Norway**
• IFRS Standards as issued by the IASB Board are accepted as a reporting standard for listed and unlisted companies[15].	• Norway is a member of European Economic Area and the EU Directives including Accounting Directives apply to EEA members. (Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports.)[16] • International Financial Reporting Standards (IFRSs) by the IASB and as endorsed by EU are followed as required by EU Regulations (EU Regulation No.1606/2002 IAS Regulations). IFRS 9 and IAS 39 endorsed by EU optional carve-outs in relation certain aspects of hedge accounting.

[15] IFRS Jurisdiction Profiles (www.ifrs.org)
[16] IFRS Jurisdiction Profiles (www.ifrs.org)

Key Findings – IFRS 9 Quantitative Impact Information

Figure 55: Percentage of Financial Assets to Total Assets

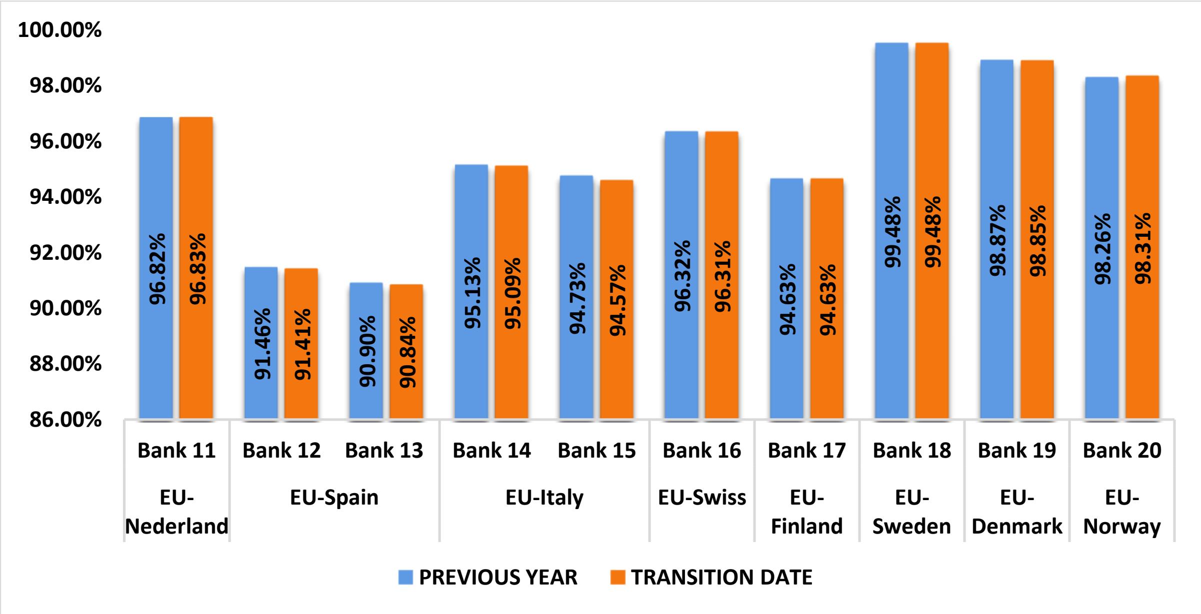
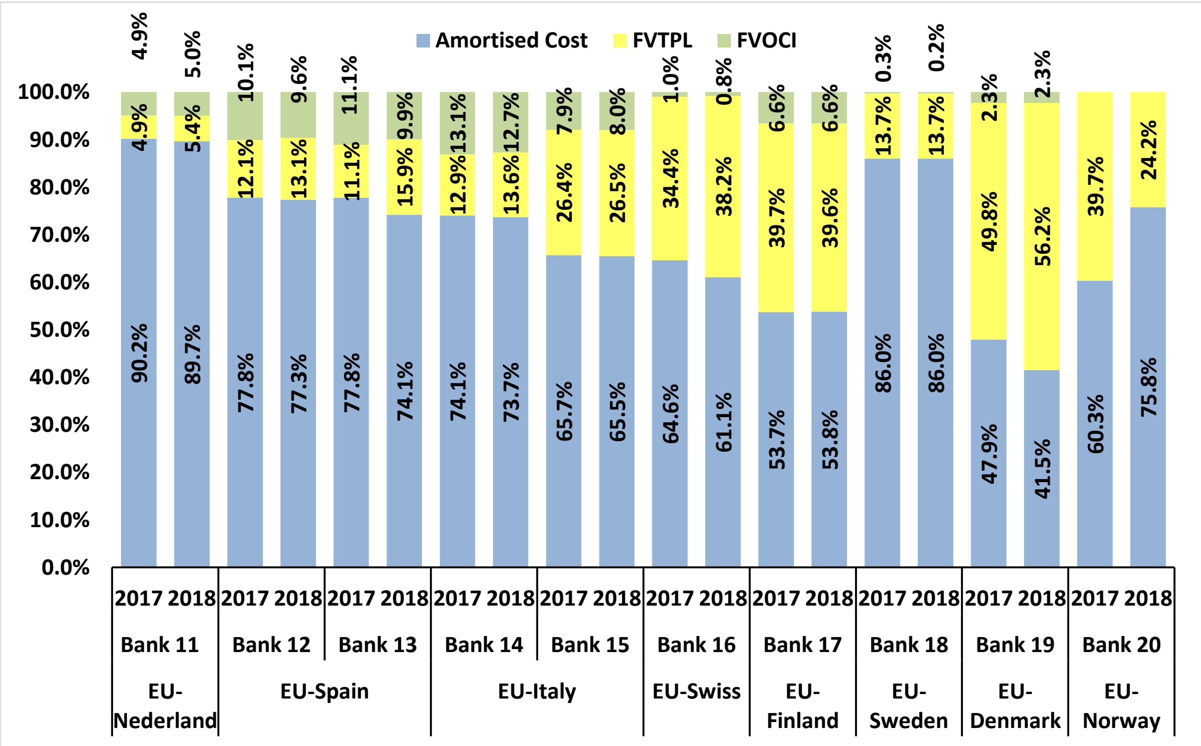


Figure 56: IFRS 9 Measurement Category-Wise distribution of Financial Assets

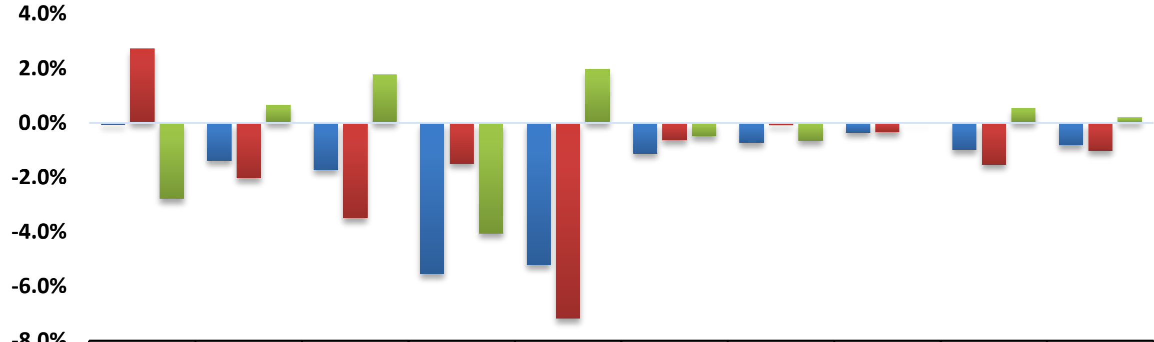


Notes:

a) There is significant diversity among banks in the measurement category wise profile of financial assets. Significant percentage of financial assets are reported under FVTPL category; Six out Ten Banks have reported well above 25% and two of these have reported 40 & 56% in FVTPL category. FVOCI is reportedly used to a lesser extent.

b) Bank 19: Nearly 69% of the FVTPL category comprise of Danish Mortgage Loans, Assets relating to unit-linked investment contract and Assets relating to Insurance Contracts.

Figure 57: IFRS 9 Transition Impact on Total Equity

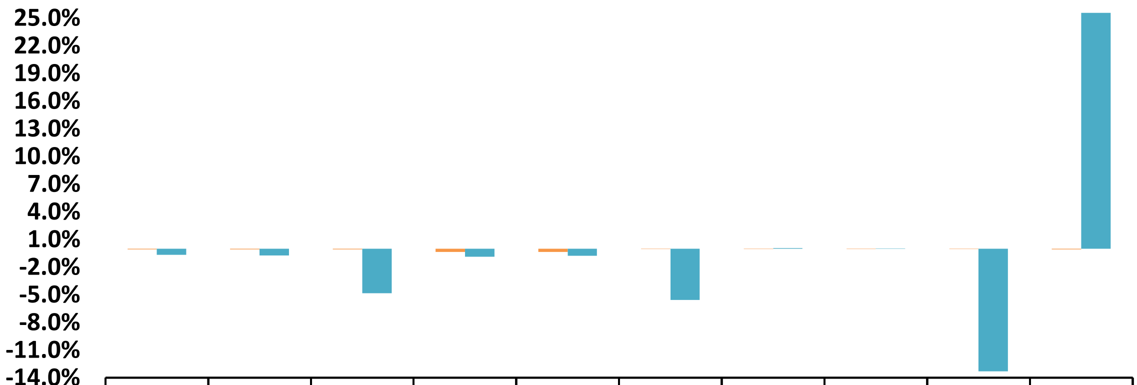


	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20
	EU-Nederland	EU-Spain		EU-Italy		EU-Swiss	EU-Finland	EU-Sweden	EU-Denmark	EU-Norway
Total Equity	-0.1%	-1.4%	-1.7%	-5.5%	-5.2%	-1.1%	-0.7%	-0.4%	-1.0%	-0.8%
ECL	2.7%	-2.0%	-3.5%	-1.5%	-7.2%	-0.6%	-0.1%	-0.3%	-1.5%	-1.0%
Others	-2.8%	0.7%	1.8%	-4.1%	2.0%	-0.5%	-0.7%	0.0%	0.5%	0.2%

Note:

a) No material impact on Equity has been reported except in case of two banks where a slightly comparatively higher percentage of c.5% reduction in equity.

Figure 58: IFRS 9 Transition Impact on Total Assets and Financial Assets at Amortised Cost



	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20
	EU-Nederland	EU-Spain		EU-Italy		EU-Swiss	EU-Finland	EU-Sweden	EU-Denmark	EU-Norway
Total Assets	-0.1%	-0.1%	-0.1%	-0.4%	-0.3%	0.0%	0.0%	0.0%	0.0%	-0.1%
Amortised cost	-0.7%	-0.7%	-4.8%	-0.9%	-0.8%	-5.5%	0.1%	0.0%	-13.3%	25.6%

Notes:

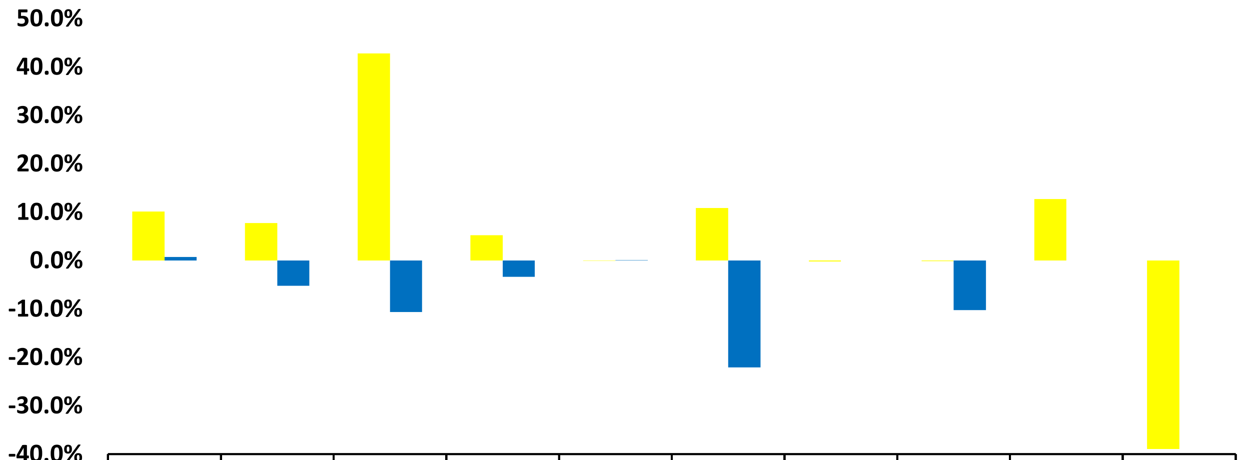
a) Bank 13: Significant decrease in Amortised Cost (AC) category balances is mainly attributable to reclassification of certain Loans & Advances from previous category of L&R due to failure to comply with SPPI test of IFRS 9.

b) Bank 16: Significant decrease in AC category balances is mainly due to reclassification of brokerage receivables and certain securities to FVTPL category as these fail to meet SPPI test, reclassification of reverse repo managed on fair value basis into FVTPL category due to business now model test.

c) Bank 19: Significant decrease in Amortised Cost is due to reclassification of Reverse Repo balances and Loans to banks from previous category of L&R to FVTPL category due to non-compliance with business model test.

d) Bank 20: Significant increase in AC category balances is due to reclassification of cash, central bank balances, due from credit institutions and commercial papers, bonds etc. from FVTPL category due to fundamental reassessment of business model under IFRS 9 and also in new regulations following the Fundamental Review of the Trading Book (FRTB) introduced by the Basel Committee.

Figure 59: IFRS 9 Transition Impact on Financial Assets at FVTPL and FVOCI



	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20
	EU-Nederland	EU-Spain		EU-Italy		EU-Swiss	EU-Finland	EU-Sweden	EU-Denmark	EU-Norway
FVTPL	10.1%	7.8%	42.8%	5.3%	0.0%	10.9%	-0.2%	-0.1%	12.7%	-39.0%
FVOCI	0.8%	-5.2%	-11%	-3.3%	0.1%	-22.0%	0.0%	-10.2%	0.0%	0.0%

Notes:

a) Bank 11: In %age terms there is significant increase in FVTPL category but not in absolute amounts.

b) Bank 12: Significant increase in FVTPL category balances is mainly attributable to reclassification of certain Loans & Advances and Equity Instruments from previous categories of L&R (AC) and AFS due to failure to comply with SPPI test of IFRS 9.

c) Bank 13: Significant increase in FVTPL category balances is mainly attributable to reclassification of certain Loans & Advances and Equity Instruments from previous categories of L&R and AFS due to failure to comply with SPPI test of IFRS 9.

d) Bank 14: Increase in FVTPL category balances is due to reclassification from of certain items from previous categories of AFS and L&R due to non- fulfilment of SPPI test.

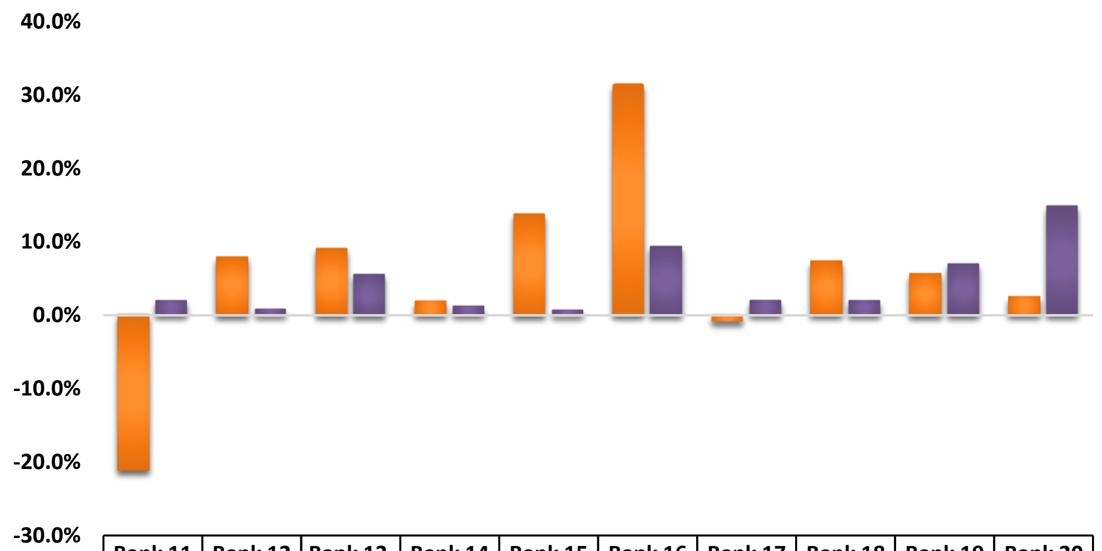
e) Bank 16: Significant increase in FVTPL category balances is mainly due to reclassification of brokerage receivables and certain securities from AC category as these fail to meet SPPI test, reclassification of reverse repo managed on fair value basis into FVTPL category due to business model test.

f) Bank 18: Significant decrease in FVOCI category balance is mainly due to reclassification of Bonds held for liquidity purposes from previous category of AFS to Amortised Cost as they meet business model and SPPI test.

g) Bank 19: Significant increase in FVTPL category balances is mainly due to reclassification of Reverse Repo balances and Loans to banks from previous category of L&R category to FVTPL category due to non-fulfilment of business model test.

h) Bank 20: Significant decrease in FVTPL category balances is mainly due to reclassification of cash, central bank balances, due from credit institutions and commercial papers, bonds etc. to AC category due to fundamental reassessment of business model under IFRS 9 and also in new regulations following the Fundamental Review of the Trading Book (FRTB) introduced by the Basel Committee.

Figure 60: IFRS 9 Transition Impact on Impairment Loss Allowance



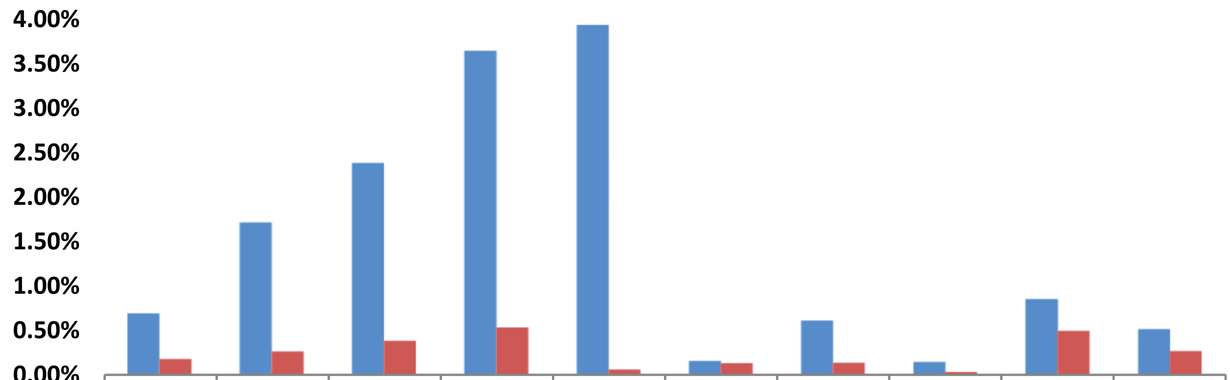
	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20
	EU-Nederland	EU-Spain		EU-Italy		EU-Swiss	EU-Finland	EU-Sweden	EU-Denmark	EU-Norway
On B/S	-21.2%	7.8%	9.1%	1.8%	14%	31.4%	-0.9%	7.2%	5.5%	2.4%
Off B/s	1.9%	0.8%	5.5%	1.1%	0.7%	9.3%	2.0%	1.9%	6.8%	14.8%

Notes:

a) Bank 11: Significant decrease in ECL provision is reported to be due to release of impairment provision under IAS 39 due to reclassification of certain Loans and advances to customers measured at amortised cost.

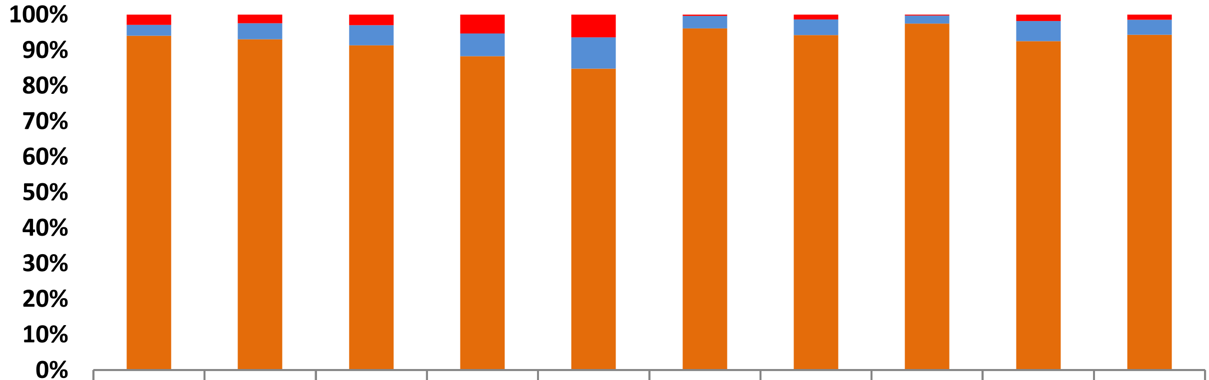
b) All the banks have reported overall increase in ECL provisions except one bank where there is significant reduction. In another case, the increase in ECL provision is negligible.

Figure 61: Impairment Loss Allowance Percentage versus Outstanding Exposures at the end of transition year



	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20
	EU-Nederland	EU-Spain		EU-Italy		EU-Swiss	EU-Finland	EU-Sweden	EU-Denmark	EU-Norway
On B/S	0.69%	1.71%	2.38%	3.64%	3.92%	0.16%	0.61%	0.15%	0.85%	0.52%
Off B/S	0.17%	0.26%	0.37%	0.52%	0.06%	0.13%	0.14%	0.03%	0.48%	0.26%

Figure 62: Credit Quality- Stage wise GCAs at the end of transition year



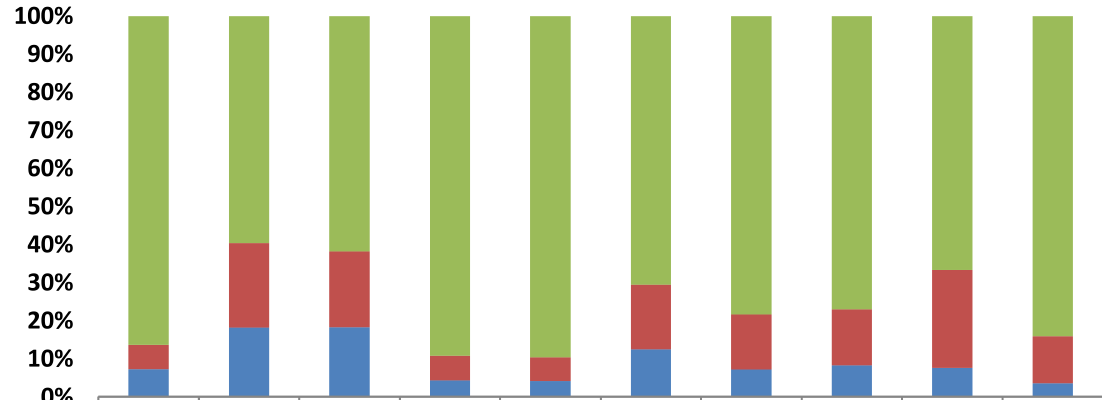
	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20
	EU-Nederland	EU-Spain		EU-Italy		EU-Swiss	EU-Finland	EU-Sweden	EU-Denmark	EU-Norway
Stage 3	3%	3%	3%	5%	6%	0%	1%	0%	2%	1%
Stage 2	3%	4%	6%	6%	9%	4%	4%	2%	6%	4%
Stage 1	94%	93%	91%	88%	85%	96%	94%	97%	93%	94%

Notes:

a) For the purpose of above analysis, all financial assets within the scope of IFRS 9 impairment requirements are considered. These financial assets are those classified under Amortised Cost and FVOCI categories. However, this analysis includes only On- B/S Exposures.

b) Large majority of banks have reported substantial percentage (>90%) of On B/S credit exposures in Stage 1 bucket. Two banks have reported comparatively lower percentages but still above 80%. In stage 2 bucket, exposure reported is in the range of 2-9%. Four banks out of ten have reported 1% or less in Stage 3 (credit impaired).

Figure 63: Impairment Loss Allowance Stage wise Break up at the end of transition year



	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Bank 17	Bank 18	Bank 19	Bank 20
	EU-Nederland	EU-Spain		EU-Italy		EU-Swiss	EU-Finland	EU-Sweden	EU-Denmark	EU-Norway
Stage 3	86%	60%	62%	89%	90%	71%	78%	77%	67%	84%
Stage 2	6%	22%	20%	7%	6%	17%	14%	15%	26%	12%
Stage 1	7%	18%	18%	4%	4%	13%	7%	8%	8%	4%

Note:

a) There is diversity in the range of percentage of ECL distribution across different buckets of credit quality. Three banks have reported less than 15% for Stage 1 & 2.

Prudential Regulators' Guidance and Instructions

Regulatory Guidance and Instructions on these jurisdictions are largely based on those issued by EU Authorities highlighted in previous section. Hence, individual jurisdiction-wise information is not provided herein.

Canada and South Africa

Table 12: Qualitative Background

	Canada						South Africa (SA)			
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 1	Bank 2	Bank 3	Bank 4
Transition Year	2017^	2017^	2017^	2017^	2017^	2017^	2018	2018	2018	2018*
Presentation currency & Rounding off	CAN$ Mn	CAN$ Mn	CAN$ Mn	CAN$ Mn	CAN$ Mn	CAN$ Mn	Rand M	Rand M	Rand M	€ '000
Separate Transition Report	NRA	NRA	NRA	NRA	NRA	NRA	NRA	Yes	NRA	Yes
Use of Exemptions/Early Adoptions										
A. Exemption from restatement of comparatives	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
B. Continuation of previous Hedge Accounting	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
C. Prepayment Features with Negative compensation' amendments early adoption	NRA	No	NRA	NRA	NRA	NRA	No	No	NRA	Yes
D.IFRS 9 exemptions to Insurance Subsidiaries	NRA	NRA	NRA	NRA	NRA	NRA	NRA	No	NRA	NRA
ECL Computation & Impact Adjustment										
3-5 year Transition Relief Used	Yes	NRA	NRA	NRA	NRA	NRA	3 years	NRA	NRA	Yes
PD/LGD/EAD Models used	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Basel II models are used as basis	NRA	NRA	Yes	NRA	NRA	Yes	Yes	NRA	NRA	NRA
ECL Computation- No.of Scenarios	3	3	3	3	3	3	3	3	4	Multiple
ECL Computation- No.of Economic Factors	3	6	4	5	4	5	4	6	4	NRA

*NRA= Not readily available ,^IFRS 9 early adopted in 2017 as per Banking Regulator's advisory,*As Annual Report is not available, figures are based on Transition Report*

Accounting Frameworks

Canada	South Africa
• The Financial Statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) and accounting requirements of Office of the Superintendent of Financial Institution (OSFI) in accordance with Section 308 of the Bank Act (Canada). Section 308 states that, except as otherwise specified by OSFI, the financial statements are to be prepared in accordance with IFRS.	• The Financial Statements have to be prepared in accordance with the recognition and measurement requirements of IFRS issued by IASB, interpretations issued by the IFRS Interpretations Committee (IFRS-IC), the South African Institute of Chartered Accountants' Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act.

Key Findings – IFRS 9 Quantitative Impact Information

Figure 64: Percentage of Financial Assets to Total Assets

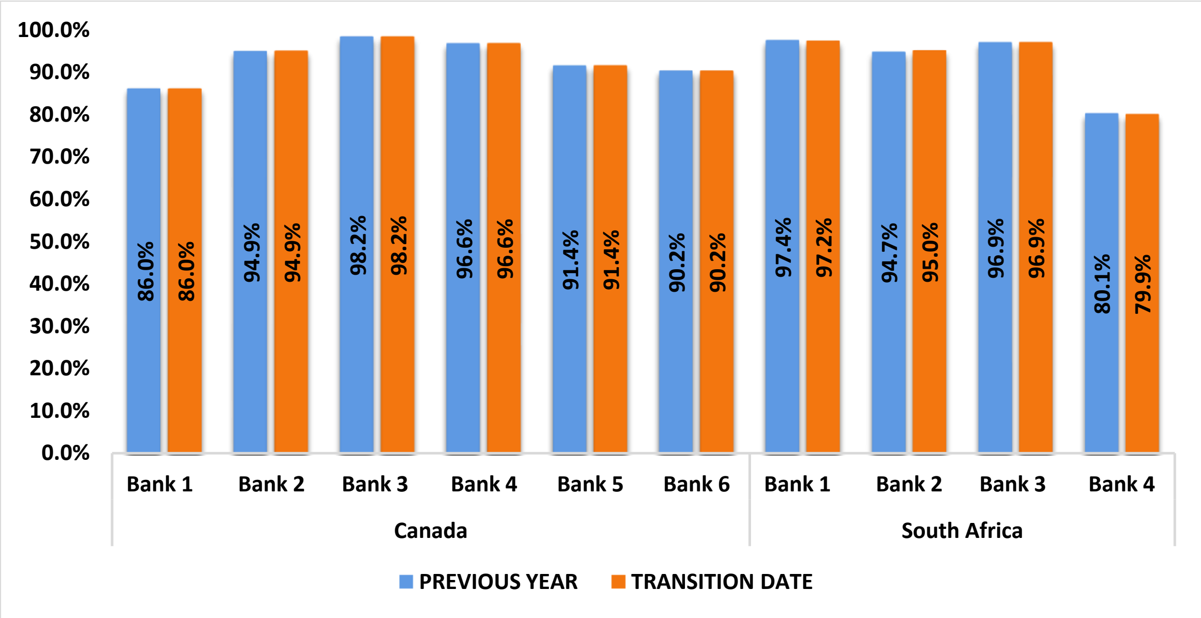
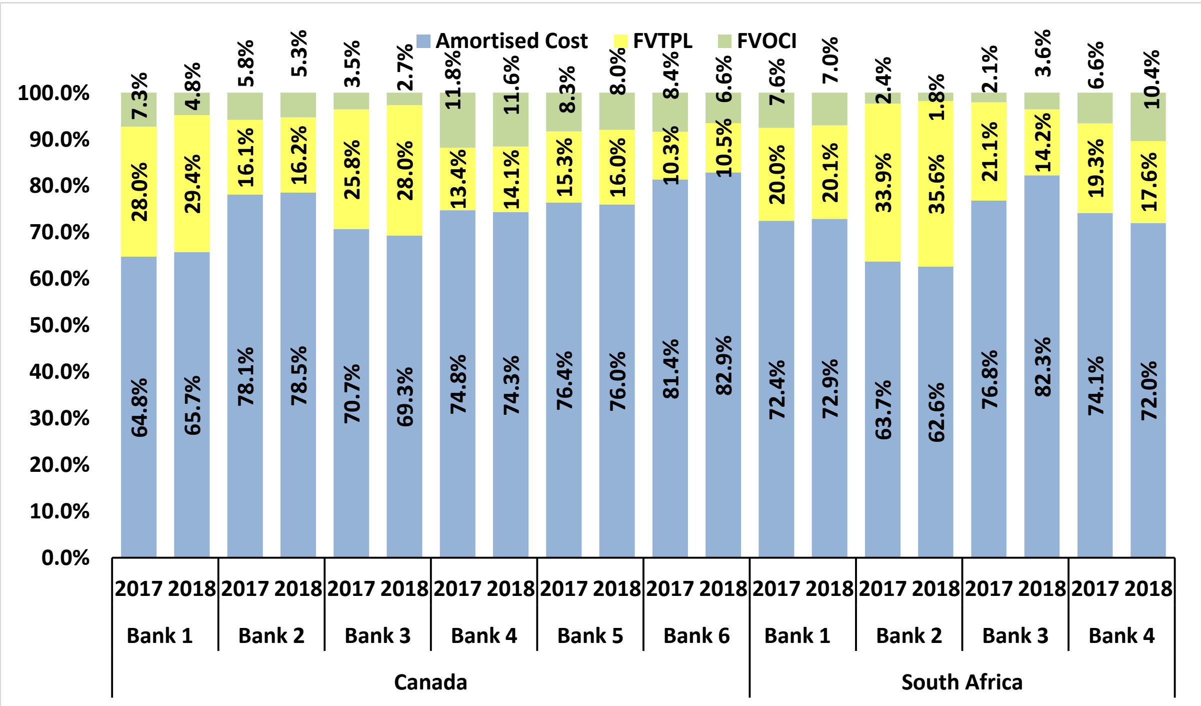


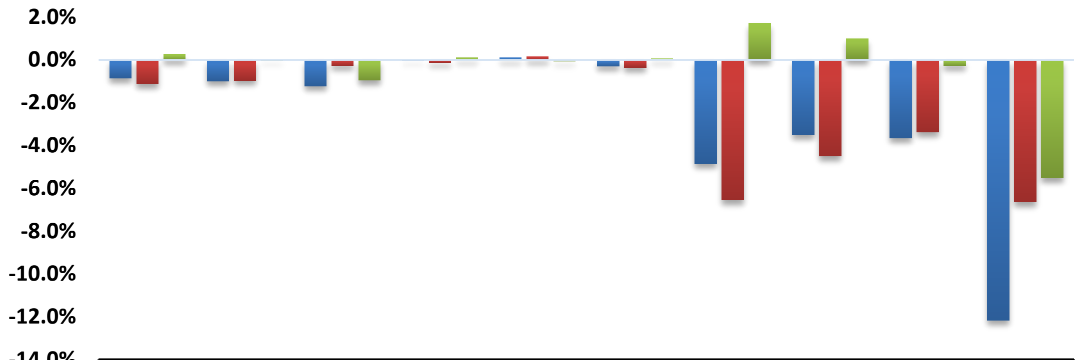
Figure 65: IFRS 9 Measurement Category-Wise distribution of Financial Assets



Note:

a) While large part of financial assets are classified under Amortised Cost category, significant percentage of up to 36% is classified under FVTPL category. Use of FVOCI is reportedly low and generally less than 10% of total financial assets except in two cases it is around 10-11%.

Figure 66: IFRS 9 Transition Impact on Total Equity

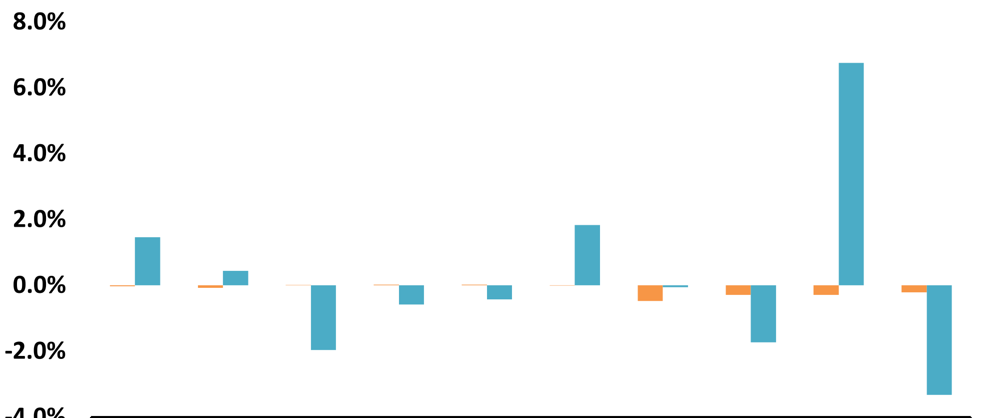


	Canada						South Africa			
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 1	Bank 2	Bank 3	Bank 4
Total Equity	-0.9%	-1.0%	-1.2%	0.0%	0.1%	-0.3%	-4.8%	-3.5%	-3.7%	-12.2%
ECL	-1.1%	-1.0%	-0.3%	-0.1%	0.2%	-0.4%	-6.6%	-4.5%	-3.4%	-6.6%
Others	0.3%	0.0%	-1.0%	0.1%	-0.1%	0.1%	1.7%	1.0%	-0.3%	-5.5%

Note:

a) In case of Canada, impact on Equity has been reported very low and primarily on account of ECL adjustments. In case of South Africa, there is a noticeable reduction in Equity and in one case equity has reduced by more than 10%.

Figure 67: IFRS 9 Transition Impact on Total Assets and Financial Assets at Amortised Cost



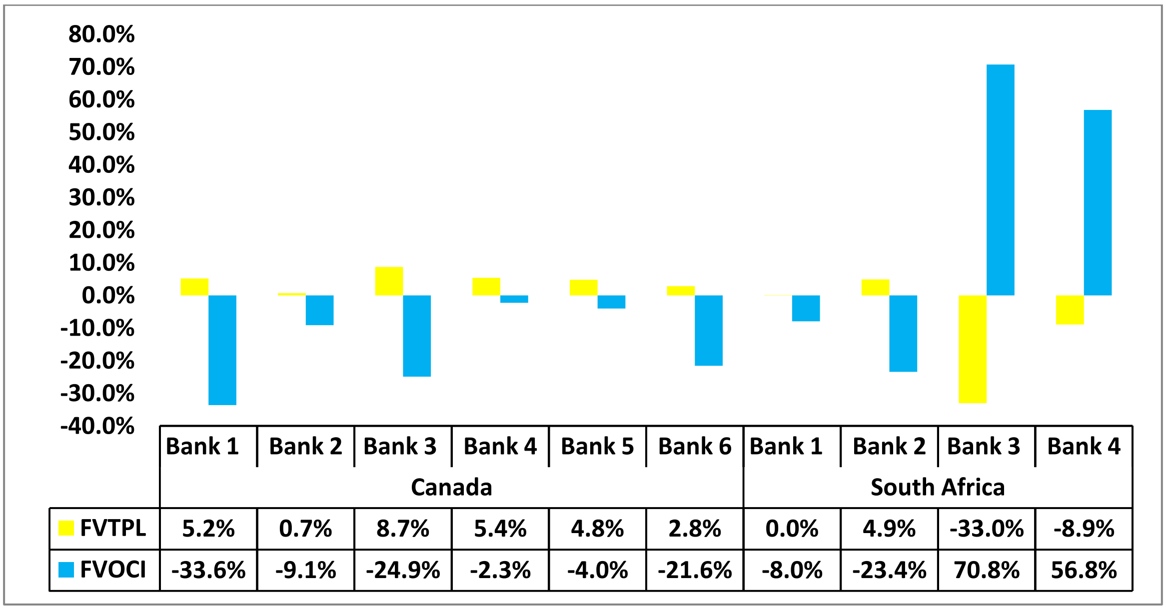
	Canada						South Africa			
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 1	Bank 2	Bank 3	Bank 4
Total Assets	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	-0.5%	-0.3%	-0.3%	-0.2%
Amortised cost	1.5%	0.4%	-2.0%	-0.6%	-0.4%	1.8%	-0.1%	-1.7%	6.7%	-3.3%

Notes:

a) Overall impact on size of Total Assets is very negligible and reduction is primarily attributable to increase in outstanding balances of ECL provisions which get deducted from GCA of financial assets (on-Balance sheet) for Balance Sheet presentation purposes.

b) Bank 3 (South Africa): Significant increase in Amortised Cost category balances is mainly due to reclassification of certain assets from FVTPL category.to Amortised Cost; bank had elected to revoke the existing designation of certain loans classified in FVTPL under the fair-value option of IAS 39 and reclassified the underlying assets in amortised cost.

Figure 68: IFRS 9 Transition Impact on Financial Assets at FVTPL and FVOCI



	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 1	Bank 2	Bank 3	Bank 4
	Canada						South Africa			
FVTPL	5.2%	0.7%	8.7%	5.4%	4.8%	2.8%	0.0%	4.9%	-33.0%	-8.9%
FVOCI	-33.6%	-9.1%	-24.9%	-2.3%	-4.0%	-21.6%	-8.0%	-23.4%	70.8%	56.8%

Notes:

a) Bank 1 (Canada): Significant increase in FVTPL category balances is mainly due to reclassification of Reverse Repo balances from AC Category. Significant decrease in FVOCI category balances is mainly due to reclassification of certain Investment Securities into AC category.

b) Bank 2 (Canada): Significant decrease in FVOCI category balances is mainly due to reclassification of certain debt securities into FVTPL category upon application of business model test of IFRS 9.

c) Bank 3 (Canada): Significant decrease in FVOCI category balances is mainly due to reclassification of certain debt securities into FVTPL category. Further, increase in FVTPL category balances is mainly due reclassification of Coins, Bank Notes & CB Reserve requirements from AC category.

d) Bank 4 (Canada): Significant increase in FVTPL category is mainly due to reclassification of debt securities from previous categories of AFS and HTM due to application of SPPI test.

e) Bank 6 (Canada): Significant decrease in FVOCI category balances is mainly due to reclassification of certain debt securities into Amortised Cost category due to application of Business Model and SPPI Test. Some portion is reclassified into FVTPL category also.

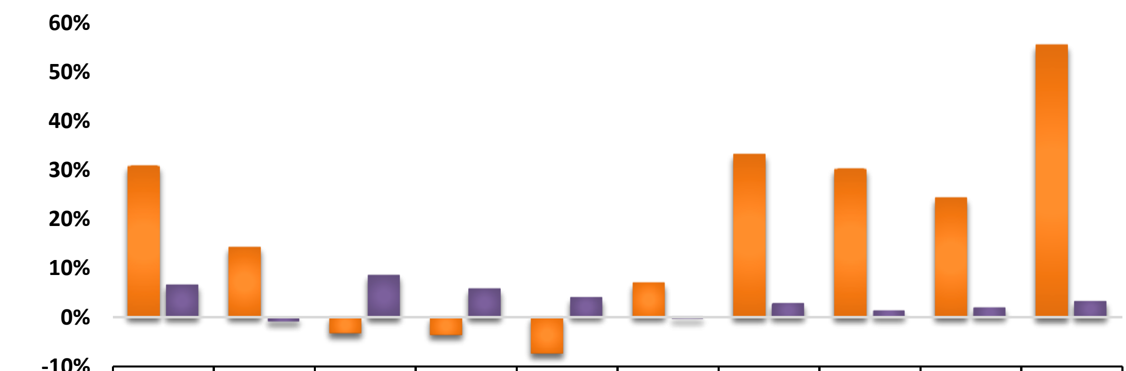
f) Bank 1 (South Africa): Significant decrease in FVOCI category balances is mainly due to reclassification of Debt securities held by insurance entities in the group to AC category due to application of Business Model test.

g) Bank 2 (South Africa): Significant increase in FVTPL category balances is mainly due to reclassification from AC category. Further, significant decrease in FVOCI is due reclassification into AC category.

h) Bank 3 (South Africa): Significant reduction in FVTPL category balances is due to reclassification of certain items into AC category; bank had elected to revoke the existing designation of certain loans classified in FVTPL category under the fair-value option of IAS 39 and reclassified the underlying assets in AC category under IFRS 9. Significant increase in FVOCI category balances is due to reclassification of certain debt instruments from AC category.

i) Bank 4 (South Africa): Significant increase in FVOCI category balances is mainly due to reclassification of certain debt instruments from AC category.

Figure 69: IFRS 9 Transition Impact on Impairment Loss Allowance



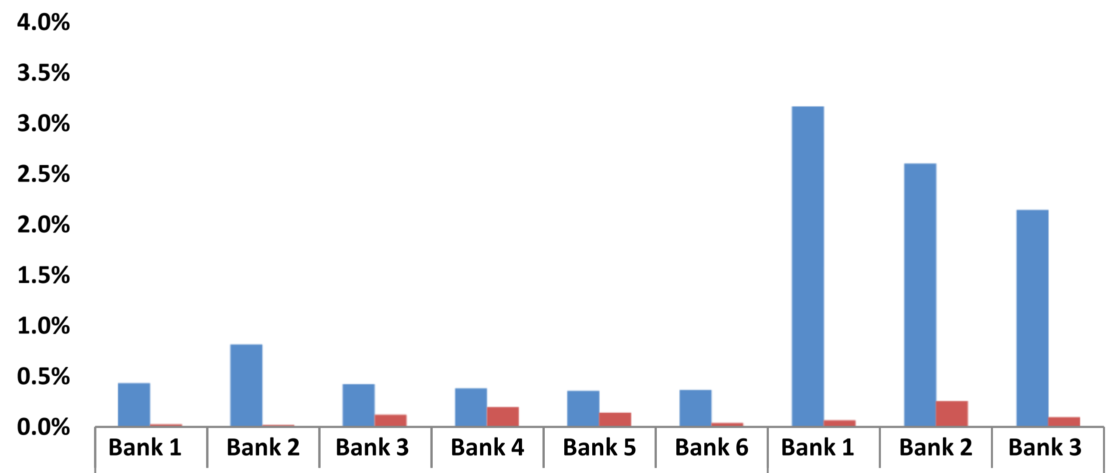
	Canada						South Africa			
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 1	Bank 2	Bank 3	Bank 4
On B/S	31%	14%	-3%	-4%	-7%	7%	33%	30%	24%	55%
Off B/s	6%	-1%	8%	6%	4%	0%	3%	1%	2%	3%

Notes:

a) In case of Canada, five out of six banks have reported net increase in ECL provisions. However, in case of three banks the net increase is very low.

b) Similarly, in case of South Africa, all four banks reported net increase in ECL provisions in the range of 26 to 58%. The increase in respect of Off B/S exposures is generally low or very low.

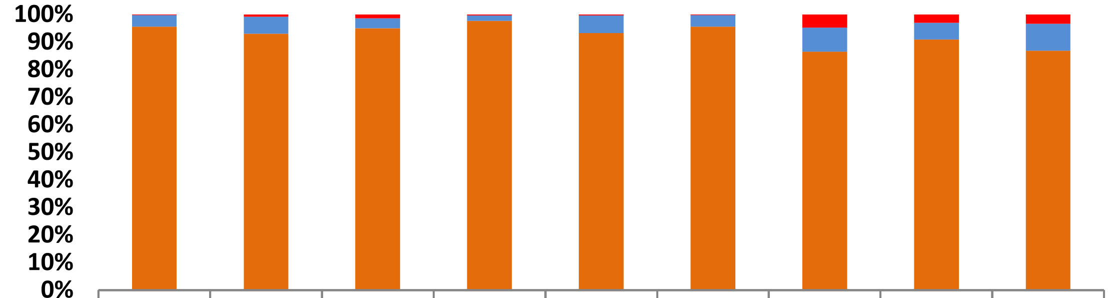
Figure 70: Impairment Loss Allowance Percentage versus Outstanding Exposures at the end of transition year



	Canada						South Africa		
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 1	Bank 2	Bank 3
On B/S	0.4%	0.8%	0.4%	0.4%	0.4%	0.4%	3.2%	2.6%	2.1%
Off B/S	0.0%	0.0%	0.1%	0.2%	0.1%	0.0%	0.1%	0.2%	0.1%

Note: As F/S are not yet available for Bank 4 of South Africa, the said Bank is excluded from the above Chart.

Figure 71: Credit Quality-Stage wise GCAs at the end of transition year



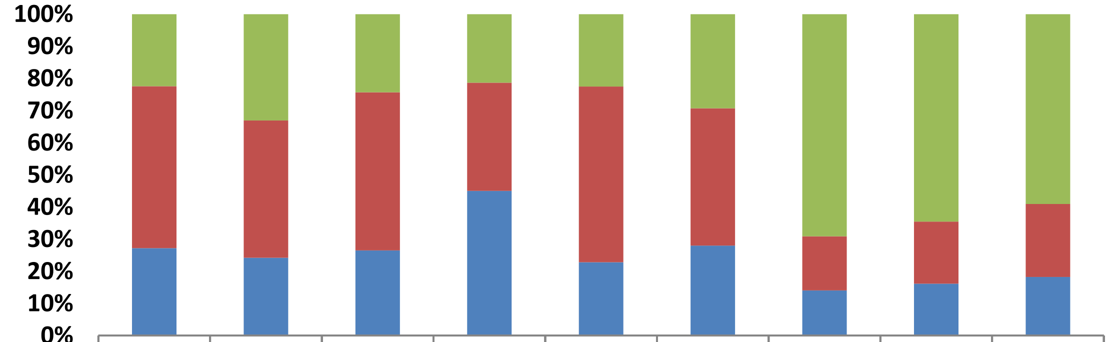
	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 1	Bank 2	Bank 3
	Canada						South Africa		
Stage 3	0.3%	0.8%	1.4%	0.4%	0.4%	0.3%	4.8%	3.1%	3.4%
Stage 2	4.1%	6.2%	3.7%	1.9%	6.4%	4.2%	8.7%	6.0%	9.8%
Stage 1	95.6%	93.0%	94.9%	97.6%	93.2%	95.5%	86.5%	90.9%	86.8%

Notes:

a) Bank 4 (South Africa): The Bank's accounting year end is 31 March 2019 and the F/S for that period are not yet available, hence it is excluded from the above analysis.

b) In case of Canada, substantial part (>90%) of On B/s credit exposures is reported in Stage 1 Bucket. Percentage of financial assets in Stage 3 (credit impaired) bucket is very low or negligible, In case of South Africa, percentage of financial assets in Stage 1 is 86 to 91%. Percentage of financial assets in Stage 3 (credit impaired) bucket is in the range of 3 to 4.8%.

Figure 72: Impairment Loss Allowance- Stage-wise Break Up at the end of transition year



	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 1	Bank 2	Bank 3
	Canada						South Africa		
Stage 3	22%	33%	24%	21%	23%	29%	69%	65%	59%
Stage 2	50%	43%	49%	34%	55%	43%	17%	19%	23%
Stage 1	27%	24%	26%	45%	23%	28%	14%	16%	18%

Notes:

a) Bank 4 (South Africa): The Bank's accounting year end is 31 March 2019 and the F/S for that period are not yet available, hence it is excluded from the above analysis.

b) In case of Canada, large percentage of ECL provisions is reported for Stage 1 and 2 buckets. In case of South Africa, large percentage of ECL provisions is reported for Stage 3 (credit impaired) bucket.

Prudential Regulators' Guidance and Instructions – Canada	
Regulatory Guidance by	**Office of the Superintendent of Financial Institutions in Canada (OFSI)** Guidelines dated June 2016
Guidance Areas	**IFRS 9 Financial Instruments and Disclosures**
Key Highlights of Regulatory Guidance	Supervisory Guidance on the Fair Value Option for Loans Impairment Guidelines (applicable to Deposit-Taking Institutions in the Business of Lending) **The Guidelines include 11 Principles laid down by BCBS in Dec 2015.**
Parallel Run Reporting Requirements	Not readily available
Transition Relief for Capital Impact	Not readily available

Prudential Regulators' Guidance and Instructions – South Africa	
Regulatory Guidance	South African Reserve Bank Regulatory Treatment of Accounting Provisions- Interim Approach and Transitional Arrangements including disclosure and auditing aspects (Circular (15/8/3 D5/2017 dated 21 Nov 2017))Circular (15/8/3 D5/2017 dated 21 Nov 2017)
Guidance Areas	How to categorise ECL provisions as GP or SP Transitional arrangements of ECL accounting provisions for regulatory capital purposes and related disclosure Requirements Auditing of balances and adjustments that will be implemented once IFRS 9 becomes effective
Key Highlights of Regulatory Guidance	**Classification** GP: No significant increase in credit risk since initial recognition- Stage 1 Exposures GP: Significant increase in credit risk since initial recognition but that are not credit-impaired- Stage 2 Exposures SP- Credit-impaired- Stage 3 Exposures **Special Purpose Financial Information** To be prepared within first 12 months of implementation of IFRS 9 demonstrating the impact of implementation of IFRS 9 on the opening retained earnings in respect of the first year for which IFRS 9 is effective Reconciliation from previously audited retained earnings before IFRS 9 implementation to the retained earnings balance at that date as adjusted for the IFRS 9 impact Basis of preparation note setting out all the accounting policies relevant to the

	calculation of IFRS 9 retained earnings adjustment as well as all relevant notes considered necessary to provide proper understanding of reconciliation **Audit** - Within 5 months of IFRS 9 implementation, auditors shall prepare and submit an ISA 805 audit report on special purpose financial information
Parallel Run Reporting Requirements	Quarterly reporting templates contained in document titled 'Pillar 3 Disclosure Requirements- Consolidated and Enhanced Framework' published by the BCBS during March, 2017
Transition Relief for Capital Impact	- Banks may elect to apply transition period before the adoption date of IFRS 9 - Three Year transition period, amortised on a straight line basis - Static Approach for calculation of transition impact, i.e., comparison of CET1 capital based on opening balance sheet using IFRS 9 with the CET1 capital based on closing balance sheet using IAS 39 - Impact of DTA as a result of both the adoption of IFRS 9 and the changes to taxation rules shall be phased-in over a three-year period - Additional amount of SP, not phased-in yet, shall be risk weighted at a risk weight of 100% - Fact that transition arrangements are applied should be disclosed

Basel Regulatory Capital, BCBS Guidelines and Transitional Provisions

This section is organised into following parts

- **Basel Capital Adequacy Frameworks - Overview**
- **BCBS Guidelines on Credit Risk and Accounting for Expected Credit Losses**
- **IFRS 9 Impact and BCBS Transitional Provisions**
- **Regulatory Capital – Quantitative Impact**

Basel Capital Adequacy Frameworks -Overview

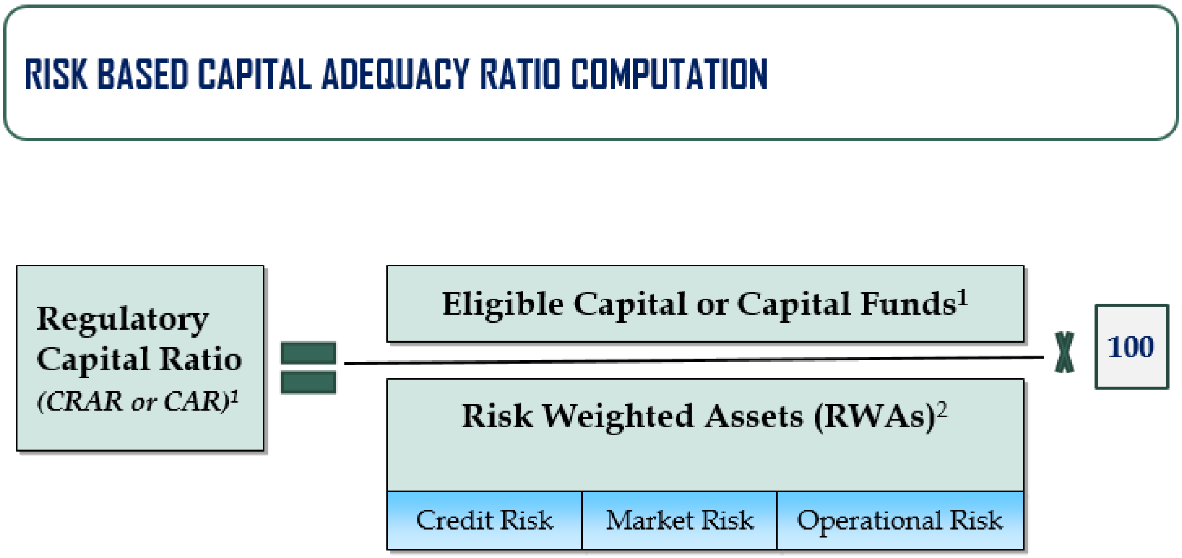
Banks and Financial Institutions (BFI) have unique and responsible role in the economy and the larger society, therefore, they are subject to extensive supervision and oversight by sectoral regulators. Recent, global financial crisis of 2007-08 has reminded the World about the catastrophic effect of the weaknesses and deficiencies in operating activities and framework of BFI. Accordingly, stability and solvency of the Banks is of paramount significance, thereby, requiring robust and comprehensive capital adequacy and risk management frameworks in the Banks.

In the aftermath of serious disturbances in international currency and banking markets (notably the failure of Bankhaus Herstatt in West Germany) in the year 1974, a global banking supervisory forum called "Basel Committee on Banking Supervision (BCBS)"[17] was established as a forum for regular cooperation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. As per the Charter of BCBS, its mandate is as follows:
"The BCBS is the primary global standard-setter for the prudential regulation of banks and provides a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability".

The BCBS does not possess any formal supranational authority, rather it relies on its members' commitments to achieve its mandate. One of the key areas of BCBS's pronouncements for Banking Sector's Prudential Regulators in individual jurisdiction is about the risk based capital adequacy framework commonly known as 'Basel Capital Adequacy Framework'.

[17] BCBS was established by the central-bank Governors of the Group of Ten countries at the end of 1974 and its current membership of 45 comprises central banks and bank supervisors from 28 jurisdictions. BCBS secretariat operates from headquarters of Bank for International Settlements (BIS) at Basel, Switzerland. (**https://www.bis.org/bcbs/basel3.htm**)

Capital Adequacy Ratio (CAR) computation can be depicted as follows.



[1]Basel III Framework introduced major changes in the quantity and quality of capital: introduced additional minimum capital requirements viz. Capital Conservation Buffer, Counter-cyclical capital Buffer. Also, it introduced new regulatory ratios like Leverage Ratio, Liquidity Monitoring Ratios and Management Standards. But, in respect of measurement of RWA's, Basel II was largely carried forward into Basel III with some changes needed to address the weaknesses observed during global financial crisis.
[2] Basel II Framework introduced radical changes in the approaches to measure RWA and this framework recognised banks' internal risk measurement approaches for regulatory capital purposes. Also, brought in explicit capital requirements for a key area of risk i.e. operational risk.

Following is the synopsis of minimum capital requirements stipulated under Basel Frameworks. Prudential Regulators in individual jurisdictions have discretion to set higher level of capital requirements than the one below.

BASEL CAPITAL ADEQUACY FRAMEWORKS
MINIMUM CAPITAL REQUIREMENTS – HIGH LEVEL SUMMARY

Capital Components	Basel I (1998 Accord)	Basel II (New Accord)	Basel III
Effective date Transition period	Dec 1992 Dec 1987- Dec 1992	Jan 2009 Dec 2005 to Dec 2008	Jan 2022 Jan 2011 to Dec 2021
Total CAR[1] (Tier 1 + 2)	8.0%	8.0%	8.0%
Tier 1	4.0%	4.0%	6.0%
- Common Equity	Not applicable[2]	Not applicable[2]	4.5%
- Additional Tier 1	Not applicable[2]	Not applicable[2]	1.5%
Tier 2	4.0%	4.0%	2.0%
Tier 3	*Upto 250% of Tier 1 required for Market Risk*		0.0%
Risk Categories			
	•Credit •Market	•Credit •Market •operational	•Credit •Market •Operational •Leverage •Liquidity[3]

[1]There are additional capital requirements called capital conservation buffer and counter cyclical buffer
[2]There are different kind of limits based on type and features of capital instrument
[3]There are no explicit capital requirements but ratios to monitor Liquidity risk are prescribed

As can be seen from above table, BCBS has enhanced and strengthened the capital adequacy frameworks since it was originally introduced. As of now, most of the jurisdictions in advanced and emerging economies operate under Basel II and Basel III Frameworks[18].

It may be noted that eligible capital or capital funds is an important factor in the prudential capital adequacy framework for Banks across the globe. There are detailed prescriptions what is reckoned as eligible capital and one of the primary sources of capital is the equity balances, of course, there are specific rules to treat items like Cash Flow Hedge Reserve, Deferred Tax Asset etc.

Some of the Items that are eligible for inclusion various Tiers of capital under Basel III Framework[19] are as follows.

Tier 1 (Going Concern Capital		**Tier 2 (Gone Concern Capital)**
Common Equity Tier 1 (CET 1) (paragraph 52 of Basel III)	***Additional Tier 1 (paragraph 54 of Basel III)***	***(paragraph 57 of Basel III)***
• Common shares# issued by the bank that meet the criteria for classification as common shares for regulatory purposes (or the equivalent for non-joint stock companies); • Stock surplus (share premium) resulting from the issue of instruments included Common Equity Tier 1; • Retained earnings; • Accumulated other comprehensive income and other disclosed reserves; • Common shares issued by consolidated subsidiaries of the bank and held by third parties (i.e. minority interest) that meet the criteria for inclusion in Common Equity Tier 1 capital.; and • Regulatory adjustments @ applied in the calculation of Common Equity Tier 1	• Instruments# issued by the bank that meet the criteria for inclusion in Additional Tier 1 capital (and are not included in Common Equity Tier 1); • Stock surplus (share premium) resulting from the issue of instruments included in Additional Tier 1 capital; • Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Additional Tier 1 capital and are not included in Common Equity Tier 1; and • Regulatory adjustments@ applied in the calculation of Additional Tier 1 Capital	• Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital); • Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital; • Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital; • Certain loan loss provisions as specified in paragraphs 60 and 61 of Basel III ; and • Regulatory adjustments @ applied in the calculation of Tier 2 Capital.

Paragraph 53 and 54 of Basel III Framework contain further prescriptions as to the criteria for inclusion of instruments as Common Shares under CET 1 and Additional Tier 1, respectively.

@Regulatory adjustments are prescribed in paragraphs 66 to 93 of Basel III Framework. These prescriptions relate to items such as Goodwill and other intangibles (except mortgage servicing rights), Deferred tax assets, Cash flow hedge reserve, Shortfall of the stock of provisions to expected losses, Gain on sale related to securitisation transactions, Cumulative gains and losses due to changes in own credit risk on fair valued financial liabilities, Defined benefit pension fund assets and liabilities, Investments in own shares (treasury stock) etc.

[18] In April 2019, BCBS has published exposure draft of consolidated version of Basel III Framework for public comments. https://www.bis.org/bcbs/publ/d462.htm

[19] Basel III: A global regulatory framework for more resilient banks and banking systems - revised version June 2011 (https://www.bis.org/publ/bcbs189.htm)

BCBS Guidelines on Credit Risk and Accounting for Expected Credit Losses[20]	
Regulatory Guidance by	Basel Committee on Banking Supervision (Guidance on credit risk and accounting for expected credit losses dated Dec 2015)
Guidance Areas	To set out supervisory guidance on sound credit risk practices associated with the implementation and ongoing application of expected credit loss (ECL) accounting frameworks.
Key Highlights of Regulatory Guidance	In December 2015, the Basel Committee on Banking Supervision (BCBS) issued its Guidance on Credit Risk and Accounting for Expected Credit Losses (GCRAEL) which was structured around 11 principles. The objective was to set out supervisory guidance on sound credit risk practices associated with expected credit losses (ECL). GRAEL replaced the BCBS earlier guidance on Sound Credit Risk Assessment and Valuation for Loans (SCRAVL) issued in June 2006. **Summary of 11 Principles** The first eight principles lay out the responsibility of banks implementing ECL frameworks, placing the onus on the bank's board of directors and senior management for putting in place systems to consistently determine adequate allowances. The principles require banks to ensure adequate documentation, appropriate credit rating processes, model validation, use of experienced credit judgement and sound credit risk assessment. Banks should promote transparency and comparability by providing timely, relevant and decision useful information. The last three principles deal with the supervisory evaluation of credit risk practices, accounting for ECL and capital adequacy. The require supervisors to periodically evaluate the effectiveness of a bank's credit risk practices, while satisfying themselves that the methods used by the bank lead to appropriate measurement of ECL. Supervisors should consider a bank's credit risk practices while assessing a bank's capital adequacy. The Appendix provides supervisory guidance specific to banks applying IFRS making useful recommendations to ensure consistency of application. For instance, it recommends that definition of default adopted for accounting purposes is guided by the definition used for regulatory purposes. Similarly, it suggests that exposures transferred to lifetime expected losses should not be upgraded to 12-month ECL unless there is sufficient evidence that the credit risk has reached the same levels as initial recognition. In relation to use of a practical expedient viz. low credit risk exemption, used in segregation of exposures for 12 months and Life time ECL, the BCBS expects that use of this exemption should be limited. **List of 11 Principles** **Supervisory guidance for credit risk and accounting for expected credit losses (Relevant for Preparers i.e. Banks)** **Principle 1 – Board and management responsibilities** *A bank's board of directors9 (or equivalent) and senior management are responsible for ensuring that the bank has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the bank's stated policies and procedures, the applicable accounting framework and relevant supervisory guidance.* **Principle 2 – Sound ECL methodologies** *A bank should adopt, document and adhere to sound methodologies that address*

[20] BCBS Guidance on credit risk and accounting for expected credit losses, December **2015**

Regulatory Guidance by	Basel Committee on Banking Supervision (Guidance on credit risk and accounting for expected credit losses dated Dec 2015)
	policies, procedures and controls for assessing and measuring credit risk on all lending exposures. The measurement of allowances should build upon those robust methodologies and result in the appropriate and timely recognition of expected credit losses in accordance with the applicable accounting framework. **Principle 3 – Credit risk rating process and grouping** *A bank should have a credit risk rating process in place to appropriately group lending exposures on the basis of shared credit risk characteristics.* **Principle 4 – Adequacy of the allowance** *A bank's aggregate amount of allowances, regardless of whether allowance components are determined on a collective or an individual basis, should be adequate and consistent with the objectives of the applicable accounting framework.* **Principle 5 – ECL model validation** *A bank should have policies and procedures in place to appropriately validate models used to assess and measure expected credit losses.* **Principle 6 – Experienced credit judgment** *A bank's use of experienced credit judgment, especially in the robust consideration of reasonable and supportable forward-looking information, including macroeconomic factors, is essential to the assessment and measurement of expected credit losses.* **Principle 7 – Common data** *A bank should have a sound credit risk assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for expected credit losses.* **Principle 8 – Disclosure** *A bank's public disclosures should promote transparency and comparability by providing timely, relevant and decision-useful information.* **Supervisory evaluation of credit risk practices, accounting for expected credit losses and capital adequacy (relevant for Prudential Regulator)** **Principle 9 – Credit risk management assessment** *Banking supervisors should periodically evaluate the effectiveness of a bank's credit risk practices.* **Principle 10 – ECL measurement assessment** *Banking supervisors should be satisfied that the methods employed by a bank to determine accounting allowances lead to an appropriate measurement of expected credit losses in accordance with the applicable accounting framework.* **Principle 11 – Capital adequacy assessment** *Banking supervisors should consider a bank's credit risk practices when assessing a bank's capital adequacy.*
Parallel Run Reporting Requirements	None
Transition Relief for Capital Impact	Refer separate instruction of BCBS "Standards- Regulatory treatment of accounting provisions – interim approach and transitional arrangements, March 2017"

IFRS 9 Transition Impact of ECL– BCBS and Transitional Provisions[21]

As can be seen from above paragraph, Equity as per general purpose financial statements prepared under IFRS Framework or its equivalent forms an important component of the Banks' Regulatory Capital required under Basel Framework. The Basel Committee was conscious of the fact that application of ECL provisions of IFRS 9 would lead to additional impairment provisions resulting in unexpected decline in capital ratios of banks, in some cases banks may suffer sudden capital shock and need time to re-build their capital sources. Secondly, there was a need to decide on long term policy as to what should be the permanent interaction between ECL accounting and the prudential regime. Therefore, the BCBS has decided to recommend transition relief to be given by the national regulators and has amended and inserted paragraph 96A to Basel III Framework. Key aspects of these prescriptions are as follows:

- The transitional arrangement must apply only to provisions that are "new" under an ECL accounting model.
- The transitional arrangement must adjust CET1 capital. Where there is a reduction in CET1 capital due to new provisions, net of tax effect, upon adoption of an ECL accounting model, the decline in CET1 capital (the "transitional adjustment amount") must be partially included (i.e. added back) to CET1 capital over a number of years (the "transition period") commencing on the effective date of the transition to ECL accounting.
- The transition period must be no more than five years.
- There are two approaches which the BCBS has given. Jurisdictions must choose whether banks under their supervision determine the transitional adjustment amount throughout the transition period by either:
  a) Static Approach: Day 1 impact on CET 1 capital is computed just once, at the effective date of the transition to ECL accounting, and spread over a specified number of years; or
  b) Dynamic Approach: Phased prudential recognition of IFRS 9 Stages 1 and 2 provisions which requires recalculation of the transitional adjustment periodically to reflect the evolution of a bank's ECL provisions within the transition period.
- The transitional adjustment amount included in CET1 capital each year during the transition period must be taken through to other measures of capital as appropriate (e.g. Tier 1 capital and total capital), and hence to the calculation of the leverage ratio and of large exposures limits.

Basel Regulatory Capital – Quantitative Impact of IFRS 9

Potential adverse initial impact of ECL model on the regulatory capital of banks had been one of the major concerns of the banks, investors and the prudential regulators of the banks. In fact, many prudential regulators had taken very keen interest in the development of ECL of IFRS 9 and have been strong advocates of this approach.

In case of 19 BFIs out of total sample size of 75, there is adequate disclosure of the initial impact of IFRS 9 on the regulatory capital. Further, this disclosure was largely available in the separate IFRS 9 Transition Reports which were issued in early part of 2018. Majority the BFIs that have disclosed this information are from EU region.

[21] BCBS Standards- Regulatory treatment of accounting provisions – interim approach and transitional arrangements, March 2017

As can be observed from the following table, initial adverse impact does not appear to have created situation of capital shock among banks. In two cases, there has been a positive impact on the regulatory capital on transition basis.

Table 13: IFRS 9 Transition impact on CET 1

Jurisdiction	Sri Lanka		Malaysia			Australia	EU-UK		
Bank	Bank 2	Bank 3	Bank 1	Bank 2	Bank 4	Bank 1	Bank 1*	Bank 2*	Bank 3*
CET1-F	(0.08)	(0,13)	(0.33)	(0.08)	0.21	(0.06)	(0.01)	(0.34)	(0.10)
CET1-T	-	-	-	-	-	-	0.12	0.04	-
CET1 – F = CET 1 Fully loaded			*CET1 – T = CET 1 Transitional Arrangement*			**Based on IFRS 9 Transition Report*			

Jurisdiction	EU-UK		EU-Germany	EU-Nederland	EU-Italy		EU-Denmark
Bank	Bank 4*	Bank 5	Bank 6	Bank 11	Bank 14*	Bank 15	Bank 19
CET1-F	(0.30)	0.30	(0.13)	(0.10)	(0.93)	(1.36)	(0.20)
CET1-T	(0.10)	-	-	(0.04)	-	(0.32)	(0.10)

Jurisdiction	South Africa		
Bank	Bank 1	Bank 2*	Bank 4*
CET1-F	(0.28)	(0.70)	(0.40)
CET1-T	(0.07)	0.50	(0.20)

Key Findings - IFRS 15 Quantitative Impact Information

As can be seen from the tables below there has been either no quantitative impact or very minimal on equity due to of transition to IFRS 15.

Table 14: IFRS 15 Transition impact on Equity

Sri Lanka				Malaysia			
Bank 1	**Bank 2**	**Bank 3**	**Bank 4**	**Bank 1**	**Bank 2**	**Bank 3**	**Bank 4**
NMI	NMI	NI	NI	**NMI**	**NMI**	NMI	NMI

NI = No Impact NMI = No Material Impact NRA = Information not readily available
% ages stated above are impact on equity as of transition date.

Singapore			South Korea			
Bank 1	**Bank 2**	**Bank 3**	**Bank 1**	**Bank 2**	**Bank 3**	**Bank 4**
NMI	**NMI**	**NMI**	**0.008**	**0.002**	0.07	NMI

NI = No Impact NMI = No Material Impact NRA = Information not readily available
% ages stated above are impact on equity as of transition date.

China				Australia				Hong Kong	
Bank 1	**Bank 2**	**Bank 3**	**Bank 4**	**Bank 1**	**Bank 2**	**Bank 3**	**Bank 4**	**Bank 1**	**Bank 2**
NMI	**NMI**	**NRA**	**NMI**	**NMI**	**NMI**	NMI	NMI	NMI	NMI

NI = No Impact NMI = No Material Impact NRA = Information not readily available
% ages stated above are impact on equity as of transition date.

Middle East – Part 1									
Bank 1	**Bank 2**	**Bank 3**	**Bank 4**	**Bank 5**	**Bank 6**	**Bank 7**	**Bank 8**	**Bank 9**	**Bank 10**
NMI	NMI	NMI	NMI	NMI	NMI	NMI	NRA	NMI	NMI

NMI = No material impact NRA = Information not readily available

Middle East – Part 2									
Bank 1	**Bank 2**	**Bank 3**	**Bank 4**	**Bank 5**	**Bank 6**	**Bank 7**	**Bank 8**	**Bank 9**	**Bank 10**
NMI	NMI	NMI	NMI	NMI	NMI	NMI	NRA	NMI	NMI

NMI = No Material Impact

Europe Part 1									
Bank 1	**Bank 2**	**Bank 3**	**Bank 4**	**Bank 5**	**Bank 6**	**Bank 7**	**Bank 8**	**Bank 9**	**Bank 10**
NMI	0.10%	NMI	0.02%	NRA	NMI	NMI	0.02%	NMI	NMI

NMI = No Material Impact NRA = Information not readily available
% ages stated above are impact on equity as of transition date.

Europe Part 2									
Bank 11	**Bank 12**	**Bank 13**	**Bank 14**	**Bank 15**	**Bank 16**	**Bank 17**	**Bank 18**	**Bank 19**	**Bank 20**
0.10%	NMI	NMI	NMI	NMI	0.05%	0.18%	NMI	NMI	NMI

NMI = No Material Impact NRA = Information not readily available
% ages stated above are impact on equity as of transition date.

Canada$						South Africa			
Bank 1	**Bank 2**	**Bank 3**	**Bank 4**	**Bank 5**	**Bank 6**	**Bank 1**	**Bank 2**	**Bank 3**	**Bank 4**
NMI	0.10%	NMI	0.05%	NMI	NMI	0.05%	NMI	0.29%	NRA

$IFRS 15 is not yet mandatory and information stated above is based on estimated impact reported by the entities.
NMI = No Material Impact NRA = Information not readily available
% ages stated above are impact on equity as of transition date.

V. Appendices

Appendix A

List of Banks Covered in the Study

Serial #	Name of the Bank	F/S Available	Year End
	Sri Lanka (4)		
1[22]	Commercial Bank of Ceylon PLC	Yes	31-12-2018
2	Sampath Bank PLC	Yes	31-12-2018
3	Hattan National Bank PLC	Yes	31-12-2018
4	Seylan Bank PLC	Yes	31-12-2018
	Malaysia (4)		
1	Malayan Banking Berhad (Maybank)	Yes	31-12-2018
2	CIMB Group Holdings Berhad (CIMB)	Yes	31-12-2018
3	RHB Bank Berhard (RHB)	Yes	31-12-2018
4	Public Bank Berhard (Public Bank)	Yes	31-12-2018
	Singapore (3)		
1	UOB Group	Yes	31-12-2018
2	OCBC Group	Yes	31-12-2018
3	DBS Group	Yes	31-12-2018
	South Korea (4)		
1	Sinhan Financial Group	Yes	31-12-2018
2	KB Financial Group	Yes	31-12-2018
3	Hana Financial Group	Yes	31-12-2018
4	Woori Financial Group	Yes	31-12-2018
	China (4)		

[22] Serial numbers do not indicate any ranking based on B/S Size or any other parameter.

Appendix A

List of Banks Covered in the Study

Serial #	Name of the Bank	F/S Available	Year End
1	Bank of China	Yes	31-12-2018
2	China Construction Bank	Yes	31-12-2018
3	Agriculture Bank of China	Yes	31-12-2018
4	ICBC	Yes	31-12-2018
	Australia (4)		
1	AnZ	No[23]	30-Sep-19
2	Westpac Banking Corporation	Footnote 23	30-Sep-19
3	Macquarie Group	Yes	31-Mar-19
4	National Australia Bank	Yes	30-Sep-15[24]
	Hong Kong (2)		
1	Hang Seng Bank	Yes	31-12-2018
2	Bank of East Asia	Yes	31-12-2018
	Middle East – GCC (20)		
	UAE		
1	Emirates NBD P.J.S.C	Yes	31-12-2018
2	First Bank of Abu Dhabi P.J.S.C	Yes	31-12-2018
3	Mashreq Bank P.J.S.C	Yes	31-12-2018
4	Abu Dhabi Commercial Bank P.J.S.C	Yes	31-12-2018
	Saudi Arabia		
5	Al Rajhi Banking & Investment Corporation	Yes	31-12-2018
6	Riyad Bank	Yes	31-12-2018
7	National Commercial Bank	Yes	31-12-2018
8	Arab National Bank	Yes	31-12-2018
	Oman		
9	Bank Muscat SAOG	Yes	31-12-2018
10	National Bank of Oman SAOG	Yes	31-12-2018

[23] Notes in the F/S for the year ending 30-09-2018 (an year before AASB 9 Transition Year) are used for our analysis
[24] Bank had early adopted IFRS 9 in the accounting year 2014-15.

Appendix A

List of Banks Covered in the Study

Serial #	Name of the Bank	F/S Available	Year End
	Bahrain		
11	Arab Banking Corporation B.S.C	Yes	31-12-2018
12	Ahli United Bank B.S.C	Yes	31-12-2018
13	Gulf International Bank B.S.C	Yes	31-12-2016 & 2018
	Kuwait		
14	Gulf Bank K.S.C.P	Yes	31-12-2018
15	National Bank of Kuwait S.A.K.P	Yes	31-12-2018
16	Al Ahli Bank of Kuwait K.S.C.P.	Yes	31-12-2018
17	Burgan Bank K.P.S.C	Yes	31-12-2018
	Qatar		
18	Doha Bank Q,P.S.C	Yes	31-12-2018
19	Qatar National Bank Q.P.S.C	Yes	31-12-2018
20	Commercial Bank of Qatar Q.P.S.C	Yes	31-12-2018
	Europe (20)		
	UK		
1	HSBC Group PLC	Yes	31-12-2018
2	Barclays PLC	Yes	31-12-2018
3	Standard Chartered Group PLC	Yes	31-12-2018
4	Lloyds Banking Group PLC	Yes	31-12-2018
5	RBS	Yes	31-12-2018
	Germany		
6	Deutsche Bank AG	Yes	31-12-2018
7	Commerz Bank AG	Yes	31-12-2018
	France		
8	BNP Paribas	Yes	31-12-2018
9	Societe Generale	Yes	31-12-2018
10	Credit Agricole	Yes	31-12-2018
	Nederland		
11	RaboBank	Yes	31-12-2018

Appendix A

List of Banks Covered in the Study

Serial #	Name of the Bank	F/S Available	Year End
	Spain		
12	Santander	Yes	31-12-2018
13	BBVA	Yes	31-12-2018
	Italy		
14	UniCredit Group	Yes	31-12-2018
15	Intesa Sanpaolo Group	Yes	31-12-2018
	Switzerland		
16	UBS AG	Yes	31-12-2018
	Finland		
17	Nordea Group	Yes	31-12-2018
	Sweden		
18	Handelsbanken	Yes	31-12-2018
	Denmark/Norway		
19	Danske Bank Group	Yes	31-12-2018
20	DNB Group	Yes	31-12-2018
	Canada (6)		
1	Royal Bank of Canada	Yes	31-10-2018
2	Scotia Bank (BNS)	Yes	31-10-2018
3	National Bank of Canada	Yes	31-10-2018
4	Torono Dominion Bank	yes	31-10-2018
5	Bank of Montreal	Yes	31-10-2018
6	Canadian Imperial Bank of Commerce	Yes	31-10-2018
	South Africa (4)		
1	Absa Group Limited	Yes	31-12-2018
2	Standard Bank	Yes	31-12-2018
3	NedBank Group	Yes	31-12-2018
4	Investec	No[25]	31-03-2019

[25] IFRS 9 Transition Report is used for this study.

Appendix B

Bibliography

Individual Banks' Publications sourced from bank's website
- Annual Report and Annual Audited Financial Statements
- IFRS 9 Transition Reports

IFRS Related
- IFRS 9 Exposure Drafts, Project Summary and Final IFRS Standards https://www.ifrs.org/projects/completed-projects/
- Use of IFRS Standard by Jurisdiction (https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/)
- **Aiming for Global Accounting Standards – The International Accounting Standards Board 2001-2011 (Oxford University Press Authors Kees Camfferman & Stephen A.Zeff)**

Prudential Regulatory Guidance

Basel Committee on Banking Supervision
- Guidance on credit risk and accounting for expected credit losses – December 2015
- Regulatory treatment of accounting provisions – interim approach and transitional arrangements – March 2017

National Prudential Supervisor's Guidance, Instructions and Publications

- **Central Bank of Sri Lanka, Sri Lanka**
  - ❖ Guidelines to Licenced Banks on the Adoption of Sri Lanka Accounting Standard-SLFRS 9 – Financial Instruments (Central Bank of Sri Lanka circular No.04 of 2018 dated 31 December 2018)
- **Bank Negara Malaysia, Malaysia**
  - ❖ Financial Reporting under MFRS Framework (BNM/RH/PD 032-13 dated on 2 February 2018)
- **Monetary Authority of Singapore, Singapore**
  - ❖ Notice to Banks (**MAS 612** 29 December 2017 NOTICE TO BANKS BANKING ACT, CAP 19) - Credit Files, Grading and Provisioning
- **Australian Prudential Regulation Authority, Australia**
  - ❖ Letter to All Authorised Deposit Taking Institutions dated 4 July 2017
- **Hong Kong Monetary Authority, Hong Kong**
  - ❖ Consultation Paper (CP 17.02 March 2017) Regulatory Treatment of Provisions under HKFRS 9
  - ❖ HKFRS 9 Implementation: Revisions to Regulatory Reporting 20 December 2017
- **Central Bank of the UAE, UAE**
  - ❖ Guidance Note to Banks and Finance Companies on the Implementation of IFRS 9 (Financial Instruments) in the UAE -March 2018

Appendix B

Bibliography

- **Central Bank of Oman, Oman**
  - ❖ Implementation of IFRS 9 on Financial Instruments (Circular no. BM.1149 dated 13 April 2017)
- **Central Bank of Kuwait (CBK), Kuwait**
  - ❖ The implementation of the International Financial Reporting Standard "IFRS 9"- "Financial Instruments Circular No. (2/BS/425/2018) dated 25 Dec 2018 and subsequent clarifications
  - ❖ Guidelines on the Application of IFRS 9 "Financial Instruments" by Local Banks for 2018
- **Qatar Central Bank, Qatar**
  - ❖ IFRS 9 Implementation Guidelines in connection with Classification and Measurement of Financial Assets and Liabilities and Derivatives to make the local regulations consistent with FAS 30, 'Impairment and Credit Losses' issued by AAOIFI (Circular no.: 9/2017 dated 9 Feb 2017)

European Union

- **European Parliament and Council:** REGULATION (EU) 2017/2395 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 12 December 2017 transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures
- **European Banking Authority**
  - ❖ Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses (EBA/GL/2017/06 dated 12 May 2017)
  - ❖ Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds dated (EBA/GL/2018/01 dated 12 Jan 2018)
  - ❖ First Observations on the Impact and Implementation of IFRS 9 by EU Institutions – 20 Dec 2018
- **Bank of England – Prudential Regulatory Authority, UK**
  - ❖ Deputy Governor Letter (dated 25 Nov 2016) to the CEOs of the larger UK credit institutions
  - ❖ Deputy Governor Letter (dated 7 Aug 2017) to the CEOs of the larger UK credit institutions
  - ❖ Deputy Governor Letter (dated 25 Sep g 2017) to the CEOs of the larger UK credit institutions
  - ❖ Executive Director Letter (dated 15 April 2019) to CFO's of select deposit takers
- **Deutsche Bundes Bank -Germany**
  - ❖ IFRS 9 Analysis in Monthly report of January 2019

- **Office of the Superintendent of Financial Institutions in Canada (OFSI)**
  - ❖ IFRS 9 Financial Instruments and Disclosures June 2016

Appendix B

Bibliography

- **South African Reserve Bank**
  - Regulatory Treatment of Accounting Provisions- Interim Approach and Transitional Arrangements including disclosure and auditing aspects (Circular (15/8/3 D5/2017 dated 21 Nov 2017))

Appendix C

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