KPMG

IFRS 9: Transition impact on banks in the Gulf Cooperation Council

2018

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Foreword

The biggest accounting development for banks this year has been the implementation of IFRS 9 Financial Instruments, which was expected to have a significant impact on the balance sheet, regulatory ratios and capital along with accounting systems and processes. Now that IFRS 9 is effective, banks' implementation projects have taken final shape and reflect their thinking and judgement in application of this new standard. We are delighted to present our publication IFRS 9: Transition impact on banks in the Gulf Cooperation Council (GCC), which analyses the financial impact on initial adoption of IFRS 9 by listed commercial banks in the GCC countries.

IFRS 9: Financial Instruments was issued with an effective date of 1 January 2018, with early adoption permitted. The standard was issued in three phases: 1) classification and measurement of financial assets 2) impairment and 3) hedging, permitting banks to adopt the new changes in a phased manner. Whilst majority of the banks adopted all phases of the standard on its effective date of 1 January 2018, some banks in the GCC had early adopted phases 1 and 2 on classification and measurement and impairment requirements in prior years, making the comparison and calculation of the transition impact challenging.

IFRS 9 replaces IAS 39, a project by IASB in response to criticisms that IAS 39 was too complex, inconsistent in the way entities manage their businesses and risks, and defers the recognition of credit losses on loans and receivables until too late in the credit cycle.

Our previous publications on IFRS 9 have discussed in detail the changes, application issues and illustrative presentation and disclosure requirements introduced by IFRS 9. In this publication we have aimed to provide succinct analysis and insights on impact of changes in classification and measurement of financial assets and recognition of expected credit loss (ECL) on banks in the GCC.

The publication, however, does not cover the impact of changes arising from hedge accounting guidance. We have also summarized the key regulatory guidance issued for implementation and market approaches adopted for the calculation of ECL by each of the GCC country covered in this publication.

The key themes emerging from the analysis in this publication are:

— In general, most banks have created higher ECL allowances under IFRS 9 as compared to IAS 39;

— Classification and measurement changes indicate that a higher proportion of financial assets have migrated to a fair value measurement through the P&L, thus increasing balance sheet and profit and loss volatility;

— Regulators have issued prescriptive guidance for local consistency and alignment of risk definitions, however, this has also led to different applications of some aspects of ECL amongst the GCC countries;

— A wide range of approaches, models and assumptions have been introduced as part of ECL estimation by banks thus making comparability and consistency in provisions between financial institutions challenging; and

— Some GCC country banking regulators have allowed for transitional capital relief (some on a discretionary basis to few banks) to permit absorption of the CET1 capital impact arising from IFRS 9 over a period of 3-5 years

Throughout this publication, IFRS 9 country leads at KPMG member firms in the six GCC countries provide insights on their respective banking markets, specifically on the results of leading commercial banks. We hope that our analysis and insights will help banks assess their own results and market practices in a more insightful manner.

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Basis of preparation

In this publication, KPMG professionals have analyzed the impact of adopting IFRS 9 from the date of transition for listed banks from each GCC country *excluding Kuwait* — the Kingdom of Bahrain (Bahrain), the Sultanate of Oman (Oman), the State of Qatar (Qatar), the Kingdom of Saudi Arabia (Saudi Arabia or KSA) and the United Arab Emirates (UAE). The results and selected key performance indicators (KPIs) of the 56 selected GCC banks for the quarter-ended 31 March 2018 have been summarized and compared with those from last year (year-ended 31 December 2017). *For banks across Bahrain, KSA and UAE, that have early adopted IFRS 9, we have considered the impact on year of adoption against quarter ended 31 March 2018 for comparison purposes.*

The results and KPIs compared for each bank*

- ECL impact at 1 January 2018 vs. existing provisions at 31 December 2017
- Quarterly analysis of net impairment charge on loans (financing assets for Islamic banks)
- Total exposure subject to ECL at 31 March 2018 – by stage[1]
- Coverage ratios at 31 March 2018 on loans (financing assets for Islamic banks) – Stage 1 & 2
- Reclassification and re-measurement of financial assets (31 December 2017 vs. 1 January 2018) (except KSA where reclassification has been presented)
- Retained earnings (after dividend proposed) vs. impact of IFRS 9 (including classification and measurement (C&M)) at 1 January 2018
- IFRS 9 impact on retained earnings at 1 January 2018
- ECL impact on CET1 ratio at 1 January 2018 (%)[2]
- CET1 ratio at 1 January 2018 and coverage ratios at 31 March 2018.

The information used in this publication has been obtained primarily from publicly available sources, including company filings (interim reports, investor presentations and annual reports), databases and web searches. The terms 'loans and advances' and 'financing assets' (for Islamic banks) have been used interchangeably.

All the figures used in the publication are in US Dollar (US$). For conversion, the average exchange rate of the respective year has been used, i.e. to convert a data point from 2017 (reported in local currency), the average daily exchange rate between 1 January 2017 and 31 December 2017 has been used. The exchange rates used in this publication are provided in Appendix II: Sources.

KPI definitions and assumptions

Given the varied accounting frameworks and reporting styles across Islamic and conventional banks in the GCC, the following parameters have been used in calculations, for consistency in our analysis:

- **ECL impact at 1 January 2018** represents the increase/decrease in the existing provision between IAS 39 and provisions post adopting IFRS 9 at 1 January 2018 or date of early adoption
- **Existing IAS 39 provisions at 31 December 2017** is the provision for impairment before adopting IFRS 9 at 31 December 2017 or date of early adoption
- **Net impairment charge on loans (financing assets for Islamic banks)** is the quarterly charge disclosed on the face of P&L for all banks covering Q1'17 – Q1'18 or the comparative quarter preceding the first quarter of date of early adoption
- **Total exposure subject to ECL at 31 March 2018 – by stage[1]** is the stage-wise exposure (carrying value) of financial assets before the impact of ECL at 31 March 2018, as reported by each bank or on the date of early adoption
- **Coverage ratios at 31 March 2018 on loans (financing assets for Islamic banks)** is calculated by dividing ECL on loans and advances (financing assets for Islamic banks) by exposures subject to ECL on loans (financing assets for Islamic banks), at 31 March 2018, as reported by each bank

Disclaimer: *Through this publication, we have tried to use a consistent approach across all banks, however the KPIs may not be exactly comparable due to the differences in the way several banks have disclosed/not disclosed the transition impact in their financial statements.

Note(s): Please refer to Appendix III: Footnotes for a more detailed explanation of footnotes.

- **Reclassification and re-measurement of financial assets** is the change in the classification and measurement of financial assets as a result of the IFRS 9 adoption as disclosed by the banks. For Islamic banks (except in KSA and UAE) classification and measurement is not applicable and they continue to apply their existing classification as per existing Financial Accounting Standards (FAS)
- **Retained earnings (after dividend proposed) and impact of adopting IFRS 9 (including C&M)** is the retained earning attributable to the shareholders of the bank after adjusting proposed dividend for the year of IFRS 9 adoption, including C&M (transfer of risk reserve for Qatar banks) and the impact of adopting IFRS 9
- **IFRS 9 impact on retained earnings at 1 January 2018** shows the level of ECL impact at 1 January 2018 on retained earnings at 31 December 2017 or date of early adoption
- **ECL impact on CET1 ratio**[2] is the total day 1 impact of ECL on equity as disclosed in Q1'18 financial statements on CET1 capital at 31 December 2017 - assuming no amortization for capital purposes divided by adjusted RWA at 31 December 2017
- **Coverage ratios at 31 March 2018** is calculated by dividing total ECL by total exposures subject to ECL, at 31 March 2018, as reported by each bank.

Important notice to readers:

- While all efforts and intent were to ensure comparability between banks and each country, the differing and inconsistent nature of disclosures have an inherent impact on our ability to make accurate analysis. Readers and users of our publication should take note of this limitation for their purpose and at their own risk
- Some of the ratios or KPIs were derived subjectively by KPMG professionals to narrowly present and analyze the impact of IFRS 9 specifically and may not be suitable for any other purposes
- Impact on CET1 ratios and retained earnings were derived using a logic to reflect and isolate the full impact of IFRS 9 and was not intended to show the 'as-is' or complete positions of the banks. The actual retained earnings or CET1 ratios of the bank could be completely different reflecting variables, other than IFRS 9, that impact balance and ratios on each reporting date
- Certain disclosures or impact items were not consistently disclosed or available in the public domain at the time of our market study and have been marked 'N.A' in this publication. KPMG member firms do not, directly or indirectly, imply that these banks have not complied with requirements of applicable accounting standards but only intend to highlight the lack of comparability or information for its analysis
- KPMG, through this publication, does not present an accounting view or opinion. This publication has a limited objective of presenting and analyzing the impact of IFRS 9 on listed banks in the GCC.

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Note(s): Please refer to Appendix III: Footnotes for a more detailed explanation of footnotes.

Glossary

In this publication, the following 56 listed banks' results have been analyzed.

Bahrain		Abv.	Sign-off date
1	Ahli United Bank	AUB	02-05-2018
2	*Al Baraka Banking Group*	*Al Baraka*	*07-05-2018*
3	*Al Salam Bank-Bahrain*	*Al Salam*	*13-05-2018*
4	*Bahrain Islamic Bank*	*BISB*	*07-05-2018*
5	BBK	BBK	30-04-2018
6	*Ithmaar Bank*	*Ithmaar*	*14-05-2018*
7	*Khaleeji Commercial Bank*	*Khaleeji*	*09-05-2018*
8	National Bank of Bahrain	NBB	02-05-2018

- *For Bahrain, listed investment banks have been excluded from the publication to provide more meaningful comparability of results*
- *AUB adopted Phase 1 of IFRS 9 – reclassification of financial assets in 2012. As a result, reclassification may not be comparable within the peer group*
- *Al Salam early adopted FAS 30/ IFRS 9 in 2017, as a result certain ratios presented may not be comparable within the peer group and with the previous year results*
- *BBK was an early adopter of IFRS 9 in 2016 and continued in 2017. As a result, certain ratios presented may not be comparable within the peer group.*

Kuwait		Abv.	Sign-off date
1	*Ahli United Bank*	*AUBK*	*02-05-2018*
2	Al Ahli Bank of Kuwait	ABK	10-04-2018
3	*Boubyan Bank*	*Boubyan*	*03-04-2018*
4	Burgan Bank	Burgan	12-04-2018
5	Gulf Bank	GBK	11-04-2018
6	*Kuwait Finance House*	*KFH*	*26-04-2018*
7	*Kuwait International Bank*	*KIB*	*08-04-2018*
8	National Bank of Kuwait	NBK	08-04-2018
9	The Commercial Bank of Kuwait	CBK	10-04-2018
10	*Warba Bank*	*Warba*	*11-04-2018*

- *Kuwait banks have not yet adopted ECL requirements of IFRS 9 and hence this is not included in this publication. However, C&M has been adopted and its impact has been analysed in this publication.*

Oman		Abv.	Sign-off date
1	Ahli Bank	Ahli	25-04-2018
2	*Alizz Islamic Bank*	*Alizz*	*26-04-2018*
3	Bank Dhofar	Dhofar	26-04-2018
4	Bank Muscat	Muscat	26-04-2018
5	*Bank Nizwa*	*Nizwa*	*29-04-2018*
6	Bank Sohar	Sohar	23-04-2018
7	HSBC Bank Oman	HSBC	29-04-2018
8	National Bank of Oman	NBO	29-04-2018

Qatar		Abv.	Sign-off date
1	Ahli Bank	Ahli	18-04-2018
2	Al Khaliji Commercial Bank	Al Khaliji	19-04-2018
3	Doha Bank	Doha	22-04-2018
4	*Masraf Al Rayan*	*MAR*	*16-04-2018*
5	*Qatar International Islamic Bank*	*QIIB*	*15-04-2018*
6	*Qatar Islamic Bank*	*QIB*	*15-04-2018*
7	Qatar National Bank	QNB	10-04-2018
8	The Commercial Bank	CB	17-04-2018

Saudi Arabia		Abv.	Sign-off date
1	*Al Rajhi Banking and Investment Corporation*	*Al Rajhi*	*06-05-2018*
2	Alawwal Bank	AAAL	09-05-2018
3	*Alinma Bank*	*Alinma*	*01-05-2018*
4	Arab National Bank	ANB	14-05-2018
5	*Bank AlBilad*	*BAB*	*02-05-2018*
6	*Bank AlJazira*	*BAJ*	*10-05-2018*
7	Banque Saudi Fransi	BSF	06-05-2018
8	Riyad Bank	Riyad	10-05-2018
9	SAMBA Financial Group	SAMBA	13-05-2018
10	The National Commercial Bank	NCB	29-04-2018
11	The Saudi British Bank	SABB	08-05-2018
12	The Saudi Investment Bank	SAIB	07-05-2018

- *Bank Al Jazira early adopted IFRS 9 for C&M purposes in 2011.*

United Arab Emirates		Abv.	Sign-off date
1	Abu Dhabi Commercial Bank	ADCB	26-04-2018
2	*Abu Dhabi Islamic Bank*	*ADIB*	*23-04-2018*
3	Commercial Bank of Dubai	CBD	25-04-2018
4	*Dubai Islamic Bank*	*DIB*	*18-04-2018*
5	Emirates NBD	ENBD	17-04-2018
6	Mashreq Bank	Mashreq	23-04-2018
7	The National Bank of Ras Al-Khaimah	RAK	26-04-2018
8	Union National Bank	UNB	12-05-2018
9	First Abu Dhabi Bank	FAB	29-04-2018
10	*Sharjah Islamic Bank*	*SIB*	*29-04-2018*

- *Of the 20 listed banks in the UAE, the 10 largest (by assets and net profit) have been considered for the purpose of this publication*
- *DIB, ADIB and SIB early adopted phase 1 of IFRS 9 – C&M of financial assets. As a result, reclassification may not be comparable within the peer group*
- *First Abu Dhabi Bank (FAB) is a result of the merger of First Gulf Bank (FGB) and National Bank of Abu Dhabi (NBAD), declared effective on 1 April 2017.*

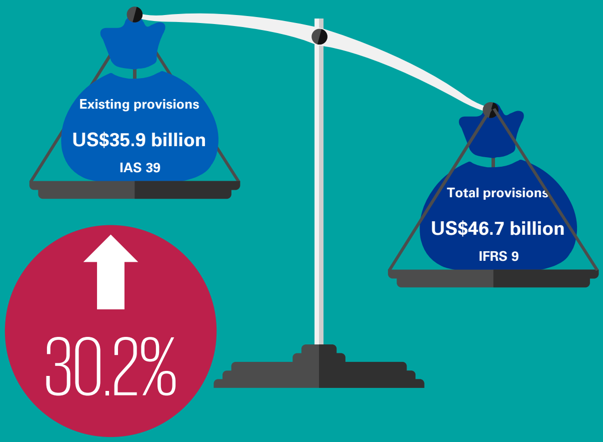
Note(s): Banks have been listed by their full names, which is also the order followed throughout the publication.
The sign-off dates represent the sign-off date available on the statement of financial position; in case of unavailability, the auditor sign-off date has been considered.
Islamic banks have been presented in Italics.

Abbreviations

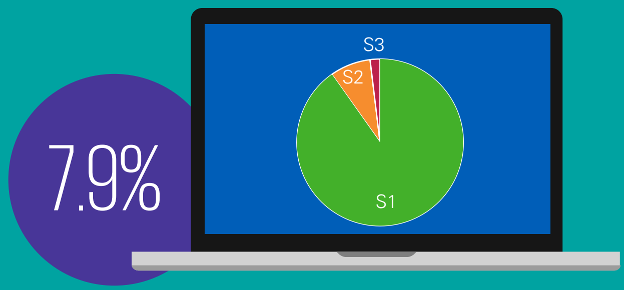
Acronym	Term
AAOIFI	Accounting and auditing organization for islamic financial institutions
AC	Amortized cost
AUP	Agreed upon procedures
C&M	Classification and measurement
CCF	Credit conversion factor
CET1	Common equity tier 1
DPD	Days past due
EAD	Exposure at default
ECL	Expected credit loss
EIR	Effective interest rate
FAS 30	Financial accounting standard 30 – forward looking impairment model for credit losses and provision of various range of assets
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through P&L
GCC	Gulf cooperation council
IAS 39	International accounting standard 39 – financial instruments (recognition and measurement)
IASB	International accounting standard board
IFRS 9	International financial reporting standard 9 – financial instruments
LGD	Loss given default
NPL	Non performing loan
P&L	Profit or loss
PIT PD	Point in time probability of default
PD	Probability of default
RWA	Risk weighted assets
SICR	Significant increase in credit risk
TTC PD	Through the cycle probability of default

Contents

Executive summary



IFRS 9 impact on date of initial application **increased** the total base **provisions** under IAS 39 **by 30.2 percent.**



Out of the **total exposure subject to ECL** at 31 March 2018, **7.9 percent** was in **Stage 2.**

Average coverage ratio on unimpaired loans (Stage 1 & 2 combined) at 31 March 2018.

9.7 percent of total assets measured **at fair value** upon transition to IFRS 9.

CET1 impact of approximately **90 bps** from 16.0 percent to 15.1 percent on recognition of ECL

Net impairment charge on loans down by 15.1 percent to US$1.5 billion from Q1'17 vs. Q1'18.

Data represented on this page excludes Kuwait and also eliminates the banks from rest of the 5 GCC regions where related information was not publically disclosed in the financial statements. To know more about the banks included for the purpose of the analysis, please refer to the respective county section and Appendix I: Data tables.

Country highlights

KPI* / Country	Total exposure[1] subject to ECL 31 March 2018 – by stage (%)	ECL impact at 1 January 2018 vs. existing provisions at 31 December 2017 (US$ million)[(a)]	Coverage ratios at 31 March 2018 on loans (financing assets for Islamic banks) – Stage 1 & 2 (%)
Bahrain	Stage 1: 85.8%; Stage 2: 10.0%; Stage 3: 4.2%	Existing provision: 2,183.3; ECL impact: 863.0; 39.5%	Stage 1: 0.9%; Stage 2: 8.2%; Total – Stage 1 and 2: 1.8%
Oman	Stage 1: 79.3%; Stage 2: 18.7%; Stage 3: 2.0%	Existing provision: 837.5; ECL impact: 46.7; 5.6%	Stage 1: 0.5%; Stage 2: 5.0%; Total – Stage 1 and 2: 1.1%
Qatar	Stage 1: 93.7%; Stage 2: 5.0%; Stage 3: 1.3%	Existing provision: 6,035.4; ECL impact: 2,601.0; 43.1%	Stage 1: 0.4%; Stage 2: 9.7%; Total – Stage 1 and 2: 1.4%
Saudi Arabia	Stage 1: 87.0%; Stage 2: 10.9%; Stage 3: 2.0%	Existing provision: 9,134.4; ECL impact: 4,024.4; 44.1%	Stage 1: 0.6%; Stage 2: 8.1%; Total – Stage 1 and 2: 1.6%
UAE	Stage 1: 92.7%; Stage 2: 5.0%; Stage 3: 2.2%	Existing provision: 17,655.2; ECL impact: 3,294.7; 18.7%	Stage 1: 1.2%; Stage 2: 15.9%; Total – Stage 1 and 2: 2.3%
Total	Stage 1: 90.2%; Stage 2: 7.9%; Stage 3: 1.9%	Existing provision: 35,845.8; ECL impact: 10,829.9; 30.2%	Stage 1: 0.7%; Stage 2: 8.5%; Total – Stage 1 and 2: 1.6%

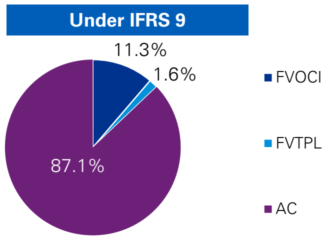
Note (s): Data represented on this page excludes banks where information related to the analyzed KPIs was not publically disclosed in the financial statements. To know more about the banks included for the purpose of the analysis, please refer to the respective county section and Appendix I: Data tables.

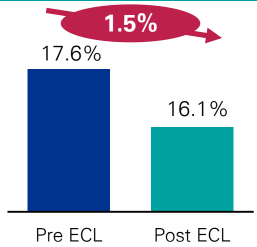
*Country level averages represent only banks (within the selection) where relevant data was readily available.
(a)ECL impact at 1 January 2018 as a percentage increase over total base provisions under IAS 39 at 31 December 2017.
Please refer to Appendix III: Footnotes for a more detailed explanation of footnotes.

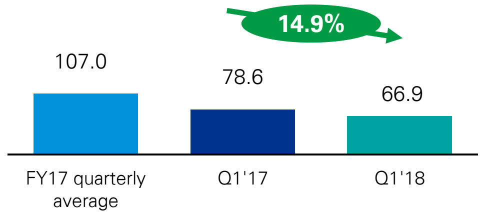
Impact of reclassification and re-measurement of financial assets at 1 January 2018 (%)*

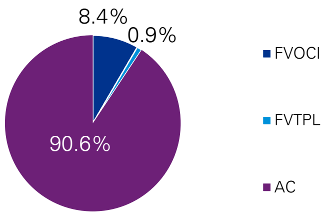
Impact on CET1 ratio – Pre and post IFRS 9 adoption (%)

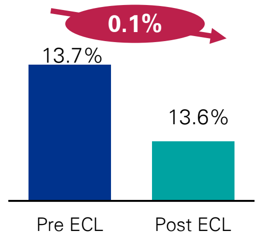
Net impairment charge on loans (financing assets for Islamic banks) – FY17 quarterly average vs. Q1'17 vs. Q1'18 (US$ million)(b)

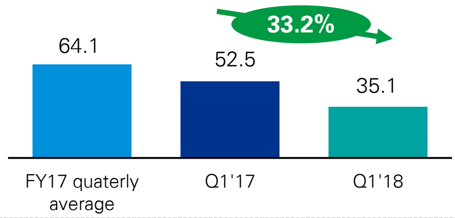


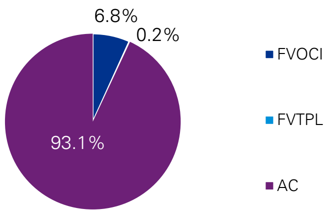


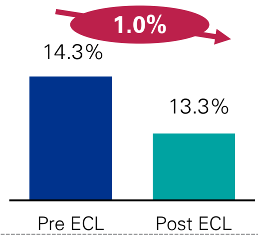


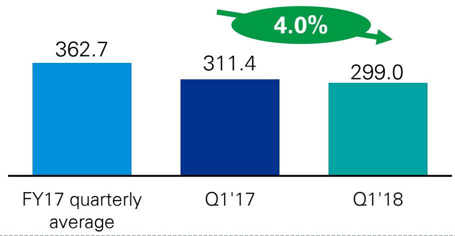


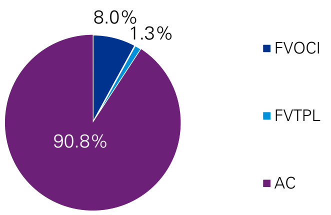


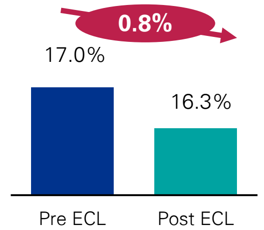


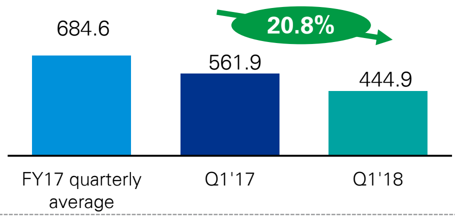


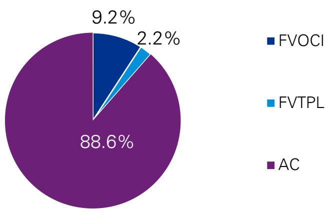




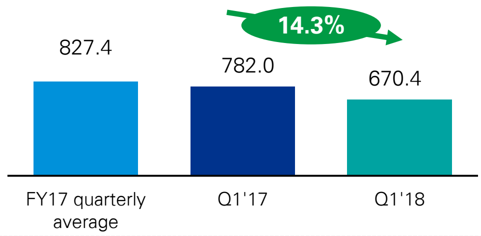


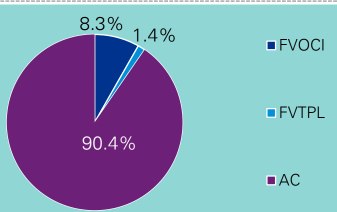


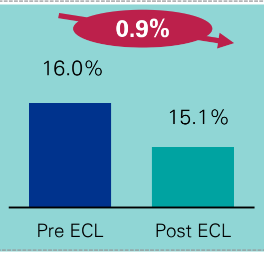


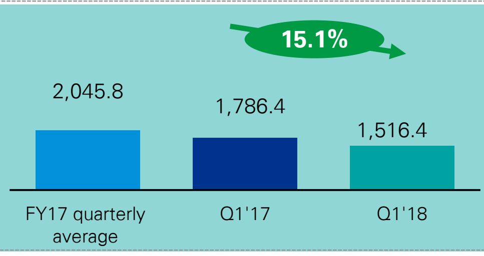


UAE banks have not consistently disclosed impact on CET1 capital, hence analysis of this KPI is excluded from the UAE section









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(a)ECL impact at 1 January 2018 as a percentage increase over total base provisions under IAS 39 at 31 December 2017.
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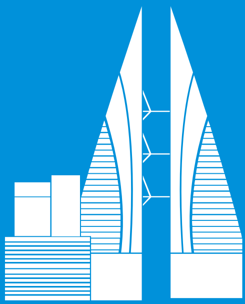
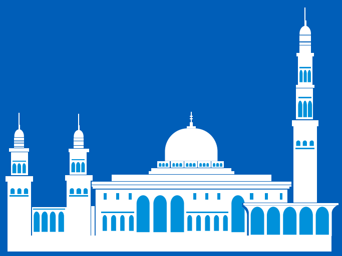
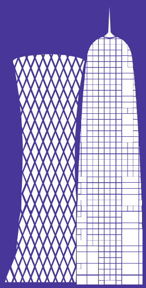
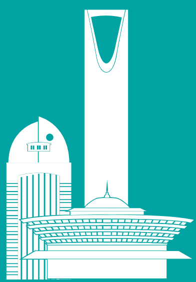
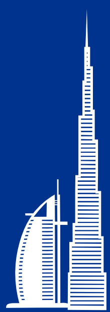
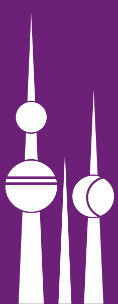
	Bahrain	12
	Oman	18
	Qatar	24
	Saudi Arabia	30
	United Arab Emirates	36
	Kuwait	42

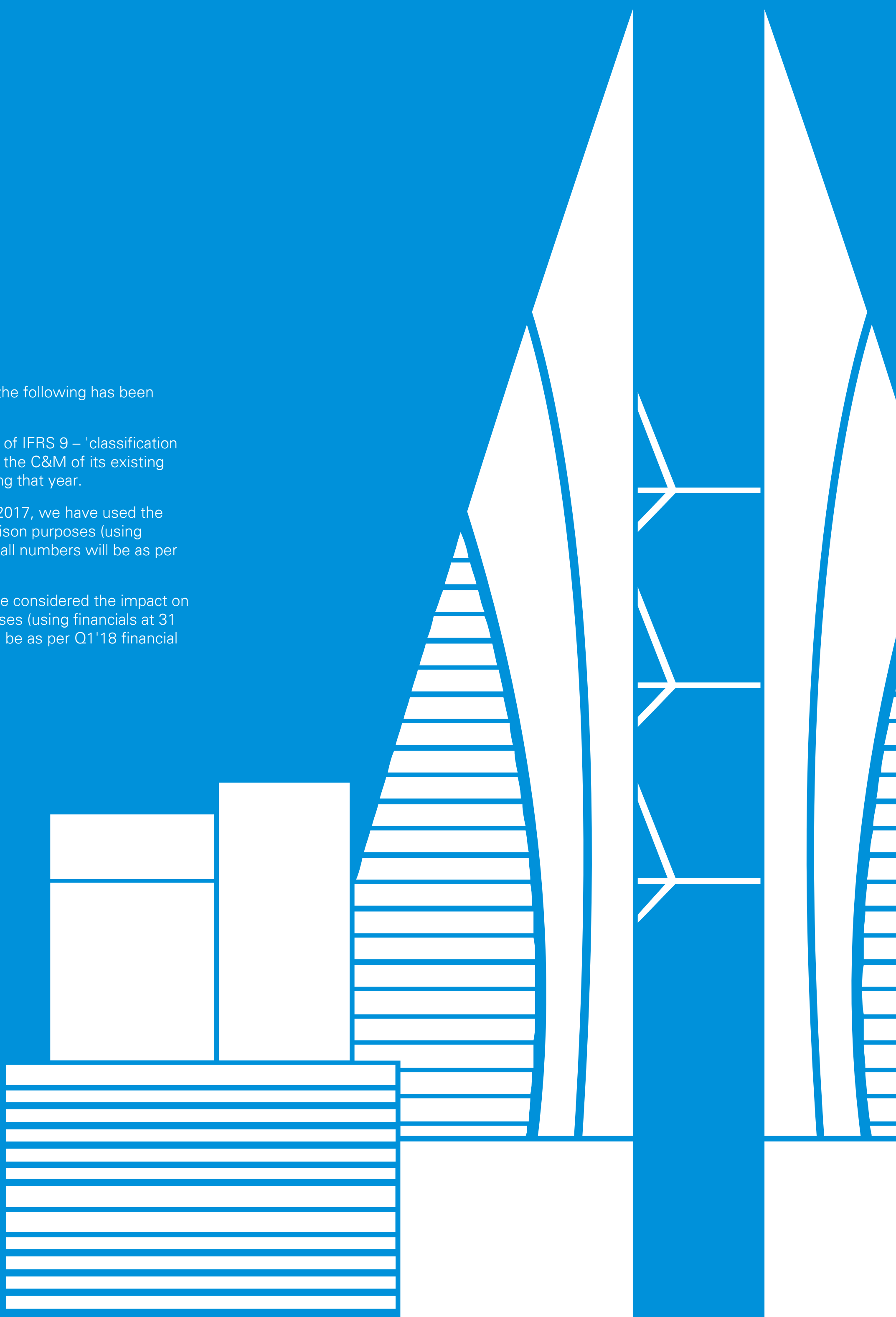
Bahrain

Note: For early adopters of IFRS 9 in Bahrain, the following has been considered for calculating IFRS 9 impact:

— AUB had previously early adopted phase 1 of IFRS 9 – 'classification under IFRS 9 (2010) in 2012 and assessed the C&M of its existing financial assets and financial liabilities during that year.

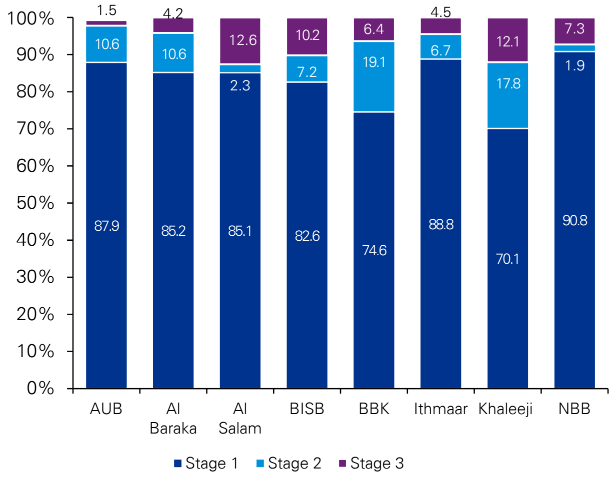
— Al Salam early adopted FAS 30/ IFRS 9 in 2017, we have used the impact on the year of adoption for comparison purposes (using financials at 31 December 17). For Q1'18, all numbers will be as per Q1'18 financial statements.

— BBK early adopted IFRS 9 in 2016, we have considered the impact on the year of adoption for comparison purposes (using financials at 31 December 16). For Q1'18, all numbers will be as per Q1'18 financial statements.

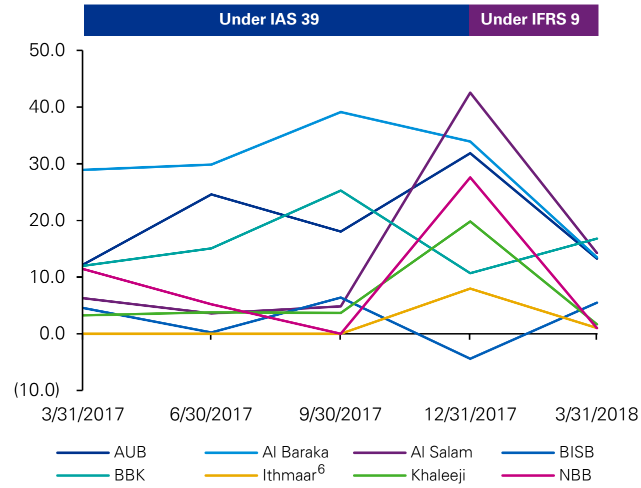


IFRS 9 impact

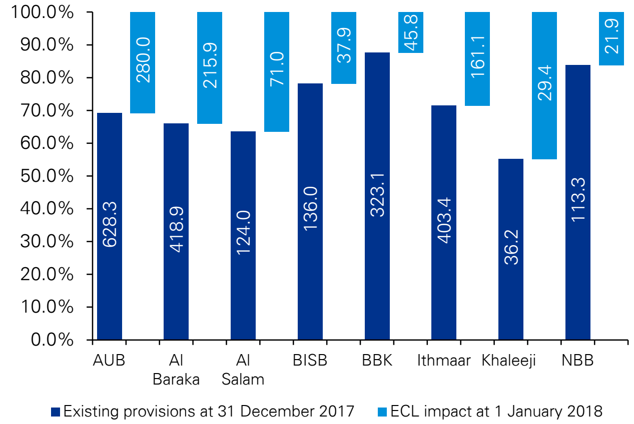
Total exposure[1] subject to ECL 31 March 2018 – by stage (%)



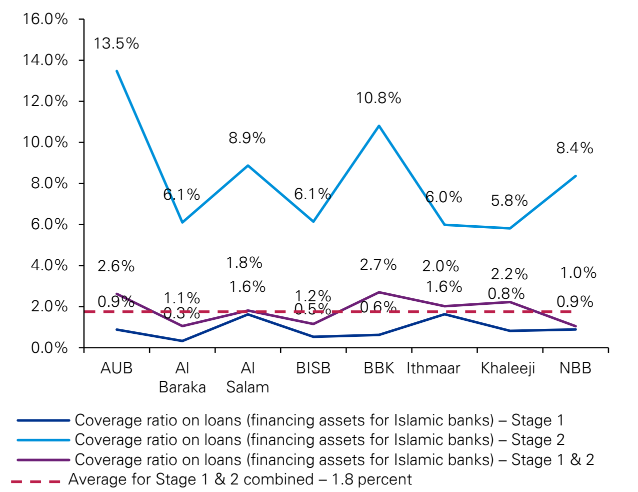
Net impairment charge on loans (financing assets for Islamic banks) – q-o-q trend analysis (US$ million)[3]



ECL impact at 1 January 2018 vs. existing provisions at 31 December 2017 (US$ million)

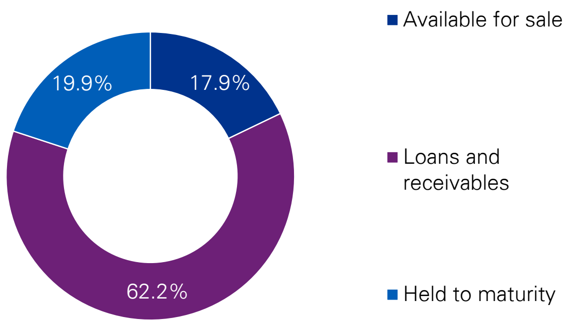


Coverage ratios at 31 March 2018 on loans (financing assets for Islamic banks) – Stage 1 & 2 (combined) (%)

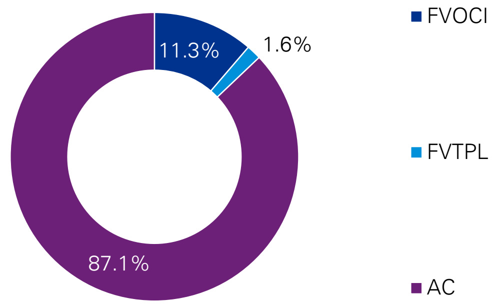


Impact on reclassification and re-measurement of financial assets (31 December 2017 vs. 1 January 2018) (%)[4]

Under IAS 39 at 31 December 2017



Under IFRS 9 at 1 January 2018

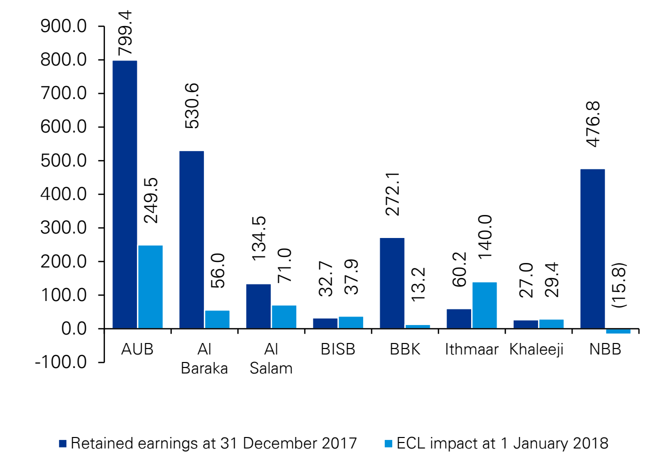


Note(s): Please refer to Appendix III: Footnotes; for detailed explanation of footnotes.

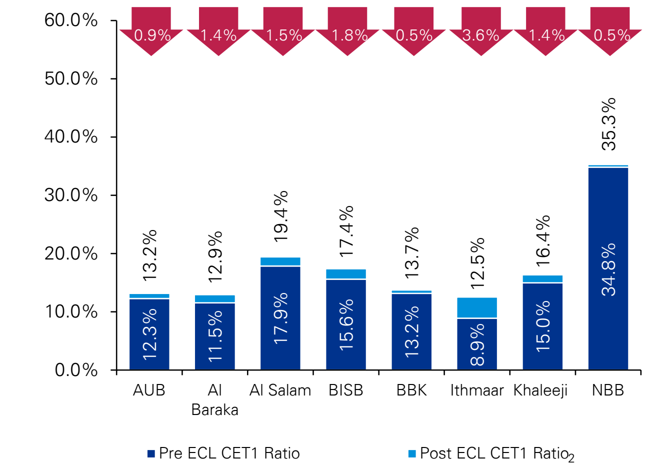
IFRS 9 impact (cont.)

Retained earnings (after dividend proposed) vs. impact of IFRS 9 (including C&M impact) at 1 January 2018 (US$ million)						
Bank	**Retained earnings before impact of adopting IFRS 9 (A)**	**Dividend proposed (B)**	**Retained earnings after proposed dividend but before impact of adopting IFRS 9 as of 31 December 2017 (C=(A – B))**	**Impact of adopting IFRS 9 (including ECL and C&M) (D)**	**Retained earnings after proposed dividend and impact of adopting IFRS 9 (E=(C – D))**	**Impact of adopting IFRS 9 as a % of retained earnings after proposed dividend (D/C)**
AUB	799.4	341.6	457.8	249.5	208.2	54.5%
Al Baraka	590.9	60.3	530.6	56.0	474.6	10.6%
Al Salam	134.5	39.8	94.7	71.0	23.7	74.9%
BISB	32.7	13.4	19.3	37.9	(18.6)	196.1%
BBK	272.1	85.6	186.5	13.2	173.3	7.1%
Ithmaar	60.2	N.A	N.A	140.0	N.A	N.A
Khaleeji	27.0	0.0	27.0	29.4	(2.4)	108.9%
NBB	476.8	84.6	392.3	(15.8)	408.1	(4.0)%

IFRS 9 impact on retained earnings at 1 January 2018 (US$ million)[5]



ECL impact on CET1 ratio at 1 January 2018 (%)



CET1 ratio at 1 January 2018 and coverage ratios at 31 March 2018 (US$ million)											
	CET1 ratio		**Stage 1**			**Stage 2**			**Total coverage ratio (Stage 1 and Stage 2)**		
Bank	**Pre ECL**	**Post ECL[2]**	**ECL**	**Exposure**	**Coverage ratio**	**ECL**	**Exposure**	**Coverage ratio**	**ECL**	**Exposure**	**Coverage ratio**
AUB	13.2%	12.3%	165.7	23,522.9	0.7%	378.8	2,830.3	13.4%	544.5	26,353.2	2.1%
Al Baraka	12.9%	11.5%	49.5	16,190.3	0.3%	123.3	2,020.7	6.1%	172.7	18,211.0	0.9%
Al Salam	19.4%	17.9%	33.2	1,878.4	1.8%	4.5	50.4	8.9%	37.7	1,928.8	2.0%
BISB	17.4%	15.6%	9.2	2,460.9	0.4%	12.9	214.8	6.0%	22.2	2,675.8	0.8%
BBK	13.7%	13.2%	23.8	3,797.6	0.6%	104.9	972.1	10.8%	128.7	4,769.7	2.7%
Ithmaar	12.5%	8.9%	121.6	9,783.8	1.2%	43.6	738.6	5.9%	165.3	10,522.5	1.6%
Khaleeji	16.4%	15.0%	6.8	1,276.5	0.5%	18.9	324.9	5.8%	25.7	1,601.3	1.6%
NBB	35.3%	34.8%	28.2	3,164.8	0.9%	5.6	66.4	8.4%	33.8	3,231.2	1.0%

KPMG Analysis

- The total ECL day 1 impact for the 8 listed banks in Bahrain amounted to US$863.0 million, with the lowest impact bank adding US$21.9 million and the highest impact bank adding US$280.0 million to their existing provision levels
- An average increase of 39.5 percent in base provisions was observed. The smallest increase over base provision amounted to 14.2 percent and the largest increase over base provision was 81.1 percent
- The Total coverage ratio on loans (Stage 1 + Stage 2) stood at an average 1.8 percent, with Stage 1 average coverage ratio of 0.9 percent and Stage 2 average coverage ratio of 8.2 percent
- Full impact of ECL on CET1 capital led to a reduction ranging from 0.5 percent to 3.6 percent
- A higher portion of financial assets were classified as FVTPL thus leading to increased volatility on the balance sheet and profit and loss
- In general, most banks recorded lower Q1'18 impairment charge compared to the average of 2017.

Note(s): Please refer to Appendix III: Footnotes; for detailed explanation of footnotes.

N.A = Data not available.

Summary of approach

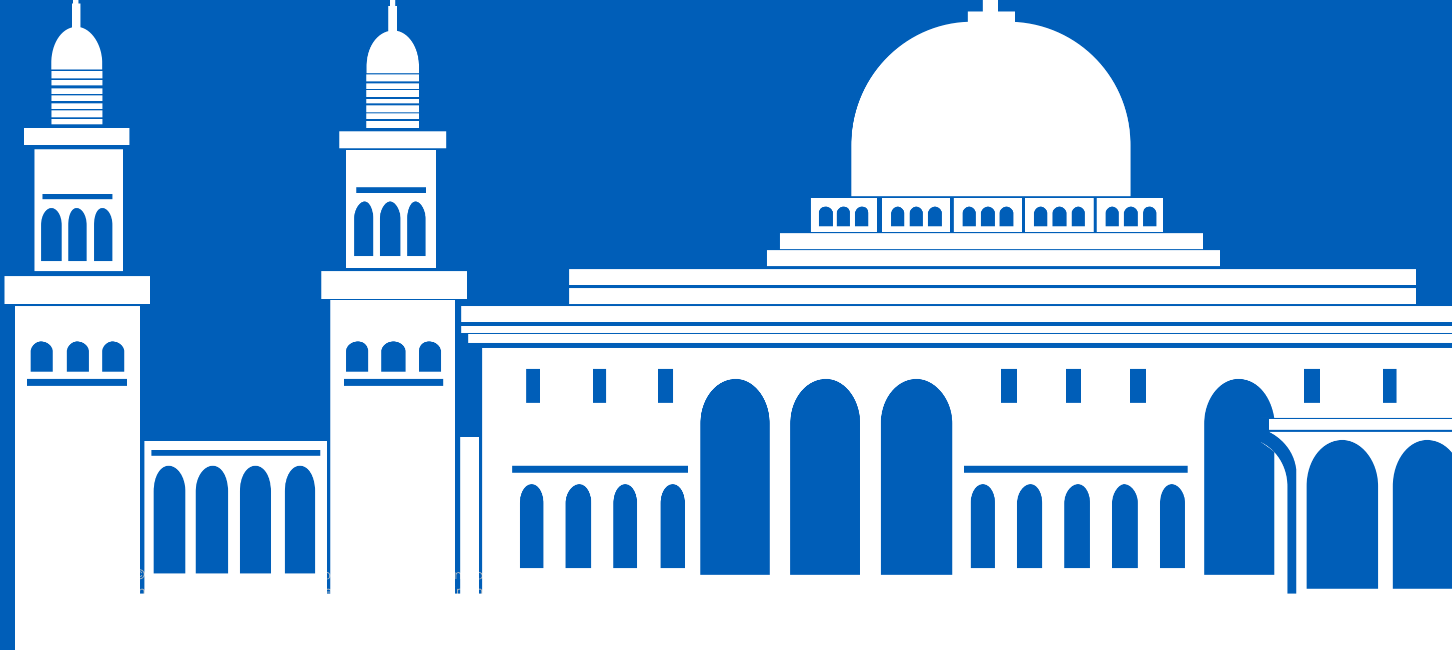
ECL Component	Summary of approaches adopted by banks*
Definition of default	— In addition to internal definitions of default, a back-stop of 90 day or more past due has been used for recognizing a default event — Cross-default is considered at an obligor level for corporate borrowers. In case of retail, mixed practices are being followed ranging from facility level assessment to customer level default measures — 12 month cooling off period applied for any backward transition from Stage 3 (NPL status) to performing stage from the first date of becoming regular in repayment.
SICR and Staging approaches	— For corporate borrowers, banks have used internal changes in credit ratings as the primary measure of determining SICR since origination. Whereas, for retail customers, 'DPD' has been taken as a measure of SICR — A back-stop of '30 days or more past due' is applied as rebuttable presumption of SICR. The rebuttal can be up to a maximum of '60 day or more of past due' subject to banks demonstrating a longer back stop measure is appropriate for their portfolio profile — Staging criteria has been applied at facility level for corporate as well as retail customers (excluding credit card where portfolio level analysis has been done) — All restructured loans are classified as Stage 2 and 12 month cooling off period is applied for any backward transition from Stage 2 to Stage 1 from the date of restructuring.
Corporate/ Wholesale PD models	— Banks have their own estimate of PD based on historical default experience and macro economic aspects have been factored for developing forward looking PIT PD. Default statistics or data ranges over a period of 3-5 years — Where portfolios are being internally rated for credit assessment, bank specific observed default data is being used to determine TTC PD using a transition matrix/cohort approaches or observed default rate. In absence of adequate historical data, rating agency data (default rate) has been used post calibration to the observed default rate of respective portfolios — In case of low default portfolios, the most prudent estimate approach (using the Pluto-Tasche method) has been applied to derive TTC PD and some have used TTC PD provided by the external credit rating agencies — For externally-rated portfolios, PD curves provided by external rating agencies has been used as inputs to the TTC PD — Any credit exposures to the Government of Bahrain, represented by the Ministry of Finance and CBB are exempted from the application of ECL model.
Retail PD models	— As retail portfolios are not usually rated, a cohort based flow rate approach or net flow rate approach has been used to develop product level/ customer segment level PD curves using DPD data segmented in to standard time buckets — Retail default statistics over a period of 3-5 years has been used.
Forward looking PD estimation	— The forecasted macro-economic variables available from International Monetary Fund (IMF) or Economist Intelligence Unit (EIU) at a country level has been used (eg. Gross domestic product (GDP)/ consumer price index (CPI)/ government expenditure/ oil prices etc.) — Generally, credit index (regression analysis) or Merton-Vasicek single factor models has been used to forecast PIT PD's using forecasted macro-economic data. In case of externally rated exposures, Merton-Vasicek single factor models were used to derive forward looking PD estimates.
Probability-weighted outcome	— In general, a minimum of three scenarios have been used to develop probability weighted outcomes. The probability weightage has been arrived based on expert judgment with highest weightage being assigned to the base case central scenario.
LGD models	— Internal data, generally for a period of 5-7 years, has been used, where available, to derive recovery rate. Where there was lack of internal experience, a market proxy is being used as the basis of recovery rate (eg. Basel LGD of 45.0-50.0 percent or unsecured portfolio LGD of 60.0 percent) — For collateralized portfolios, realizable values of eligible collaterals have been considered after applying haircuts on collateral market values. Collateral values have generally been forecasted only for real estate assets using correlated macro-economic factors.

Note: (a) Based on KPMG member firms engagement experiences, internal research, bank interviews and review of public disclosures.

Regulatory guidance provided for ECL calculations in Bahrain

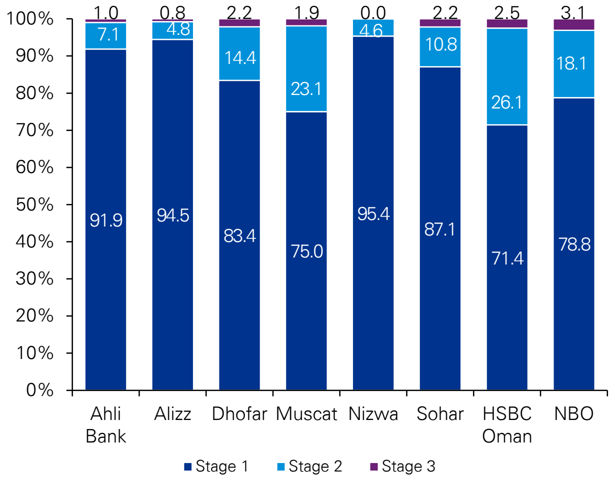
Regulatory guidance	Central Bank of Bahrain (CBB)
Guidance issued	A detailed circular has been issued by the CBB. The guidance intends to build consistency in some key aspects of impairment calculations and application of Stage 1 and Stage 2 provision on capital requirement of the banks.
Key highlights of regulations	— List of areas which needs to be covered in the bank's IFRS 9 ECL implementation policy statement — Definition of non-performing i.e. 90 DPD which needs to be considered for definition of default for the purpose of IFRS 9 — CBB lays emphasis on availability of adequate historical data for computing PD and LGD for their corporate customers — Internal and external validation of ECL model i.e. PD, LGD and EAD model at least once a year — 12 month cooling off period for upward transition from Stage 3 (non-performing) to performing — All restructured facilities needs to be classified as Stage 2 for a period of 12 months from the date of restructuring — Allowance on Stage 1 and 2 exposures treated as collective provision and included under tier 2 capital up to 1.3 percent of the total RWA — Excess amount, if any, in the level of collective impairment provision or specific provisions cannot be written back at the time of initial adoption of the standard.
Reporting requirements	— Quarterly reporting templates to be submitted to the CBB.
Transition impact	— Case to case basis. Few banks were provided with a transitional relief to spread the ECL impact as reduction from CET1 capital for over periods of upto 3 years.

Oman

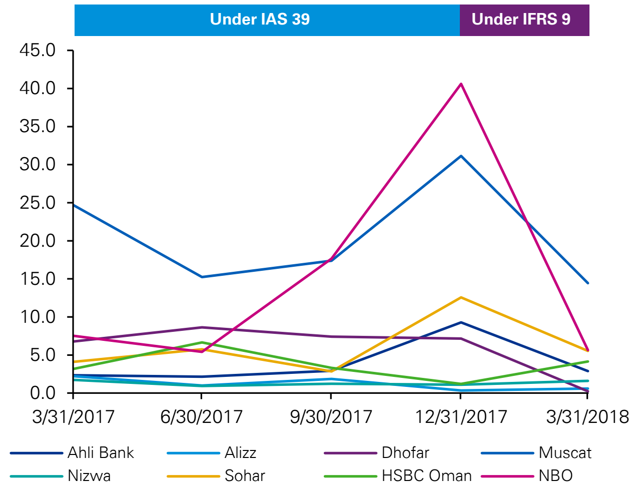


IFRS 9 impact

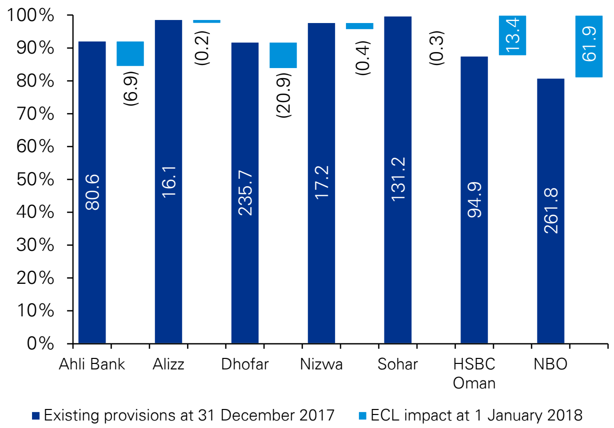
Total exposure[1] subject to ECL 31 March 2018 – by stage (%)



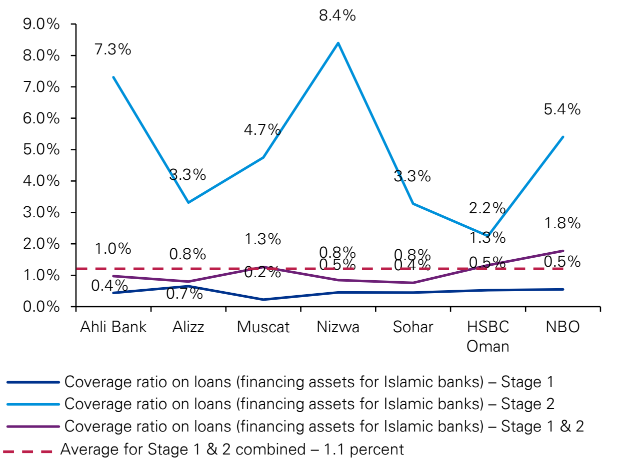
Net impairment charge on loans (financing assets for Islamic banks) – q-o-q trend analysis (US$ million)[3]



ECL impact at 1 January 2018 vs. existing provisions at 31 December 2017 (US$ million)[7]



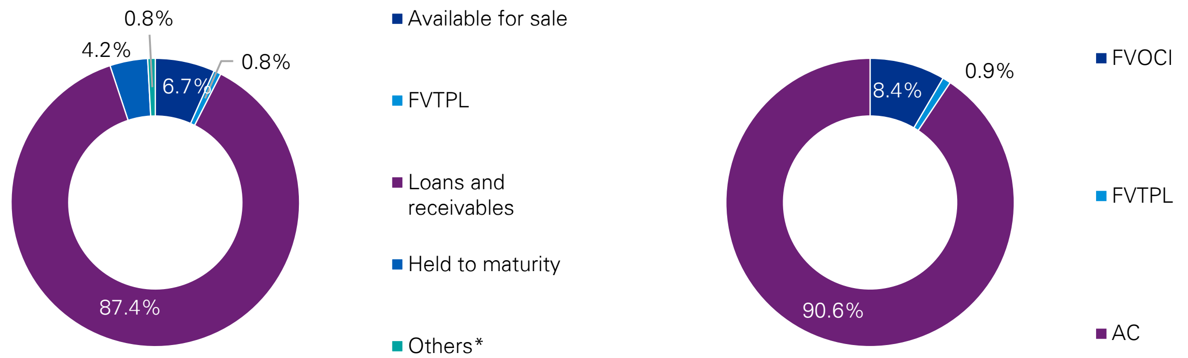
Coverage ratios at 31 March 2018 on loans (financing assets for Islamic banks) – Stage 1 & 2 (combined) (%)[8]



Impact on reclassification and re-measurement of financial assets (31 December 2017 vs. 1 January 2018) (%)[4,9]

Under IAS 39 at 31 December 2017

Under IFRS 9 at 1 January 2018



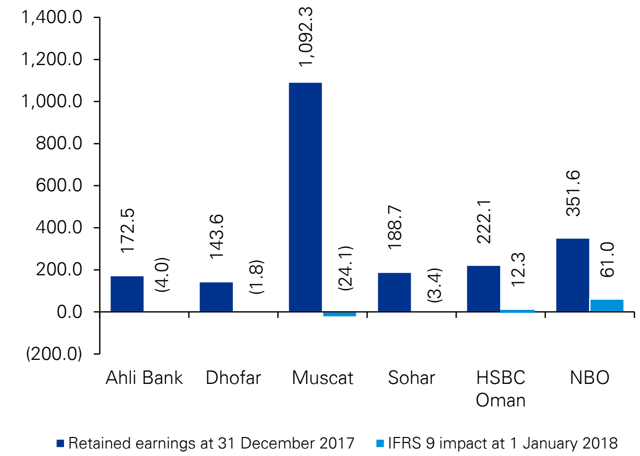
Note(s): Please refer to Appendix III: Footnotes; for detailed explanation of footnotes.

**Others – include other assets and investments classified under amortized costs.*

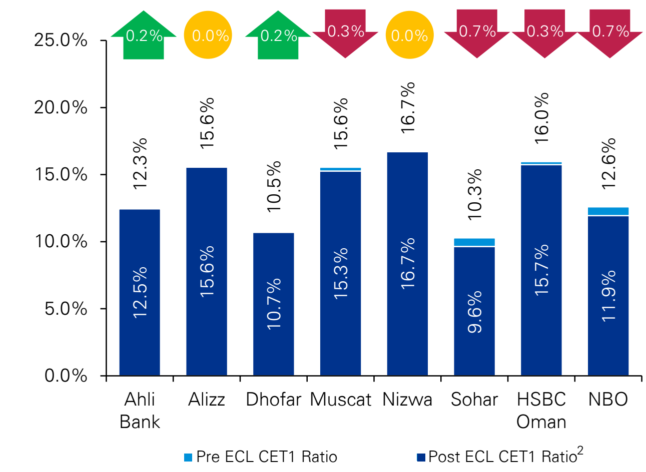
IFRS 9 impact (cont.)

Retained earnings (after dividend proposed) vs. impact of IFRS 9 (including C&M impact) at 1 January 2018 (US$ million)						
Bank	**Retained earnings before impact of adopting IFRS 9 (A)**	**Dividend proposed (B)**	**Retained earnings after proposed dividend but before impact of adopting IFRS 9 as of 31 December 2017 (C=(A – B))**	**Impact of adopting IFRS 9 (including ECL and C&M) (D)**	**Retained earnings after proposed dividend and impact of adopting IFRS 9 (E=(C – D))**	**Impact of adopting IFRS 9 as a % of retained earnings after proposed dividend (D/C)**
Ahli	172.5	37.0	135.5	(4.0)	139.5	(2.9)%
Alizz	N.A	N.A	N.A	N.A	N.A	N.A
Dhofar	143.6	70.4	73.3	(1.8)	75.1	(2.5)%
Muscat	1,092.3	211.1	881.2	(24.1)	905.4	(2.7)%
Nizwa	N.A	N.A	N.A	N.A	N.A	N.A
Sohar	188.7	23.2	165.5	(3.4)	168.9	(2.1)%
HSBC	222.1	29.6	192.5	12.3	180.2	6.4%
NBO	351.6	60.3	291.3	61.0	230.2	21.0%

IFRS 9 impact on retained earnings at 1 January 2018 (US$ million)[5,10]



ECL impact on CET1 ratio at 1 January 2018 (%)



CET1 ratio at 1 January 2018 and coverage ratios at 31 March 2018 (US$ million)										
	CET1 ratio		**Stage 1**			**Stage 2**			**Total coverage ratio (Stage 1 and Stage 2)**	
Bank	**Pre ECL**	**Post ECL[2]**	**ECL**	**Exposure**	**Coverage ratio**	**ECL**	**Exposure**	**Coverage ratio**	**ECL**	**Exposure**	**Coverage ratio**
Ahli	12.3%	12.5%	20.2	5,294.0	0.4%	31.4	410.6	7.6%	51.6	5,704.6	0.9%
Alizz	15.6%	15.6%	8.6	1,478.9	0.6%	2.5	74.6	3.4%	11.1	1,553.6	0.7%
Dhofar	10.5%	10.7%	51.4	10,973.7	0.5%	75.3	1,899.6	4.0%	126.7	12,873.3	1.0%
Muscat	15.6%	15.3%	53.9	28,467.7	0.2%	332.0	8,755.2	3.8%	385.9	37,223.0	1.0%
Nizwa	16.7%	16.7%	9.6	2,044.4	0.5%	8.3	98.9	8.4%	17.9	2,143.3	0.8%
Sohar	10.3%	9.6%	22.5	5,020.2	0.4%	20.4	620.6	3.3%	42.8	5,640.8	0.8%
HSBC	16.0%	15.7%	10.5	5,534.6	0.2%	38.3	2,019.6	1.9%	48.8	7,554.2	0.6%
NBO	12.6%	11.9%	34.5	7,692.6	0.4%	114.7	1,771.3	6.5%	149.2	9,463.9	1.6%

KPMG Analysis

- ECL day 1 impact at 1 January 2018 for 7 listed banks[7] amounted to US$46.7 million
- Allowance for impairment under IFRS 9 at 1 January 2018 amounted to US$884.2 million as compared to US$837.5 million as per IAS 39 at 31 December 2017
- Average NPL ratio for all listed banks has increased from 2.2 percent at 31 December 2017 to 2.3 percent at 31 March 2018
- The coverage ratio ranges from 0.2 percent to 0.6 percent for Stage 1 exposures and 1.9 percent to 8.4 percent for Stage 2 exposures
- The coverage ratio ranges from 27.7 percent to 68.3 percent for Stage 3 exposures
- Post ECL CET1 ratio decreased by an overall average of 0.1 percent for all listed banks. ECL impact at 1 January 2018 has reduced equity by US$46.7 million for 7 listed banks[7].

Note(s): Please refer to Appendix III: Footnotes; for detailed explanation of footnotes

N.A = Data not available

Summary of approach

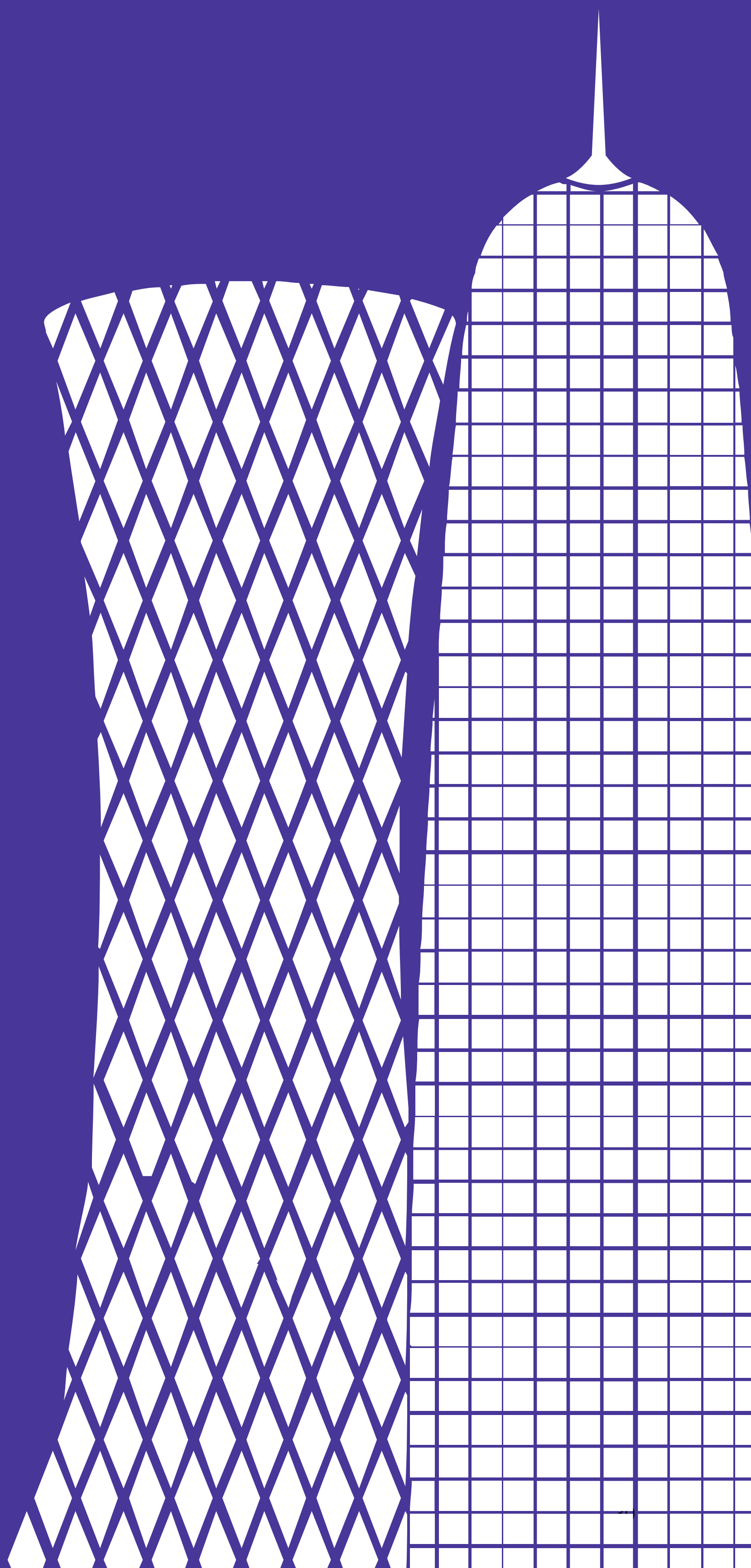
ECL Component	Summary of approaches adopted by banks*
Definition of default	— In addition to internal definitions of default, a back-stop of 90 day or more past due has been used for recognizing default event — Cross-default is considered at an obligor level for corporate borrowers. In case of retail, mixed practices are being followed ranging from facility level assessment to customer level default measures — 12 month cooling off period is applied for any backward transition from Stage 3/2 and is subject to regulatory approval.
SICR and Staging approaches	— For corporate borrowers, banks have used internal changes in credit ratings as the primary measure of determining SICR since origination. Whereas, for retail customers, 'DPD' is considered as a measure of SICR — A back-stop of '30 days or more past due' is applied as rebuttable presumption of SICR. The rebuttal can be up to a maximum of '60 day or less of past due' however banks should educate their customers to make payments in a timely manner. Banks can rebut the presumption for corporate customers having limits of US$1.3 million (RO500,000) and above after specific approval of the Chief Risk Officer. Such list should be maintained and submitted to the CBO — Staging criteria has been applied at product level for corporate as well as retail customers.
Corporate/ Wholesale PD models	— The CBO guidelines requires the banks to have their own estimate of PD based on historical default experience and such estimation shall be forward looking, factoring in the forecasted macro economic factors — Where portfolios are being internally rated for credit assessment, bank specific observed default data is being used to determine TTC PD using a transition matrix/cohort approaches. In absence of adequate historical data, rating agency data (default rate) has been used post calibration to the observed default rate of respective portfolios — For externally-rated portfolios, PD curves provided by external rating agencies has been used as inputs to the TTC PD — Any credit exposures to the Government of Oman or the CBO are exempted from the application of ECL model.
Retail PD models	— As retail portfolios are not usually rated, a cohort based flow rate approach has been used to develop product level/ customer segment level PD curves using DPD data segmented in to standard time buckets — Retail default statistics over a period of 3-5 years has been used.
Forward looking PD estimation	— The forecasted macro-economic variables available from the CBO/IMF at a country level has been used — Generally, credit index has been used to forecast PIT PD using forecasted macro-economic data.
Probability-weighted outcome	— In general, a minimum of three scenarios have been used to develop probability weighted outcomes. The probability weightage has been arrived based on expert judgment with highest weightage being assigned to base case scenario.
LGD models	— Internal data, generally for a period of 5 years has been used where available, to derive recovery rate; Where there was lack of internal experience, a market proxy is being used as the basis of recovery rate (eg. Basel LGD of 45.0-50.0 percent or unsecured portfolio LGD of 50.0-60.0 percent) — For collateralized portfolios, realizable values of eligible collaterals have been considered after applying haircuts on collateral market values. Collateral values have generally been forecasted only for real estate assets using correlated macro-economic factors.

Note: *Based on KPMG member firms engagement experiences, internal research, bank interviews and review of public disclosures.

Regulatory guidance provided for ECL calculations in Oman

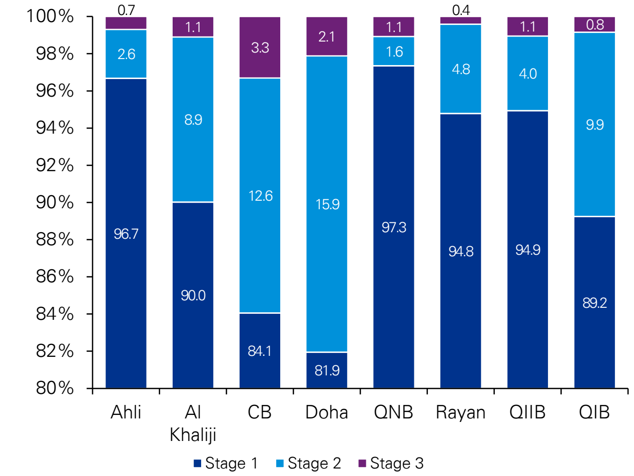
Regulatory guidance	Central bank of Oman (CBO)
Guidance issued	— IFRS 9 guidelines were issued by the CBO. All the banks operating in Oman were required to submit quarterly update at 30 September 2017 and 31 December 2017 on implementation status of IFRS 9 along with IFRS 9 proforma financial statements to the CBO. Reporting for 31 December 2017 was required to be accompanied by AUP report from external auditors — The guidelines apply mutatis mutandis to Islamic banks and windows subject to any specific instructions by the CBO for Islamic banking entities. As of now, no specific guidelines has been issued for the Islamic banking entities — The CBO did not permit banks to early adopt IFRS 9.
Key highlights of regulations	— Specific transition rules for day 1 impact to equity without restating comparatives — Definition of low credit risk assets specifying certain criteria for assessment as low credit risk — Mapping of internal ratings to external rating definition as far as possible — Banks are expected to follow guidance issued by Basel Committee on Banking Supervision on Credit Risk and Accounting for ECL — Three stage approach Stage 1 and 2 are part of performing book whereas Stage 3 pertains to impaired exposures with specific impairment allowance — ECL calculation done for Stage 1 (12 months), Stage 2 (lifetime); provisions for Stage 3 to be done based on the CBO guidelines — Banks should concurrently compute the total allowance for impairment both performing and non-performing loans as per the CBO guidelines. Accordingly if the provision as per the CBO guidelines are higher than IFRS 9 computation, the difference, should be transferred to an Impairment Reserve as a appropriation from the retained earnings and this reserve would not be available for payment of dividend or inclusion in regulatory capital. In the subsequent year of adoption, the net charge if higher as per the CBO guidelines should be transferred to the Impairment Reserve. No Impairment Reserve is required if IFRS 9 provision is higher than the CBO guidelines — The CBO also presents in their guidelines on certain events as evidence of SICR such as non–cooperation of borrower in matters pertaining to documentation, more than 25.0 percent decline in turnover or earnings, erosion in net worth by more than 20.0 percent etc. — The CBO has also advised banks to desist structuring loans and advances in a manner to delay or avoid the recognition of lifetime credit losses — Staging done based on obligor level assessment with certain exceptions subject to regulatory approval — PD estimation done using bank's own default experience and on forward looking basis — Banks are advised to make reasonable and supportable estimates of the value of the collateral — Banks in the country are using minimum three scenarios when estimating ECL with maximum up to five scenarios since there are no specific guidelines by the CBO.
Reporting requirements	— Proforma financial statements for the year ended 31 December 2017 were submitted to the CBO along with AUP report from external auditors — The CBO has advised banks to submit quarterly report on IFRS 9 figures in specific format which are more detailed and require segment and product-wise details.
Transition impact	— None provided so far.

Qatar

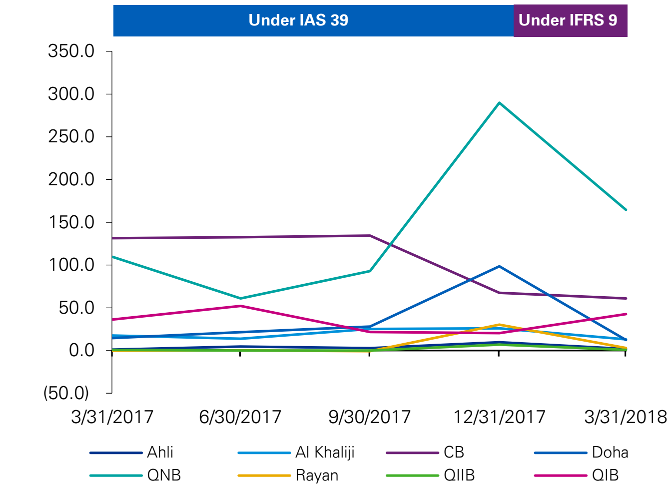


IFRS 9 impact

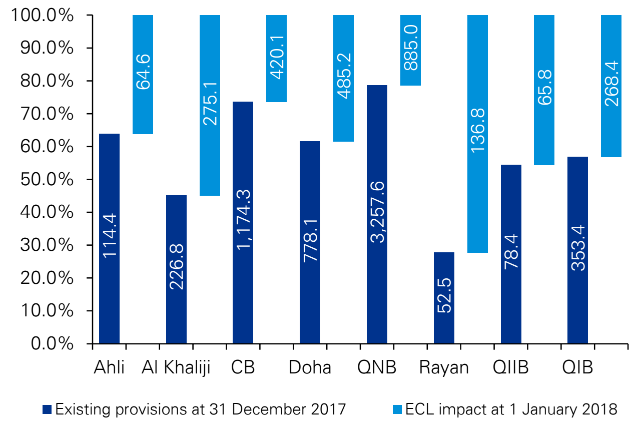
Total exposure[1] subject to ECL 31 March 2018 – by stage (%)



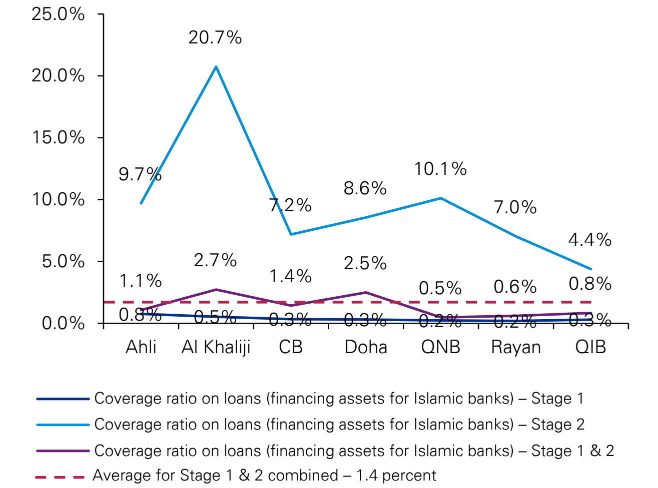
Net impairment charge on loans (financing assets for Islamic banks) – q-o-q trend analysis (US$ million)[3]



ECL impact at 1 January 2018 vs. existing provisions at 31 December 2017 (US$ million)

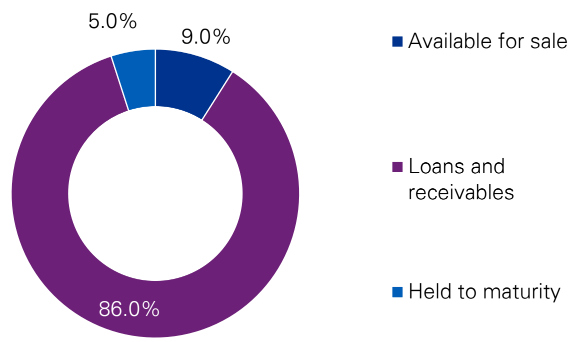


Coverage ratios at 31 March 2018 on loans (financing assets for Islamic banks) – Stage 1 & 2 (combined) (%)[11]

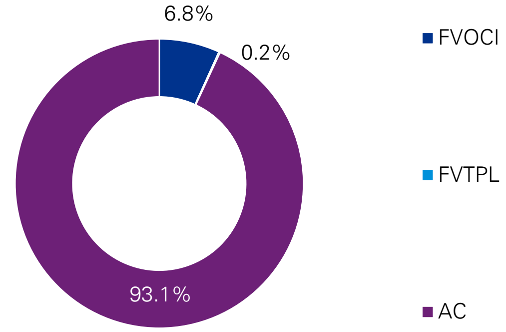


Impact on reclassification and re-measurement of financial assets (31 December 2017 vs. 1 January 2018) (%)[4]

Under IAS 39 at 31 December 2017



Under IFRS 9 at 1 January 2018

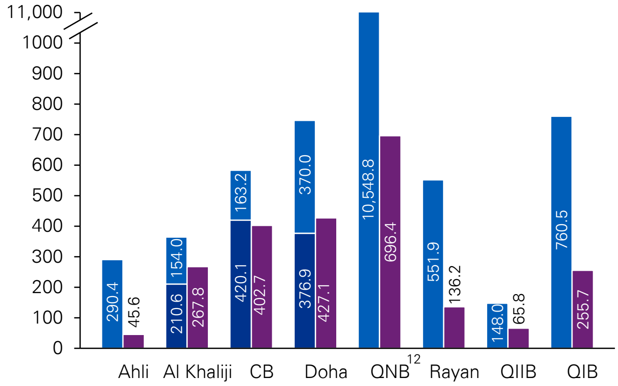


Note(s): Please refer to Appendix III: Footnotes; for detailed explanation of footnotes.

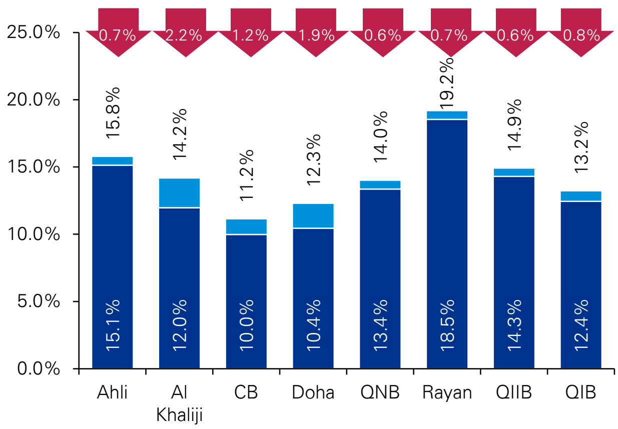
IFRS 9 impact (cont.)

Retained earnings (after dividend proposed) vs. impact of IFRS 9 (net of transfer of risk reserve) at 1 January 2018 (US$ million)						
Bank	**Retained earnings before impact of adopting IFRS 9 as of 31 December 2017 (A)**	**Dividend proposed (B)**	**Retained earnings after proposed dividend but before impact of adopting IFRS 9 as of 31 December 2017 (C=(A – B))**	**Impact of adopting IFRS 9 (net of transfer of risk reserve) (D)**	**Retained earnings after proposed dividend and impact of adopting IFRS 9 (net of transfer of risk reserve) (E=(C – D))**	**Impact of adopting IFRS 9 as a % of retained earnings after proposed dividend (D/C)**
Ahli	290.4	55.0	235.4	45.6	189.7	19.4%
Al Khaliji	154.0	74.2	79.8	57.2	22.6	71.7%
CB	163.2	111.2	52.1	(17.4)	69.5	(33.4)%
Doha	370.0	255.5	114.5	50.2	64.3	43.8%
QNB	10,548.8	1,522.5	9,026.4	696.4	8,330.0	7.7%
Rayan	551.9	412.1	139.8	136.2	3.6	97.4%
QIIB	314.3	166.3	148.0	65.8	82.2	44.5%
QIB	1,085.1	324.6	760.5	255.7	504.8	33.6%

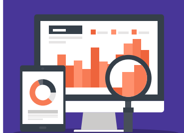
IFRS 9 impact on retained earnings and risk reserve at 1 January 2018 (US$ million)[5]



ECL impact on CET1 ratio at 1 January 2018 (%)



CET1 ratio at 1 January 2018 and coverage ratios at 31 March 2018 (US$ million)												
	CET1 ratio		**Stage 1**			**Stage 2**			**Total coverage ratio (Stage 1 and Stage 2)**			
Bank	**Pre ECL**	**Post ECL[2]**	**ECL**	**Exposure**	**Coverage ratio**	**ECL**	**Exposure**	**Coverage ratio**	**ECL**	**Exposure**	**Coverage ratio**
Ahli	15.8%	15.1%	69.1	11,341.4	0.6%	29.0	308.1	9.4%	98.1	11,649.5	0.8%
Al Khaliji	14.2%	12.0%	73.0	16,559.6	0.4%	231.1	1,634.5	14.1%	304.1	18,194.1	1.7%
CB	11.2%	10.0%	88.3	38,426.2	0.2%	340.4	5,780.3	5.9%	428.7	44,206.5	1.0%
Doha	12.3%	10.4%[13]	92.5	27,537.8	0.3%	431.2	5,358.1	8.0%	523.7	32,895.8	1.6%
QNB	14.0%	13.4%[13]	497.9	274,668.7	0.2%	427.1	4,443.8	9.6%	925.0	279,112.6	0.3%
Rayan	19.2%	18.5%	42.0	27,895.1	0.2%	97.7	1,416.2	6.9%	139.7	29,311.4	0.5%
QIIB	14.9%[14]	14.3%	N.A	10,408.9	N.A	N.A	440.4	N.A	N.A	10,849.4	N.A
QIB	13.2%	12.4%	95.4	36,882.2	0.3%	172.5	4,097.2	4.2%	268.0	40,979.4	0.7%



KPMG Analysis

— Total ECL day 1 impact at 1 January 2018 for all the listed banks amounted to US$2.6 billion ranging from the lowest bank at US$64.6 million to the highest bank amounting to US$0.9 billion

— Average increase in provisions at 1 January 2018 was 43.1 percent, ranging from the lowest additional provision at 27.2 percent to the highest at 260.6 percent

— Total ECL impact of US$2.6 billion at 1 January 2018 was split between Stage 1 (US$0.98 billion) and Stage 2 (US$1.63 billion) in the approximate ratio of 40:60

— Post ECL CET1 ratio decreased by an overall average of 1.1 percent for all the listed banks at 1 January 2018, with the decline ranging from 60 bps to 220 bps

— Overall coverage ratios range between 0.2 percent to 0.6 percent for Stage 1 exposures, 4.2 percent to 14.1 percent for Stage 2 exposures and 0.3 percent to 1.7 percent for both Stage 1 and Stage 2

— In general, most banks recorded lower Q1'18 impairment charge compared to the average of 2017.

Note(s): Please refer to Appendix III: Footnotes; for detailed explanation of footnotes.

N.A = Data not available.

Summary of approach

ECL Component	Summary of approach adopted by banks*
Definition of default	— In addition to internal definition of default, a back-stop of 90 days or more past due has been used for recognizing a default event — Cross-default is considered at an obligor level for corporate borrowers. In case of retail, mixed practices are being followed ranging from facility level assessment to customer level default measures — 12 month cooling off period applied for any backward transition from Stage 2 and subject to regulatory approval.
SICR and Staging approaches	— For corporate borrowers, banks have used internal changes in credit ratings as the primary measure of determining SICR since origination. Whereas, for retail customers, 'DPD' has been taken as a measure of SICR — A back-stop of '30 days or more past due' is applied as rebuttable presumption to SICR. The rebuttal can be up to a maximum of '60 day or more of past due' subject to banks demonstrating a longer back stop measure is appropriate for their portfolio profile — Staging criteria has been applied at obligor level for corporate as well as retail customers.
Corporate/ Wholesale PD models	— QCB guidelines requires banks to have their own estimate of PD based on historical default experience and such estimation shall be forward looking, factoring in the forecasted macro economic factors — Where portfolios are being internally rated for credit assessment, bank specific observed default data is being used to determine TTC PD using a transition matrix/cohort approaches. In absence of adequate historical data, rating agency data (default rate) has been used post calibration to the observed default rate of respective portfolios — In case of low default portfolios, the most prudent estimate approach (using the Pluto-Tasche method) has been applied to derive TTC PD — For externally-rated portfolios, PD curves provided by external rating agencies has been used as inputs to the TTC PD — Any credit exposures to the Government of Qatar, represented by the Ministry of Finance and QCB are exempted from the application of ECL model.
Retail PD models	— As retail portfolios are not usually rated, a cohort based flow rate approach has been used to develop product level/ customer segment level PD curves using DPD data segmented in to standard time buckets — Retail default statistics over a period of 3-5 years has been used.
Forward looking PD estimation	— The forecasted macro-economic variables available from Ministry of Finance/IMF at a country level has been used (eg. GDP/ CPI/ government expenditure/ oil prices etc.) — Generally, credit index has been used to forecast PIT PD using forecasted macro-economic data. In case of externally rated exposures, Merton-Vasicek single factor models were used to derive forward looking PD estimates.
Probability-weighted outcome	— In general, a minimum of three scenarios have been used to develop probability weighted outcomes. The probability weightage has been arrived based on expert judgment with highest weightage being assigned to base case scenario.
LGD models	— Internal data, generally for a period of 5 years has been used where available, to derive recovery rate; Where there was lack of internal experience, a market proxy is being used as the basis of recovery rate (eg. Basel LGD of 45.0-50.0 percent or unsecured portfolio LGD of 60.0 percent) — For collateralized portfolios, realizable values of eligible collaterals have been considered after applying haircuts on collateral market values. Collateral values have generally been forecasted only for real estate assets using correlated macro-economic factors.

Note: *Based on KPMG member firms engagement experiences, internal research, bank interviews and review of public disclosures.

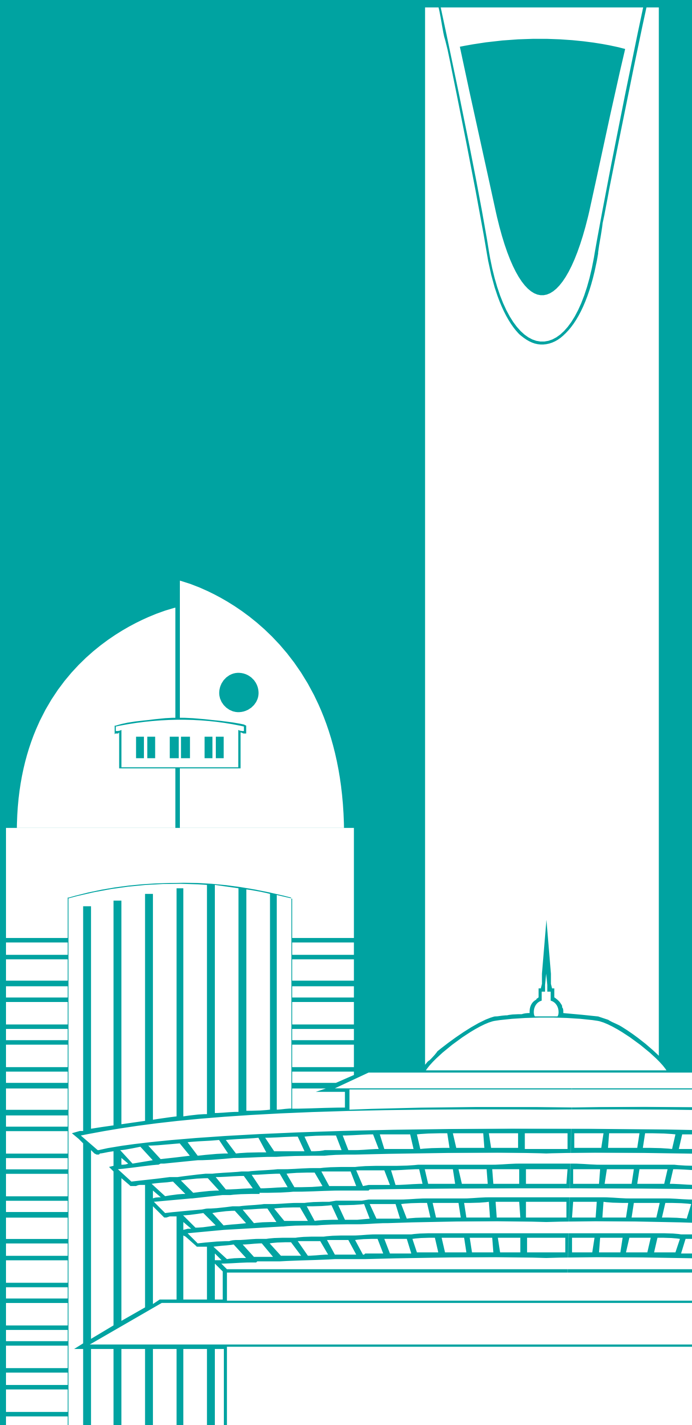
Regulatory guidance provided for ECL calculations in Qatar

Regulatory guidance	QCB
Guidance issued	— IFRS 9 guidelines have been issued by QCB in stages – an initial version for quantitative impact assessment (QIA) and a final version for implementation. The guidelines intends to establish consistency in approach, methodology and assumptions across banks. Subsequently, for Islamic banks final guidance were issued to make the local regulations consistent with the FAS 30 "impairment and credit losses" issued by AAOIFI.
Key highlights of regulations	— Specific transition rules for day 1 impact to equity without restating comparatives — Domestic sovereign excluded from ECL calculation — Definition of low credit risk assets specifying certain criteria for assessment as low credit risk — Three stage approach (namely, Stage 1,2 and 3), Stage 1 and 2 are part of performing book whereas Stage 3 pertains to impaired exposures with specific provisions; — ECL calculation done for Stage 1 (12 months), Stage 2 (lifetime); and provisions for Stage 3 to be done based on QCB guidelines — Specific guidance on staging criteria based on notch movements/special mentioned or any other identified by the Bank — Staging done based on obligor level assessment with certain exceptions subject to regulatory approval — 12 month cooling off period for backward transition from Stage 3/2 to Stage 2/1 — PD estimation done using bank's own default experience and on forward looking basis — List of eligible collateral specified by the regulator along with regulatory haircuts — Use of minimum three scenarios when estimating ECL with maximum up to five scenarios.
Reporting requirements	— Quarterly reporting templates to be submitted to QCB with AUP from auditors — Annual reporting templates, which are more detailed and require segment and product-wise details, to be submitted with audit report from auditors.
Transition impact	— None provided so far.

Saudi Arabia

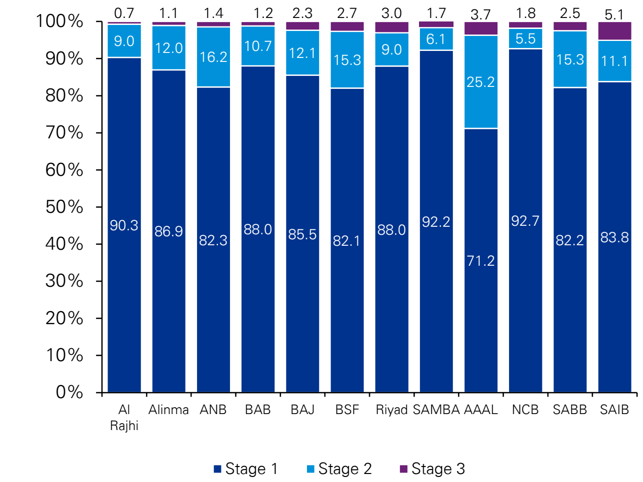
Note: For early adopters of IFRS 9 in this region, the following has been considered for calculating IFRS 9 impact:

— BAJ - the bank early adopted IFRS 9 for C&M purposes in 2011 per IFRS 9(2009) version issued by the IASB. BAJ at the time did not elect to early adopt impairment and hedging requirements of IFRS 9. Following IASB's issuance of the final IFRS 9 standard in July 2014, the bank accordingly adopted the impairment (ECL) requirements of IFRS 9 effective from 1 January 2018.

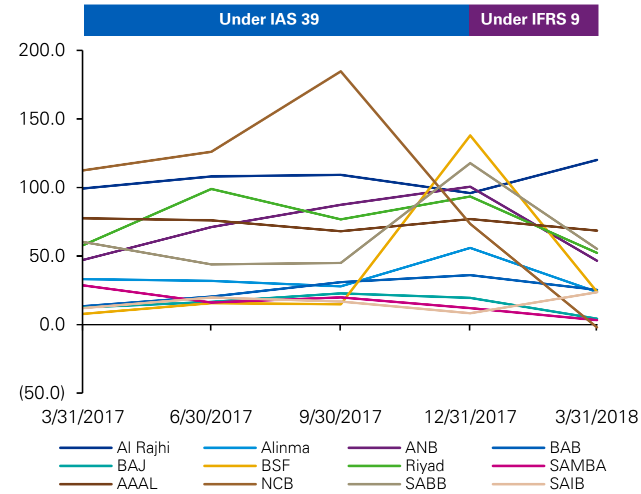


IFRS 9 impact

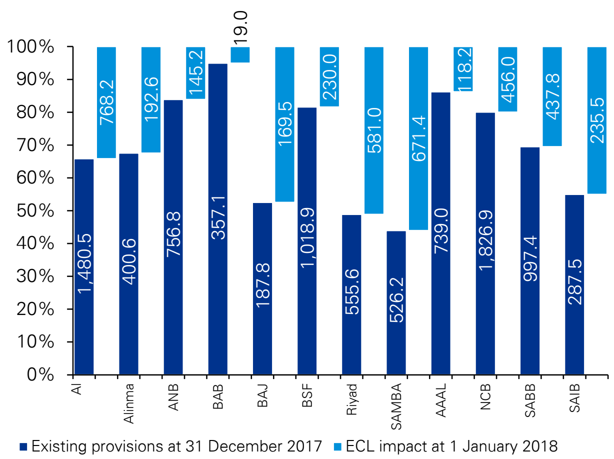
Total exposure[1] subject to ECL 31 March 2018 – by stage (%)



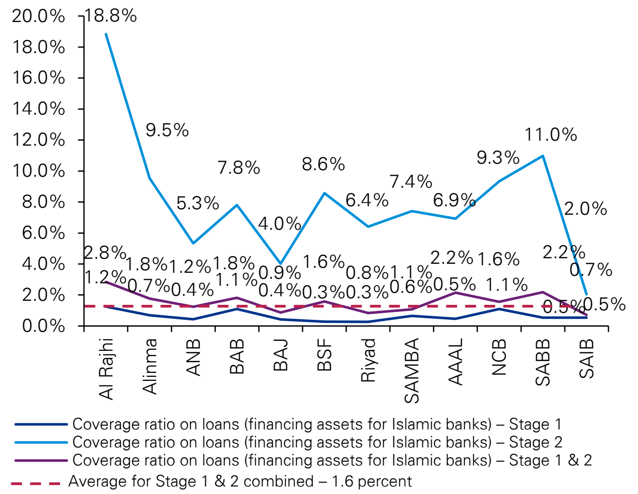
Net impairment charge on loans (financing assets for Islamic banks) – q-o-q trend analysis (US$ million)[3]



ECL impact at 1 January 2018 vs. existing provisions[15] at 31 December 2017 (US$ million)

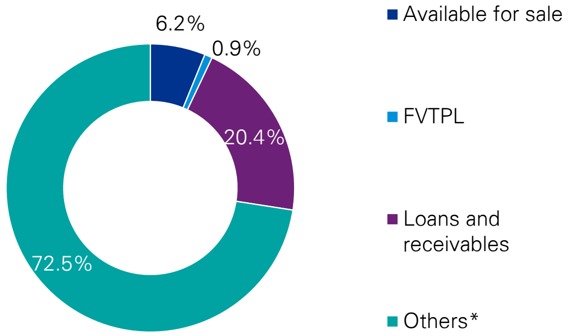


Coverage ratios at 31 March 2018 on loans (financing assets for Islamic banks) – Stage 1 & 2 (combined) (%)

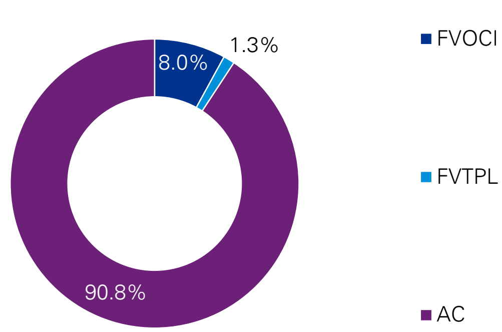


Impact of reclassification of financial assets (31 December 2017 vs. 1 January 2018) (%)[4,16]

Under IAS 39 at 31 December 2017



Under IFRS 9 at 1 January 2018



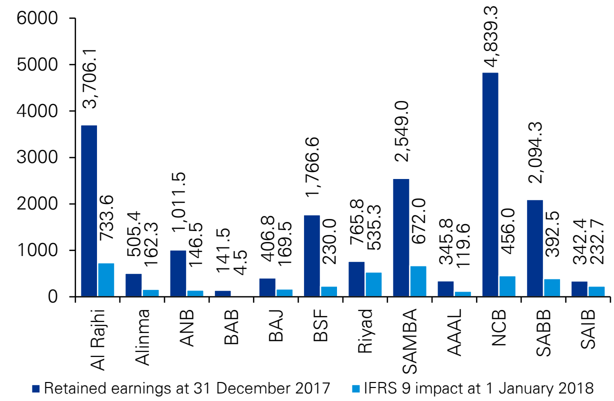
Note(s): Please refer to Appendix III: Footnotes; for detailed explanation of footnotes.
*Others – include other assets and investments classified under amortized costs.

IFRS 9 impact (cont.)

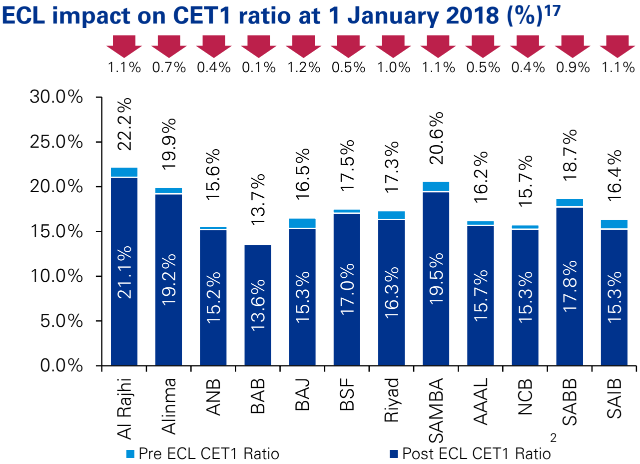
Retained earnings (after dividend proposed) vs. impact of IFRS 9 (including C&M impact) at 1 January 2018 (US$ million)

Bank	Retained earnings before impact of adopting IFRS 9 (A)	Dividend proposed (B)	Retained earnings after proposed dividend but before impact of adopting IFRS 9 as of 31 December 2017 (C=(A – B))	Impact of adopting IFRS 9 (including ECL and C&M) (D)	Retained earnings after proposed dividend and impact of adopting IFRS 9 (E=(C – D))	Impact of adopting IFRS 9 as a % of retained earnings after proposed dividend (D/C)
Al Rajhi	4,788.8	1,082.7	3,706.1	733.6	2,972.5	19.8%
Alinma	823.1	317.7	505.4	162.3	343.1	32.1%
ANB	1,184.7	173.2	1,011.5	146.5	865.0	14.5%
BAB	205.4	64.0	141.5	4.5	136.9	3.2%
BAJ	406.8	0.0	406.8	169.5	237.3	41.7%
BSF	1,861.3	94.7	1,766.6	230.0	1,536.7	13.0%
Riyad	1,069.6	303.8	765.8	535.3	230.5	69.9%
SAMBA	2,549.0	0.0	2,549.0	672.0	1,877.0	26.4%
AAAL	391.5	45.7	345.8	119.6	226.2	34.6%
NCB	5,158.3	319.0	4,839.3	456.0	4,383.3	9.4%
SABB	2,344.7	250.4	2,094.3	392.5	1,701.8	18.7%
SAIB	342.4	0.0	342.4	232.7	109.7	68.0%

IFRS 9 impact on retained earnings at 1 January 2018 (US$ million)[5]

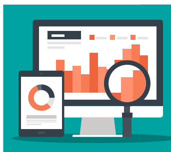


ECL impact on CET1 ratio at 1 January 2018 (%)[17]



CET1 ratio at 1 January 2018 and coverage ratios at 31 March 2018 (US$ million)[17]

	CET1 ratio		Stage 1			Stage 2			Total coverage ratio (Stage 1 and Stage 2)		
Bank	Pre ECL	Post ECL[2]	ECL	Exposure	Coverage ratio	ECL	Exposure	Coverage ratio	ECL	Exposure	Coverage ratio
Al Rajhi	22.2%	21.1%	711.2	57,102.8	1.2%	1,069.9	5,678.9	18.8%	1,781.2	62,781.8	2.8%
Alinma	19.9%	19.2%	129.3	18,794.0	0.7%	247.5	2,592.5	9.5%	376.7	21,386.4	1.8%
ANB	15.6%	15.2%	109.5	25,406.1	0.4%	266.5	4,998.6	5.3%	376.0	30,404.7	1.2%
BAB	13.7%	13.6%	120.7	11,033.8	1.1%	105.0	1,345.5	7.8%	225.6	12,379.4	1.8%
BAJ	16.5%	15.3%	38.2	9,137.2	0.4%	52.1	1,295.5	4.0%	90.4	10,432.7	0.9%
BSF	17.5%	17.0%	77.1	28,001.8	0.3%	446.5	5,210.9	8.6%	523.6	33,212.7	1.6%
Riyad	17.3%	16.3%	91.4	33,825.2	0.3%	221.2	3,453.6	6.4%	312.6	37,278.8	0.8%
SAMBA	20.6%	19.5%	189.6	29,228.5	0.6%	143.3	1,934.5	7.4%	332.9	31,163.0	1.1%
AAAL	16.2%	15.7%	56.7	12,160.9	0.5%	297.7	4,297.4	6.9%	354.3	16,458.3	2.2%
NCB	15.7%	15.3%	705.6	64,353.6	1.1%	356.7	3,823.0	9.3%	1,062.3	68,176.7	1.6%
SABB	18.7%	17.8%	142.9	26,578.3	0.5%	543.1	4,946.8	11.0%	686.1	31,525.1	2.2%
SAIB	16.4%	15.3%	71.8	13,321.5	0.5%	36.2	1,766.6	2.0%	107.9	15,088.1	0.7%



KPMG Analysis

- The net opening retained earnings impact on the top 12 listed banks in KSA as of 1 January 2018 amounted to US$3.9 billion. Majority of this impact was driven through IFRS 9 ECL recognition whereby C&M impact was marginal
- On average, the ECL coverage ratio for Stage 3 financing assets amounted to 76.0 percent at 31 March 2018, whereas for Stage 1 and Stage 2 financing exposures, average coverage ratio amounted to 0.6 percent and 8.1 percent respectively
- As of 31 March 2018, most banks had not gone live with their IFRS 9 system/engine and therefore predominantly the ECL calculations and models were excel spreadsheet driven.

Note(s): Please refer to Appendix III: Footnotes; for detailed explanation of footnotes.

Summary of approach

ECL Component	Summary of approaches adopted by banks*
Definition of default	— Generally, banks in KSA have used DPD based and/or rating transition based models for definition of default and staging criteria. Whilst most banks follow the 30/60/90 DPD rules strictly, some banks have rebutted the 30/60 day rules based on their knowledge of the customer, expert credit judgement, and or where default has arisen due to administrative and logistical matters rather than deterioration of the customer's credit quality, for instance where payment due date falls on a public holiday and funds are not received from the customer — Most banks have reasonable mechanisms and processes in place to identify and assess cross defaults, in particular within the corporate portfolio. The practice to evaluate cross defaults varies in the market whereby some banks assess cross default staging based on certain pre-defined exposure thresholds and some banks evaluate based on actual default measures. Whilst the usage of thresholds is reasonable, these are yet to be supported by robust behavioral analysis as opposed to using arbitrary percentages. In terms of the retail portfolio, mixed practices are being followed ranging from facility level assessments to customer level default measures.
SICR and Staging approaches	— For corporate borrowers, banks in KSA have generally used internal changes in credit ratings as the primary measure of determining SICR since origination. Whereas for retail customers, 'DPD' has been taken as a measure of SICR — For Stage 2 to Stage 1 curing, have been observed mixed practice in the market in KSA. Some banks apply some form of curing (in particular for the corporate portfolios) whilst some banks have no curing at all (in particular for the retail portfolios). Whilst IFRS 9 does not strictly require a curing period for backward transition from Stage 2 to Stage 1, it is generally expected that on a prudent basis, some form of curing should exist. Where a mandatory curing does not prevail, banks should ensure they have robust credit monitoring activities in place and have strong rationale underpinned by behavioral support for their staging policy — Where banks have not gone live with their IFRS 9 system implementation, they have generally found capturing and disclosing stage wise movements period on period an area of challenge. Furthermore, where certain banks have had limitation of data issues, it has also proved to be challenging for them to perform relative rating assessments for staging.
Corporate/ Wholesale PD models	— Most banks have used internal rating based PD as TTC PD. Where banks have limited data in terms of observed defaults, they typically applied the Vasicek model to estimate PD. Furthermore, where historical data were limited, banks relied on external rating agency information systems, such as Moody's, to calibrate the PD — For externally-rated portfolios, PD curves provided by external rating agencies has been used as inputs to the TTC PD — Most banks in KSA have validated their TTC PD as part of their Basel reporting process — Some banks have built their own IFRS 9 PD models which are not yet fully validated due to lack of in-sample data. Such newly built models would need to be validated with adequate data as the IFRS 9 systems and process are bedded down as 'business as usual' (BAU).
Retail PD models	— Most banks have used a cohort based flow rate approach to develop product level/ customer segment level PD curves using DPD data segmented in to standard time buckets.
Forward looking PD estimation	— The forecasted macro-economic variables available from IMF or subscribed sources at a country level has been used (i.e. GDP/ CPI/ government expenditure/ oil prices etc.) — For maturity of loans exceeding five years, most banks have assumed that the macro-economic cycle will continue to repeat in the same manner as was observed in the first five years. Whilst not an unreasonable assumption, banks need to have reasonable and supportable information to underpin this assumption — For macro-economic overlays, the banks have mostly used regression-based model. However, some banks have used judgement-based estimates as the basis. While some banks have used risk systems like Moody's , SAS and Oracle others mostly relied on their own models.

Note: *Based on KPMG member firms engagement experiences, internal research, bank interviews and review of public disclosures.

Summary of approach

ECL Component	Summary of approaches adopted by banks*
Probability-weighted outcome	— Varied practice exists amongst KSA banks in terms of probability weightage scenario calculations. Some banks have used statistical models to calculate probability weightage for each scenario, whilst some banks have applied judgemental probability weightages — The banks have typically used three (base, best, worst) scenarios and calculated the probability weighted ECL. However, except those banks who have used Moody's, the scenario weights are mostly judgmental.
LGD models	— Most banks have built their own LGD models for IFRS 9 purposes, primarily using the workout method. However, these models are yet to be validated with adequate data when the IFRS 9 systems and processes are bedded down as BAU — Few banks have not incorporated lifetime element in LGD models on the basis of limitation of data and materiality — In the absence of accurate historical information, some banks have used regulatory endorsed percentages for LGD.
EAD models	— The EAD estimate for loan portfolios is arrived at taking into account principal and interest with appropriate discounting — For revolving products, most banks have used Basel-prescribed CCFs. However, some banks have also developed single factor models for CCF estimation.
Overall ECL calculation	— Most banks have used appropriate discounting of the cash flows using EIR for the calculation of Stage 2 ECL. However, many of the banks have taken contract rates as a proxy — All banks in KSA have developed their own IFRS 9 policy and procedures for ECL calculation methodology with the help of their advisors/consultants – however most policies and procedures still need to be appropriately bedded down, with appropriate controls around them to ensure adequate application — Some banks have used excel based spreadsheets to calculate their IFRS 9 first time adjustment (FTA) and Q1 transitions as the full IFRS 9 systems are yet to go live for these banks.
Governance	— Most banks have constituted IFRS 9 committees for governance purposes. However, the governance structure is mostly driven by regulatory requirement and it is yet to be integrated with day to day governance framework as BAU — Once the systems go live for most banks in 2018, the IT and systems governance will need to be integrated to establish and ensure appropriate controls are in place in terms of data quality, data flow, completeness & accuracy of inputs, model validations, SICR, application of expert credit judgement, management overlays etc.
Looking ahead	As implementation of IFRS 9 further evolves in KSA, following are areas that banks will be considering to further enhance and refine their IFRS 9 implementation: — Implementation of IFRS 9 should shift from excel based computations (tactical solution) to systems based approach (strategic solution) — As the availability and quality of default and recovery data improves, it is recommended that more enhanced statistical measures should be deployed for ECL calculations in terms of deriving term structures and model computations — Independent model validation processes to be integrated as BAU with appropriate governance responsibilities.

Note: *Based on KPMG member firms engagement experiences, internal research, bank interviews and review of public disclosures.

Regulatory guidance provided for ECL calculations in Saudi Arabia

Regulatory guidance	Saudi Arabian Monetary Authority (SAMA)
Guidance issued	A detailed draft guidance was issued by the Banking CFO sub-committee and endorsed by SAMA on implementation and application of IFRS 9 in the Kingdom of KSA. The guidance primarily intended to provide banks a practical guide to some of the key technical challenges in implementing IFRS 9 and to aid consistency in the interpretation of IFRS 9 across the industry.
Key highlights of regulations	The issued guidance was practical, prescriptive and tailored for local market circumstances to facilitate and guide the banks in applying IFRS 9 effectively. The key highlights detailed below are by no means exhaustive and we draw attention to certain points of note: — IFRS 9 should be a joint Finance and Risk initiative, the need to develop the capability for both functions to analyse and critically challenge the result is essential to ensure good governance — Banks in KSA need to ensure that financial products conform with the C&M requirements of IFRS 9. Banks will need to establish controls over new product approvals as well as controls over changes to contractual terms/cash flows of instruments to ensure the necessary considerations are made on an ongoing basis — Banks in KSA are recommended to analyse the SAMA regulatory definition of default and the description in IFRS 9 and maintain and apply a consistent, single definition of default for both regulatory and financial reporting purpose, or have documentation in place justifying why different definitions have been used — When assessing SICR, it is assumed that a 30 DPD indicator will only be rebutted by banks in KSA for direct loans to the government (or equivalent entities such as contractors working directly for a government entity). Furthermore, SAMA expects the banks in the Kingdom generally to observe 90 days backstop for default in line with IFRS 9 guidance. However SAMA acknowledges that this backstop is rebuttable and notes that certain circumstances such as for retail and public sector exposures, banks may be able to justify the use of a 180 day backstop as it considers appropriate for local conditions — Model validation and maintenance standards are required as the set of processes and activities planned to verify that the ECL models are performing as expected — Banks in KSA should ensure that economic scenarios are parameterized in terms of macro–economic drivers that are relevant to their portfolios. For a typical portfolio consideration at a minimum need to be given for the economic data that SAMA provides on a quarterly basis — Where banks are adopting the standardized approach for Basel reporting purposes, such banks will have limited ability to use the regulatory calculations to arrive at data compliant with IFRS 9 requirements; unlike for say advanced IRB approach banks who can rely on their internal models to arrive at ECL albeit adjustments would still be required to it — Banks should consider whether existing segmentation for disclosure purposes is sufficiently granular to appropriately understand credit risk under ECL approach.
Reporting requirements	— Quarterly financial statements to be prepared and submitted by the banks along with detailed supporting schedules to SAMA. SAMA approves these submissions before the banks publish their quarterly financial statements.
Transition impact	— Day 1 impact of IFRS 9 (applicable from 1 January 2018) on regulatory capital is allowed to be transitioned over five years.

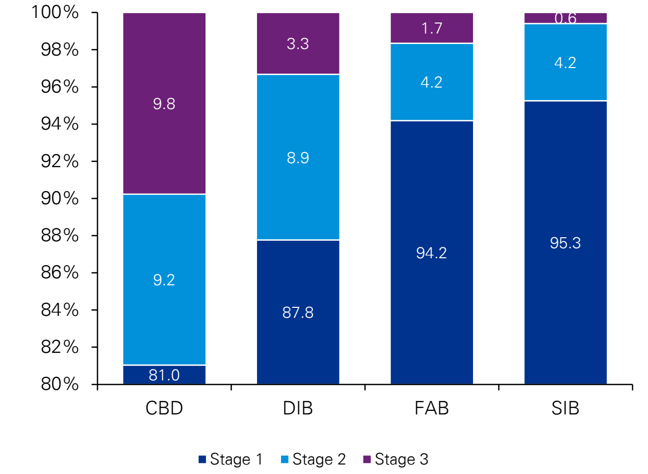
United Arab Emirates

Note: For early adopters of IFRS 9 in this region, the following has been considered for calculating IFRS 9 impact:

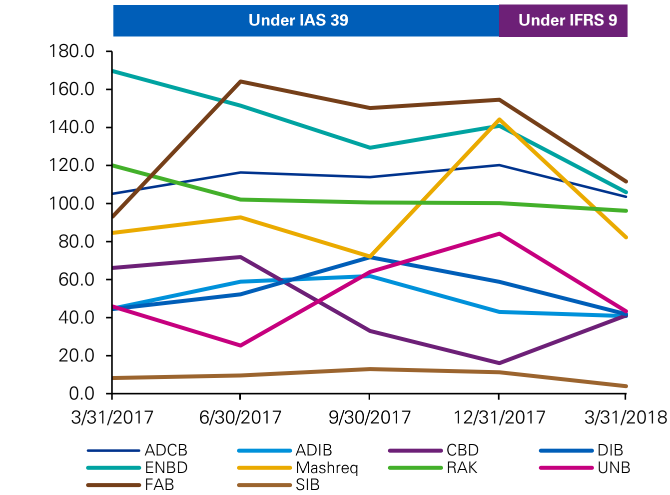
— DIB, ADIB and SIB – early adopted IFRS 9 (phase 1) for C&M of financial assets and financial liabilities. The IASB issued IFRS 9 Financial Instruments ("IFRS 9") in July 2014, the standard covers three broad topics: C&M, impairment and hedging. These banks elected not to early adopt impairment and hedging requirements of IFRS 9, accordingly IFRS 9 ECL impact has been recorded on 1 January 2018 in the retained earnings.

IFRS 9 impact

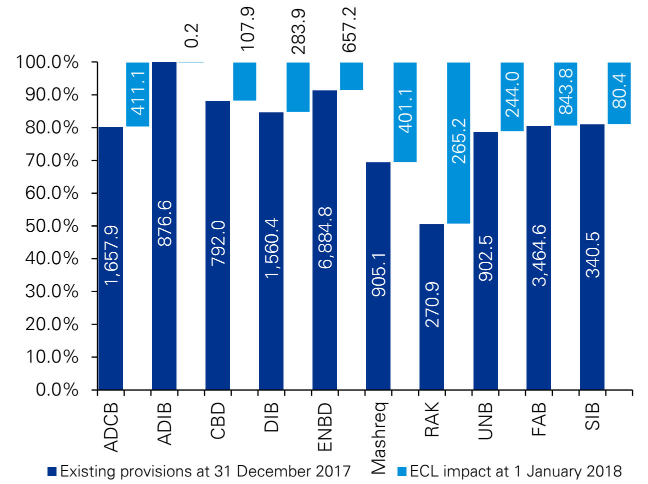
Total exposure[1] subject to ECL 31 March 2018 – by stage (%)[18]



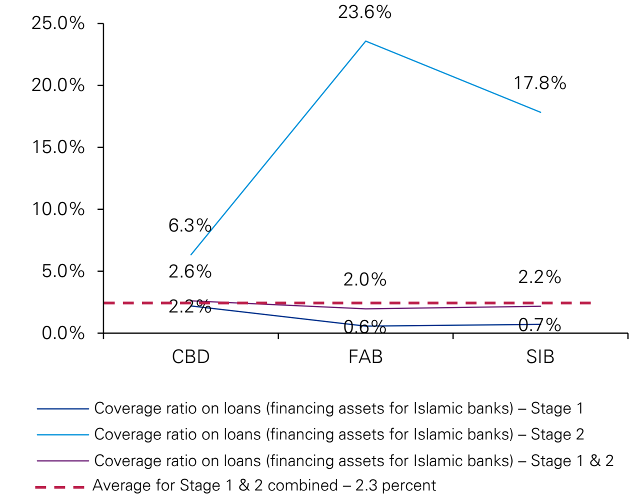
Net impairment charge on loans (financing assets for Islamic banks) – q-o-q trend analysis (US$ million)[3]



ECL impact at 1 January 2018 vs. existing provisions at 31 December 2017 (US$ million)

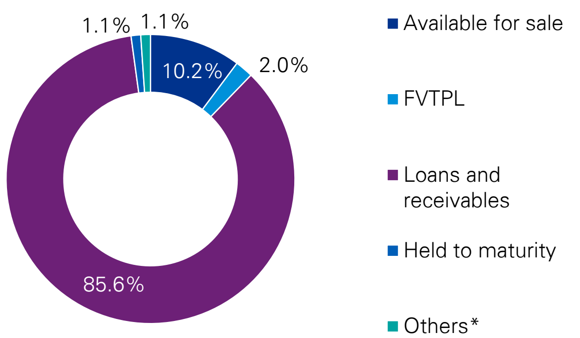


Coverage ratios at 31 March 2018 on loans (financing assets for Islamic banks) – Stage 1 & 2 (combined) (%)[19]

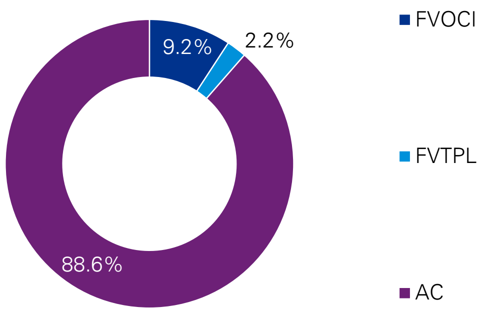


Impact on reclassification and re-measurement of financial assets (31 December 2017 vs. 1 January 2018) (%)[4,20]

Under IAS 39 at 31 December 2017



Under IFRS 9 at 1 January 2018



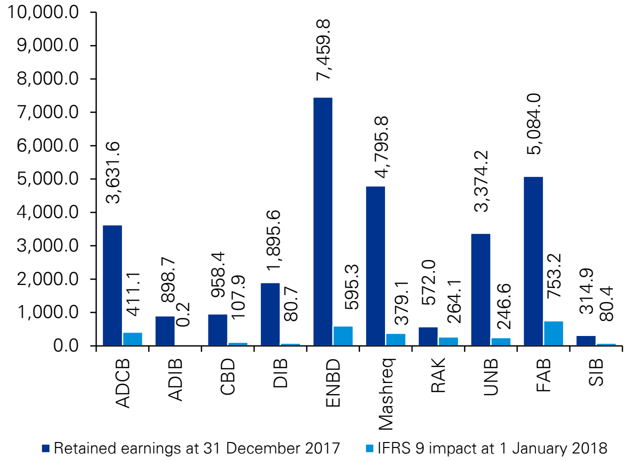
Note(s): Please refer to Appendix III: Footnotes; for detailed explanation of footnotes.

*Others – include other assets and investments classified under amortized costs.

IFRS 9 impact (cont.)

Retained earnings (after dividend proposed) vs. impact of IFRS 9 (including C&M impact) at 1 January 2018 (US$ million)						
Bank	**Retained earnings before impact of adopting IFRS 9 (A)**	**Dividend proposed (B)**	**Retained earnings after proposed dividend but before impact of adopting IFRS 9 as of 31 December 2017 (C=(A – B))**	**Impact of adopting IFRS 9 (including ECL and C&M) (D)**	**Retained earnings after proposed dividend and impact of adopting IFRS 9 (E=(C – D))**	**Impact of adopting IFRS 9 as a % of retained earnings after proposed dividend (D/C)**
ADCB	3,631.6	594.3	3,037.4	411.1	2,626.3	13.5%
ADIB	898.7	0.0	898.7	0.2	898.6	0.0%
CBD	958.4	133.5	824.9	107.9	717.0	13.1%
DIB	1,895.6	604.1	1,291.5	80.7	1,210.8	6.3%
ENBD	7,459.3	604.5	6,854.8	595.3	6,259.5	8.7%
Mashreq	4,795.8	193.3	4,602.5	379.1	4,223.4	8.2%
RAKBANK	572.0	136.9	435.1	264.1	171.0	60.7%
UNB	3,374.2	149.8	3,224.4	246.6	2,977.8	7.6%
FAB	5,084.0	2,076.4	3,007.6	753.2	2,254.4	25.0%
SIB	314.9	63.9	251.0	80.4	170.7	32.0%

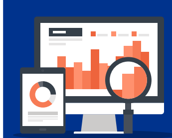
IFRS 9 impact on retained earnings at 1 January 2018 (US$ million)[21]



IFRS 9 impact as disclosed in 2017 financial statements[22]

Bank	IFRS 9 impact as disclosed in 2017 financial statements
ADCB	0.4% - 0.6% of CET1 capital and CAR
ADIB	*Immaterial*
CBD	3.5% to 5.0% of total equity
DIB	4.5% to 5% of other reserves and treasury shares
ENBD	3.7% of shareholders equity
Mashreq	0.91% of the total RWAs
RAKBANK	US$252.6 million of total shareholders equity
UNB	3.7% on shareholders equity
FAB	2.8% to 3.2% on shareholders equity
SIB	14.0% to 18.0% of retained earnings

Coverage ratios at 31 March 2018 (US$ million)									
	Stage 1			Stage 2			Total coverage ratio (Stage 1 and Stage 2)		
Bank	**ECL**	**Exposure**	**Coverage ratio**	**ECL**	**Exposure**	**Coverage ratio**	**ECL**	**Exposure**	**Coverage ratio**
ADCB	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
ADIB	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
CBD	243.6	11,121.6	2.2%	79.8	1,261.9	6.3%	323.4	12,383.5	2.6%
DIB	N.A	33,939.6	N.A	N.A	3,444.5	N.A	N.A	37,384.1	N.A
ENBD	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
Mashreq	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
RAK	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
UNB	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
FAB	551.6	210,266.6	0.3%	1,517.8	9,294.4	16.3%	2,069.4	219,561.0	0.9%
SIB	43.2	9,720.2	0.4%	92.0	424.3	21.7%	135.2	10,144.5	1.3%



KPMG Analysis

- Total ECL day 1 impact on top 10 listed banks is US$3.3 billion. For 8 out of 10 banks the provision have increased by more than 10.0 percent (maximum impact of 98.0 percent and minimum impact of 9.5 percent is observed)
- Total ECL day 1 impact on equity of top 10 listed banks are in the range of 3.0 percent to 12.0 percent, which in turn had an impact on the CAR of the respective banks
- Based on our reviews of IFRS 9 methodology, following are the key observations:
  - Models for LGD and CCFs are not developed. Banks are using Basel prescribed LGD's and CCFs. This is mainly because of unavailability of data.

Note(s): Please refer to Appendix III: Footnotes; for detailed explanation of footnotes.

N.A = Data not available.

Summary of approach

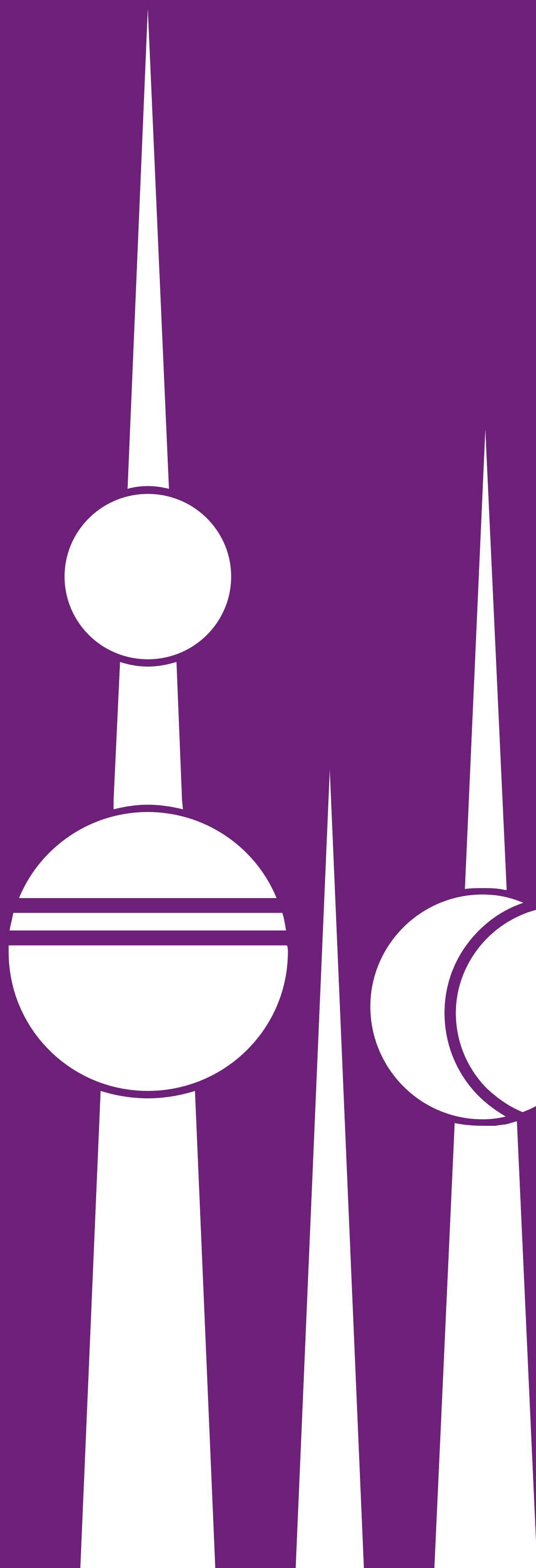
ECL component	Summary of approaches adopted by banks*
Definition of default	— For default identification, banks are advised to continue with their existing credit risk management practices including 90 DPD criteria and other qualitative indicators consistent with the provisions of the Central Bank of the UAE (CBUAE) Circular No 28/2010 — Cross-default is considered at an obligor level for corporate borrowers. In case of retail, mixed practices are being followed, ranging from facility level assessment to customer level default measures — 12 month cooling off period applied for any backward transition from Stage 3/2 and subjected to regulatory approval.
SICR and staging approaches	— For corporate borrowers, it seems that banks have used internal changes in credit ratings as the primary measure of determining SICR since origination. Wherever credit ratings were not available at inception, a suitable cut-off has been considered as origination. Whereas, for retail customers, 'DPD' has been taken as a measure of SICR — A back-stop of '30 days or more past due' is applied as rebuttable presumption of SICR. The rebuttal is subject to banks demonstrating a longer back stop measure is appropriate for their portfolio profile.
Corporate/ wholesale PD models	— CBUAE guidelines require banks to have their own estimate of PD based on historical default experience and such estimation shall be forward looking, factoring in the forecast macro-economic factors. Most banks have used at least five years of data for PD estimation — Where portfolios are being internally rated for credit assessment, bank-specific observed default data is being used to determine TTC PD using a transition matrix/cohort approach. In the absence of adequate historical data, rating agency data (default rate) have been used post calibration to the observed default rate of respective portfolios — In case of low default portfolios, the Most Prudent Estimate Approach (using the Pluto-Tasche method) has been applied to derive TTC PD — For externally-rated portfolios, PD curves provided by external rating agencies have been used as inputs to the TTC PD.
Retail PD models	— Most banks have used a cohort-based flow rate approach to develop product level/customer segment level PD curves using DPD segmented into standard aging buckets — Some banks have also used the segmentation approach (decision tree analysis) based upon a set of parameters to arrive at PD estimates for homogeneous pools — PD estimates are based on 3-5 years of data.
Forward looking PD estimation	— The forecast macro-economic variables available from CBUAE/IMF at a country level or subscriptions to vendor-based macro indicators has been used (e.g. oil prices/equities/GDP) — Regression analysis was performed to determine the macro-economic factors influencing and relevant to banks' portfolios. The macro-economic multiplier/scalar is used to scale the TTC estimates to PIT estimates.
Probability-weighted outcome	— In general, a minimum of three scenarios have been used to arrive at probability weighted ECL estimates. The probability weighting is based on expert judgment: the likelihood of occurrence of such scenarios using data analysis with the highest weighting being assigned to base case scenario.
LGD models	— LGD estimates are mostly based on Basel-prescribed regulations. Some banks have also used stressed LGD of 60.0 percent for unsecured exposures as provided by CBUAE in the stress testing guidelines — Few banks had recovery, cost, or guarantor data for corporate portfolio to build LGD models using the work out method.
EAD models	— The EAD estimate for loan book is arrived at taking into account principal and interest with appropriate discounting — For revolving products, most banks have used Basel-prescribed CCFs. However, some banks have also developed single factor models for CCF estimation.

Note: *Based on KPMG member firms engagement experiences, internal research, bank interviews and review of public disclosures.

Regulatory guidance provided for ECL calculations in the UAE

Regulatory guidance	Central Bank of the UAE
Guidance issued	— Pursuant to Notice 315/2017 dated 9 October 2017 on the draft guidance note on IFRS 9, CBUAE issued the final guidance note regarding the implementation of IFRS 9. The guidelines intend to establish consistency in approach, methodology and assumptions across banks. It laid special emphasis on application of considerable judgement and other practical expedients permitted under the standard.
Regulations highlights	— Specific transition rules for day 1 impact to equity without restating comparatives — Three stage approach (namely, Stage 1, 2 and 3). Stage 1 and 2 are part of the performing book and Stage 3 pertains to impaired exposures with specific provisions — Stage 1 exposures attract 12 month loss estimates whereas Stage 2 and 3 receive lifetime losses. However, banks will also continue to determine loss estimates for impaired assets as per current practices — Banks to identify linkages between macro-economic factors and borrowers attributes especially in the real estate and construction sector while assessing SICR in addition to DPD and movement in internal ratings — It is advisable that the assessment consider changes in credit risk at counterparty and individual credit level unless it is done at product level (applicable only in retail exposures) — The CBUAE expects that financial assets more than 30 DPD be considered to have a significantly increased credit risk. In case of any rebuttals, banks shall accompany the assertion with reasonable and supportable information that a more lagging criterion is appropriate — Existing restructured loans still under watch and those exposures restructured in the current reporting period/accounting year should be classified in Stage 2. Additionally, any restructured exposure that is uncollateralized and requires a bullet repayment after a period equal to/longer than three years should at minimum be classified as a Stage 2 exposure — 12 month cooling off periods for backward transition from Stage 3/2 to Stage 2/1. Also, the movement from Stage 3 to Stage 1 likely to witness a gradual transition to Stage 2 followed by Stage 1 — Banks are expected to develop probability weighted ECL estimates against a range of macro–economic scenarios — Until further guidance, if the specific provision and general provisions as per CBUAE requirements (Circular 28/2010) is higher than the impairment allowance under IFRS 9, difference should be transferred to an impairment reserve as an appropriation from retained earnings. In case IFRS 9 provision is higher than CBUAE requirement, the IFRS 9 provision will be recognized as normal.
Reporting requirements	— Banks are advised to develop their own templates for disclosures meeting IFRS 9 requirements for disclosing provisions in sufficient detail.
Transition impact	— Based on the guidelines from CBUAE, banks in the UAE have an option of getting explicit unilateral approval to spread the impact over the period of 5 years, however, majority of the banks have not opted for the option.

Kuwait

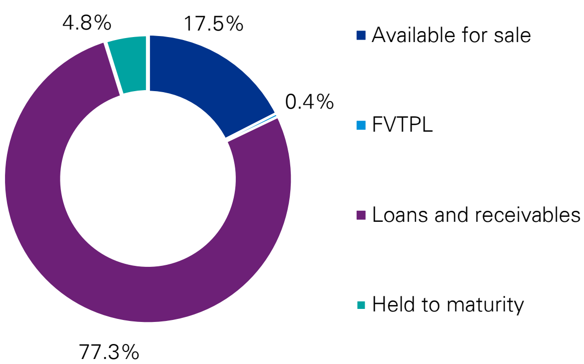


IFRS 9 impact

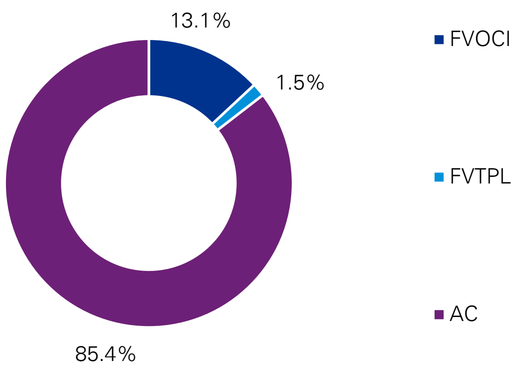
Impact on reclassification and re-measurement of financial assets under IFRS 9 (US$ million)									
	Under IAS 39 at 31 December 2017					Under IFRS 9 at 1 January 2018			
Bank	Available for sale	FVTPL	Loans and receivables	Held to maturity	Total	FVOCI	FVTPL	AC	Total
Ahli United	715.1	0.0	11,056.1	0.0	11,771.2	22.9	1.3	11,749.6	11,773.8
ABK	510.1	0.3	13,451.7	90.1	14,052.3	480.5	29.9	13,540.8	14,051.3
Boubyan	724.4	11.4	2,214.1	0.0	2,950.0	639.6	96.3	2,214.0	2,949.9
Burgan	1,448.2	292.3	21,788.3	257.7	23,786.5	1,019.1	275.5	22,493.8	23,788.4
GBK	191.6	0.0	17,880.8	196.1	18,268.4	123.1	0.0	18,144.0	18,267.0
KFH	5,571.0	0.0	0.0	0.0	5,571.0	4,991.9	588.4	0.0	5,580.4
KIB	275.6	0.2	1,446.4	0.0	1,722.3	231.1	44.7	1,446.3	1,722.1
NBK	10,949.4	220.7	17,656.5	5,636.8	34,463.4	7,262.7	775.1	26,336.1	34,373.9
CBK	1,509.4	0.0	12,645.9	0.0	14,155.2	1,508.2	1.2	12,645.6	14,155.0
Warba	545.9	0.0	931.2	0.0	1,477.1	476.3	80.1	930.1	1,486.6

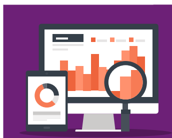
Impact on reclassification and re-measurement of financial assets (31 December 2017 vs. 1 January 2018) (%)

Under IAS 39 at 31 December 2017



Under IFRS 9 at 1 January 2018





KPMG Analysis

- The IFRS 9 C&M had no major impact
- ECL analysis has not been performed for Kuwait as the IFRS 9 has been adopted with the exception of ECL on loans and advances
- The CBK has requested the banks to provide parallel reporting for the ECL on loans and advances on quarterly basis, based on the instructions issued by the CBK.

Appendices

Appendix I: Data tables — Bahrain

Bank	ECL impact at 1 January 2018 vs. existing provisions at 31 December 2017 (US$ million)			Total exposure subject to ECL 31 March 2018 – by stage		
	Existing provisions at 31 December 2017	ECL impact at 1 January 2018	ECL impact as a percentage increase over total base provisions under IAS 39	Stage 1	Stage 2	Stage 3
AUB	628.3	280.0	44.6%	23,522.9	2,830.3	401.3
Al Baraka	418.9	215.9	51.5%	16,190.3	2,020.7	792.8
Al Salam*	124.0	71.0	57.3%	1,878.4	50.4	278.2
BISB	136.0	37.9	27.9%	2,460.9	214.8	304.0
BBK*	323.1	45.8	14.2%	3,797.6	972.1	323.5
Ithmaar	403.4	161.1	39.9%	9,783.8	738.6	494.3
Khaleeji	36.2	29.4	81.1%	1,276.5	324.9	219.5
NBB	113.3	21.9	19.4%	3,164.8	66.4	253.2
Total	**2,183.3**	**863.0**	**39.5%**	**62,075.3**	**7,218.2**	**3,066.6**

Bank	IFRS 9 impact on retained earnings at 1 January 2018 (US$ million)		Coverage ratios at 31 March 2018 on loans (financing assets for Islamic banks)		
	Retained earnings at 31 December 2017	IFRS 9 impact at 1 January 2018	Stage 1	Stage 2	Stage 1 + 2
AUB	799.4	249.5	0.9%	13.5%	2.6%
Al Baraka	530.6	56.0	0.3%	6.1%	1.1%
Al Salam*	134.5	71.0	1.6%	8.9%	1.8%
BISB	32.7	37.9	0.5%	6.1%	1.2%
BBK*	272.1	13.2	0.6%	10.8%	2.7%
Ithmaar	60.2	140.0	1.6%	6.0%	2.0%
Khaleeji	27.0	29.4	0.8%	5.8%	2.2%
NBB	476.8	(15.8)	0.9%	8.4%	1.0%
Total/average	**2,333.3**	**581.2**	**0.9%**	**8.2%**	**1.8%**

Note: *For detailed sources, refer to Appendix II: Sources.*

**For early adopters of IFRS 9 in this region, the following has been considered for calculating IFRS 9 impact:*

- *AUB had previously early adopted phase 1 of IFRS 9 - 'classification IFRS 9 (2010) during 2012 and assessed the C&M of its existing financial assets and financial liabilities as of that date*
- *Al Salam bank early adopted FAS 30/ IFRS 9 in 2017, we have used the impact on year of adoption for comparison purposes (Using financials at 31 December 17). For Q1'18, all numbers will be as per Q1'18*
- *BBK early adopted IFRS 9 in 2016, we have considered the impact on year of adoption for comparison purposes (Using financials at 31 December 16). For Q1'18, all numbers will be as per Q1'18.*

Net impairment charge on loans (financing assets for Islamic banks) – q-o-q trend analysis (US$ million)

Bank	03/31/2017	06/30/2017	09/30/2017	12/31/2017	03/31/2018
AUB	12.2	24.6	18.0	31.8	13.3
Al Baraka	28.9	29.9	39.1	33.9	13.5
Al Salam*	6.3	3.6	4.8	42.5	14.2
BISB	4.6	0.2	6.4	(4.4)	5.5
BBK*	12.0	15.1	25.3	10.7	16.8
Ithmaar	N.A	N.A	N.A	8.0	1.0
Khaleeji	3.3	3.8	3.7	19.8	1.7
NBB	11.4	5.2	0.0	27.6	1.0
Total	**78.6**	**82.3**	**97.3**	**169.9**	**66.9**

Impact on reclassification and re-measurement of financial assets (31 December 2017 vs. 1 January 2018) (US$ million)

	Under IAS 39 at 31 December 2017					Under IFRS 9 at 1 January 2018		
Bank	Available for sale	FVTPL	Loans and receivables	Held to maturity	Others	FVOCI	FVTPL	AC
AUB*	3,256.6	0.0	16,784.6	6,375.0	0.0	504.1	650.0	25,375.0
Al Baraka	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Al Salam*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
BISB	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
BBK*	1,770.5	0.0	6,455.2	1,285.7	0.0	1,640.2	71.6	7.768.1
Ithmaar	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Khaleeji	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NBB	2,830.4	0.7	4,110.6	1,113.8	0.0	2,826.3	0.7	5,225.2
Total	**7,857.4**	**0.7**	**27,350.3**	**8,774.6**	**0.0**	**4,970.5**	**722.2**	**38,368.3**

Note: For detailed sources, refer to Appendix II: Sources.
N/A – Not Applicable.

Appendix I: Data tables — Oman

Bank	ECL impact at 1 January 2018 vs. existing provisions at 31 December 2017 (US$ million)			Total exposure subject to ECL 31 March 2018 – by stage		
	Existing provisions at 31 December 2017	ECL impact at 1 January 2018	ECL impact as a percentage increase over total base provisions under IAS 39	Stage 1	Stage 2	Stage 3
Ahli	80.6	(6.9)	(8.5)%	5,294.0	410.6	57.0
Alizz	16.1	(0.2)	(1.3)%	1,478.9	74.6	12.0
Dhofar	235.7	(20.9)	(8.9)%	10,973.7	1,899.6	283.6
Muscat	851.4	N.A	N.A	28,467.7	8,755.2	713.1
Nizwa	17.2	(0.4)	(2.3)%	2,044.4	98.9	0.8
Sohar	131.2	(0.3)	(0.2)%	5,020.2	620.6	125.1
HSBC	94.9	13.4	14.1%	5,534.6	2,019.6	192.9
NBO	261.8	61.9	23.7%	7,692.6	1,771.3	303.6
Total	**1,688.8**	**46.7**	**2.8%**	**66,506.3**	**15,650.4**	**1,688.1**

Bank	IFRS 9 impact on retained earnings at 1 January 2018 (US$ million)		Coverage ratios at 31 March 2018 on loans (financing assets for Islamic banks)		
	Retained earnings at 31 December 2017	IFRS 9 impact at 1 January 2018	Stage 1	Stage 2	Stage 1 + 2
Ahli	172.5	(4.0)	0.4%	7.3%	1.0%
Alizz	N.A	N.A	0.7%	3.3%	0.8%
Dhofar	143.6	(1.8)	N.A	N.A	N.A
Muscat	1,092.3	(24.1)	0.2%	4.7%	1.3%
Nizwa	N.A	N.A	0.5%	8.4%	0.8%
Sohar	188.7	(3.4)	0.4%	3.3%	0.8%
HSBC	222.1	12.3	0.5%	2.2%	1.3%
NBO	351.6	61.0	0.5%	5.4%	1.8%
Total/average	**2,170.9**	**39.9**	**0.5%**	**5.0%**	**1.1%**

Note: For detailed sources, refer to Appendix II: Sources.

Net impairment charge on loans (financing assets for Islamic banks) – q-o-q trend analysis (US$ million)

Bank	03/31/2017	06/30/2017	09/30/2017	12/31/2017	03/31/2018
Ahli	2.3	2.2	2.9	9.3	2.9
Alizz	2.2	1.0	1.9	0.3	0.6
Dhofar	6.8	8.6	7.4	7.2	0.2
Muscat	24.7	15.2	17.4	31.1	14.4
Nizwa	1.7	0.9	1.2	1.1	1.6
Sohar	4.1	5.7	2.8	12.6	5.5
HSBC	3.2	6.7	3.3	1.2	4.2
NBO	7.5	5.4	17.7	40.6	5.7
Total	**52.5**	**45.8**	**54.6**	**103.4**	**35.1**

Impact on reclassification and re-measurement of financial assets (31 December 2017 vs. 1 January 2018) (US$ million)

	Under IAS 39 at 31 December 2017					Under IFRS 9 at 1 January 2018		
Bank	Available for sale	FVTPL	Loans and receivables	Held to maturity	Others	FVOCI	FVTPL	AC
Ahli	213.6	0.0	4,613.6	349.3	0.0	562.1	0.8	4,603.8
Alizz	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dhofar	93.0	3.2	10,066.5	662.4	208.2	78.6	15.8	10,959.1
Muscat	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
Nizwa	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sohar	554.2	292.1	6,195.5	233.0	57.3	540.3	294.6	6,497.9
HSBC	1,597.2	16.6	4,309.2	0.0	58.2	1,589.6	24.2	4,362.7
NBO	97.6	0.0	8,248.4	378.1	0.0	454.2	20.2	8,187.8
Total	**2,555.6**	**311.9**	**33,433.2**	**1,622.8**	**323.7**	**3,224.9**	**355.5**	**34,611.3**

Note: For detailed sources, refer to Appendix II: Sources.
N.A – Data not available.
N/A – Not Applicable.

Appendix I: Data tables — Qatar

Bank	ECL impact at 1 January 2018 vs. existing provisions at 31 December 2017 (US$ million)			Total exposure subject to ECL 31 March 2018 – by stage		
	Existing provisions at 31 December 2017	ECL impact at 1 January 2018	ECL impact as a percentage increase over total base provisions under IAS 39	Stage 1	Stage 2	Stage 3
Ahli	114.4	64.6	56.5%	11,341.4	308.1	81.4
Al Khaliji	226.8	275.1	121.3%	16,559.6	1,634.5	201.9
CB	1,174.3	420.1	35.8%	38,426.2	5,780.3	1,511.4
Doha	778.1	485.2	62.4%	27,537.8	5,358.1	710.3
QNB	3,257.6	885.0	27.2%	274,668.7	4,443.8	3,042.5
Rayan	52.5	136.8	260.6%	27,895.1	1,416.2	120.3
QIIB	78.4	65.8	83.9%	10,408.9	440.4	115.2
QIB	353.4	268.4	76.0%	36,882.2	4,097.2	349.3
Total	**6,035.4**	**2,601.0**	**43.1%**	**443,719.9**	**23,478.8**	**6,132.3**

Bank	IFRS 9 impact on retained earnings and risk reserve at 1 January 2018 (US$ million)			Coverage ratios at 31 March 2018 on loans (financing assets for Islamic banks)		
	Transfer of risk reserve at 1 January 2018	Retained earnings at 31 December 2017	IFRS 9 impact at 1 January 2018	Stage 1	Stage 2	Stage 1 + 2
Ahli	0.0	290.4	45.6	0.8%	9.7%	1.1%
Al Khaliji	210.6	154.0	267.8	0.5%	20.7%	2.7%
CB	420.1	163.2	402.7	0.3%	7.2%	1.4%
Doha	376.9	370.0	427.1	0.3%	8.6%	2.5%
QNB	0.0	10,548.8	696.4(12)	0.2%	10.1%	0.5%
Rayan	0.0	551.9	136.2	0.2%	7.0%	0.6%
QIIB	0.0	148.0	65.8	N.A	N.A	N.A
QIB	0.0	760.5	255.7	0.3%	4.4%	0.8%
Total/average	**1,007.7**	**12,986.8**	**2,297.4**	**0.4%**	**9.7%**	**1.4%**

Note: For detailed sources, refer to Appendix II: Sources.

Net impairment charge on loans (financing assets for Islamic banks) – q-o-q trend analysis (US$ million)

Bank	03/31/2017	06/30/2017	09/30/2017	12/31/2017	03/31/2018
Ahli	1.2	4.7	2.7	9.7	1.8
Al Khaliji	17.6	13.9	25.1	26.0	13.0
CB	131.5	132.6	134.4	67.6	60.9
Doha	14.7	21.4	28.1	98.6	12.3
QNB	109.6	60.9	93.0	289.9	164.6
Rayan	(0.2)	0.3	(0.8)	30.3	2.9
QIIB	0.8	0.0	0.0	6.9	0.8
QIB	36.2	52.1	21.7	20.4	42.7
Total	**311.4**	**286.0**	**304.3**	**549.3**	**299.0**

Impact on reclassification and re-measurement of financial assets (31 December 2017 vs. 1 January 2018) (US$ million)

	Under IAS 39 at 31 December 2017				Under IFRS 9 at 1 January 2018		
Bank	Available for sale	FVTPL	Loans and receivables	Held to maturity	FVOCI	FVTPL	AC
Ahli	799.3	1.3	9,208.9	876.5	247.2	13.4	10,539.3
Al Khaliji	3,435.8	48.5	12,290.4	0.0	3,379.5	48.5	12,099.4
CB	5,342.7	50.0	29,394.3	0.0	1,285.1	319.4	32,825.0
Doha	3,246.7	0.0	20,410.9	1,564.4	3,558.2	58.1	21,214.9
QNB	14,205.5	28.7	187,008.0	12,481.1	11,776.7	32.7	201,206.2
Rayan	N/A	N/A	N/A	N/A	N/A	N/A	N/A
QIIB	N/A	N/A	N/A	N/A	N/A	N/A	N/A
QIB	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	**27,030.0**	**128.5**	**258,312.5**	**14,922.0**	**20,246.7**	**472.2**	**277,884.9**

Note: For detailed sources, refer to Appendix II: Sources.
N/A – Not Applicable.

Appendix I: Data tables — KSA

Bank	ECL impact at 1 January 2018 vs. existing provisions at 31 December 2017 (US$ million)			Total exposure subject to ECL 31 March 2018 – by stage		
	Existing provisions[15] at 31 December 2017	ECL impact at 1 January 2018	ECL impact as a percentage increase over total base provisions under IAS 39	Stage 1	Stage 2	Stage 3
Al Rajhi	1,480.5	768.2	51.9%	57,102.8	5,678.9	454.8
Alinma	400.6	192.6	48.1%	18,794.0	2,592.5	230.7
ANB	756.8	145.2	19.2%	25,406.1	4,998.6	446.9
BAB	357.1	19.0	5.3%	11,033.8	1,345.5	152.2
BAJ	187.8	169.5	90.3%	9,137.2	1,295.5	249.9
BSF	1,018.9	230.0	22.6%	28,001.8	5,210.9	912.2
Riyad	555.6	581.0	104.6%	33,825.2	3,453.6	1,171.3
SAMBA	526.2	671.4	127.6%	29,228.5	1,934.5	523.4
AAAL	739.0	118.2	16.0%	12,160.9	4,297.4	627.3
NCB	1,826.9	456.0	25.0%	64,353.6	3,823.0	1,258.1
SABB	997.4	437.8	43.9%	26,578.3	4,946.8	807.5
SAIB	287.5	235.5	81.9%	13,321.5	1,766.6	802.7
Total	**9,134.4**	**4,024.4**	**44.1%**	**328,943.7**	**41,343.8**	**7,637.0**

Bank	IFRS 9 impact on retained earnings at 1 January 2018 (US$ million)		Coverage ratios at 31 March 2018 on loans (financing assets for Islamic banks)		
	Retained earnings at 31 December 2017	IFRS 9 impact at 1 January 2018	Stage 1	Stage 2	Stage 1 + 2
Al Rajhi	3,706.1	733.6	1.2%	18.8%	2.8%
Alinma	505.4	162.3	0.7%	9.5%	1.8%
ANB	1,011.5	146.5	0.4%	5.3%	1.2%
BAB	141.5	4.5	1.1%	7.8%	1.8%
BAJ	406.8	169.5	0.4%	4.0%	0.9%
BSF	1,766.6	230.0	0.3%	8.6%	1.6%
Riyad	765.8	535.3	0.3%	6.4%	0.8%
SAMBA	2,549.0	672.0	0.6%	7.4%	1.1%
AAAL	345.8	119.6	0.5%	6.9%	2.2%
NCB	4,839.3	456.0	1.1%	9.3%	1.6%
SABB	2,094.3	392.5	0.5%	11.0%	2.2%
SAIB	342.4	232.7	0.5%	2.0%	0.7%
Total/average	**18,474.6**	**3,854.6**	**0.6%**	**8.1%**	**1.6%**

Note: For detailed sources, refer to Appendix II: Sources.

**For early adopters of IFRS 9 in this region, the following has been considered for calculating IFRS 9 impact:*

– *BAJ - the bank early adopted IFRS 9 for C&M purposes in 2011 per IFRS 9(2009) version issued by the IASB. BAJ at the time did not elect to early adopt impairment and hedging requirements of IFRS 9. Following IASB's issuance of the final IFRS 9 standard in July 2014, the bank accordingly adopted the impairment (ECL) requirements of IFRS 9 effective from 1 January 2018.*

Net impairment charge on loans (financing assets for Islamic banks) – q-o-q trend analysis (US$ million)

Bank	03/31/2017	06/30/2017	09/30/2017	12/31/2017	03/31/2018
Al Rajhi	99.2	108.0	109.2	95.9	120.0
Alinma	33.1	31.9	27.9	56.0	23.8
ANB	47.1	71.1	87.3	100.6	46.6
BAB	13.4	20.4	30.9	36.1	25.3
BAJ	12.5	16.5	22.8	19.4	4.3
BSF	7.7	15.6	14.8	138.0	23.9
Riyad	57.9	99.0	76.8	93.5	52.4
SAMBA	28.6	16.1	19.8	12.0	3.2
AAAL	77.5	76.0	68.1	76.9	68.6
NCB	112.5	126.1	184.7	73.4	(2.1)
SABB	60.3	43.9	45.0	117.8	55.2
SAIB	12.0	19.7	16.8	8.3	23.6
Total	**561.9**	**644.4**	**704.1**	**827.9**	**444.9**

Impact of reclassification of financial assets (31 December 2017 vs. 1 January 2018) (US$ million)

	Under IAS 39 at 31 December 2017					Under IFRS 9 at 1 January 2018		
Bank	Available for sale	FVTPL	Loans and receivables	Held to maturity	Others	FVOCI	FVTPL	AC
Al Rajhi	481.2	110.0	0.0	0.0	87,035.1	211.6	592.4	86,822.2
Alinma	3,461.8	20.5	26,547.2	0.0	0.0	3,023.7	458.6	26,547.2
ANB	2,786.0	251.5	0.0	0.0	41,553.2	2,783.6	253.9	41,553.2
BAB	865.4	0.0	0.0	0.0	15,746.2	677.2	188.2	15,746.2
BAJ*	1.4	611.4	0.0	0.0	7,882.0	103.7	509.0	7,882.0
BSF	2,189.1	576.7	0.0	0.0	48,298.7	0.0	541.7	50,522.7
Riyad	3,898.8	111.8	44,429.3	0.0	8,519.0	3,663.0	347.7	52,948.3
SAMBA	6,499.0	2,343.0	0.0	0.0	51,095.7	13,186.6	2,561.9	44,189.2
AAAL	87.3	56.6	0.0	16.0	26,084.3	46.4	147.5	26,050.3
NCB	4,629.8	527.3	0.0	185.8	107,585.5	11,678.3	1,145.4	100,104.8
SABB	4,331.3	141.9	45,021.1	0.0	0.0	4,230.0	243.2	45,021.1
SAIB	5,786.8	178.3	0.0	0.0	18,301.0	5,786.8	178.3	18,301.0
Total	**35,017.9**	**4,929.0**	**115,997.6**	**201.9**	**412,100.7**	**45,391.0**	**7,168.0**	**515,688.2**

Note: For detailed sources, refer to Appendix II: Sources.

Appendix I: Data tables — UAE

Bank	ECL impact at 1 January 2018 vs. existing provisions at 31 December 2017 (US$ million)			Total exposure subject to ECL 31 March 2018 – by stage		
	Existing provisions at 31 December 2017	ECL impact at 1 January 2018	ECL impact as a percentage increase over total base provisions under IAS 39	Stage 1	Stage 2	Stage 3
ADCB	1,657.9	411.1	24.8%	N.A	N.A	N.A
ADIB	876.6	0.2	0.0%	N.A	N.A	N.A
CBD	792.0	107.9	13.6%	11,121.6	1,261.9	1,340.1
DIB	1,560.4	283.9	18.2%	33,939.6	3,444.5	1,286.6
ENBD	6,884.8	657.2	9.5%	N.A	N.A	N.A
Mashreq	905.1	401.1	44.3%	N.A	N.A	N.A
RAK	270.9	265.2	97.9%	N.A	N.A	N.A
UNB	902.5	244.0	27.0%	N.A	N.A	N.A
FAB*	3,464.6	843.8	24.4%	210,266.6	9,294.4	3,688.7
SIB	340.5	80.4	23.6%	9,720.2	424.3	60.1
Total	**17,655.2**	**3,294.7**	**18.7%**	**265,047.9**	**14,425.1**	**6,375.6**

Bank	IFRS 9 impact on retained earnings at 1 January 2018 (US$ million)		Coverage ratios at 31 March 2018 on loans (financing assets for Islamic banks)		
	Retained earnings at 31 December 2017	IFRS 9 impact at 1 January 2018	Stage 1	Stage 2	Stage 1 + 2
ADCB	3,631.6	411.1	N.A	N.A	N.A
ADIB	898.7	0.2	N.A	N.A	N.A
CBD	958.4	107.9	2.2%	6.3%	2.6%
DIB	1,895.6	80.7	N.A	N.A	N.A
ENBD	7,459.3	595.3	N.A	N.A	N.A
Mashreq	4,795.8	379.1	N.A	N.A	N.A
RAK	572.0	264.1	N.A	N.A	N.A
UNB	3,374.2	246.6	N.A	N.A	N.A
FAB*	5,084.0	753.2	0.6%	23.6%	2.0%
SIB	314.9	80.4	0.7%	17.8%	2.2%
Total/average	**28,984.6**	**2,918.3**	**1.2%**	**15.9%**	**2.3%**

*Note: *For FAB, pro-forma financial statement are used for FY16 and FY17, prepared as if the merger had taken place on 1 January 2016. However, for FY16, financial numbers were sourced from FY16 Annual Reports of NBAD and FGB for unavailable data.*
For detailed sources, refer to Appendix II: Sources.

Net impairment charge on loans (financing assets for Islamic banks) – q-o-q trend analysis (US$ million)

Bank	03/31/2017	06/30/2017	09/30/2017	12/31/2017	03/31/2018
ADCB	105.2	116.3	113.9	120.2	103.5
ADIB	44.7	58.9	61.8	43.0	40.8
CBD	66.1	71.8	33.0	16.1	41.1
DIB	44.5	52.2	71.8	58.8	41.8
ENBD	169.7	151.4	129.3	140.9	106.0
Mashreq	84.6	92.7	72.1	144.3	82.2
RAK	120.0	102.0	100.5	100.2	96.2
UNB	45.8	25.3	64.1	84.1	43.3
FAB*	93.1	164.2	150.2	154.5	111.6
SIB	8.3	9.6	12.9	11.2	3.9
Total	**782.0**	**844.6**	**809.6**	**873.3**	**670.4**

Impact on reclassification and re-measurement of financial assets (31 December 2017 vs. 1 January 2018) (US$ million)

	Under IAS 39 at 31 December 2017					Under IFRS 9 at 1 January 2018		
Bank	Available for sale	FVTPL	Loans and receivables	Held to Maturity	Others	FVOCI	FVTPL	AC
ADCB	13,390.0	132.1	67,575.4	0	4,049.2	13,390.0	132.1	71,254.2
ADIB	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
CBD	1,878.7	30.4	15,493.3	36.3	89.0	1,876.7	30.4	15,512.7
DIB	778.4	46.1	19,264.9	1,906.8	533.7	353.4	16.9	22,029.5
ENBD	3,894.9	969.4	115,867.7	320.7	-	364.3	1,226.8	118,836.7
Mashreq	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
RAK	1,514.7	8.1	11,262.6	-	-	859.4	25.9	11,635.1
UNB	4,817.0	70.1	34,769.9	902.8	475.7	4,817.0	70.1	35,904.4
FAB*	22,133.3	8,362.0	141,352.2	1,925.9	-	21,726.1	9,013.6	142,411.8
SIB	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
Total	**48,406.8**	**9,618.3**	**405,586.1**	**5,092.5**	**5,147.5**	**43,386.8**	**10,515.7**	**417,584.4**

*Note: *For FAB, pro-forma financial statement are used for FY16 and FY17, prepared as if the merger had taken place on 1 January 2016. However, for FY16, financial numbers were sourced from FY16 Annual Reports of NBAD and FGB for unavailable data.*

For detailed sources, refer to Appendix II: Sources.

N/A – Not Applicable.

Note: For early adopters of IFRS 9 in this region, the following has been considered for calculating IFRS 9 impact:

— *DIB, ADIB and SIB – early adopted IFRS 9 (phase 1) for C&M measurement of financial assets and financial liabilities. The IASB issued IFRS 9 Financial Instruments ("IFRS 9") in July 2014, the standard covers three broad topics: C&M, impairment and hedging. These banks elected not to early adopt impairment and hedging requirements of IFRS 9, accordingly IFRS 9 ECL impact has been recorded on 1 January 2018 in the retained earnings.*

Appendix II: Sources

Bahrain

1. AUB: Financial Statement Q1'18, Financial Statement FY17, Financial Statement FY12, FY17 Quarterly Reports – Q1, Q2, Q3, FY17 Pillar III Disclosures – Basel III, FY16 Pillar III Disclosures – Basel III; AUB Website
2. Al Baraka: Financial Statement Q1'18, Annual Report 2017, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; Al Baraka website
3. Al Salam: Financial Statement Q1'18, Financial Statement FY17, Financial Statement FY16, FY17 Quarterly Reports – Q1, Q2, Q3; Al Salam Website
4. BISB: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; BISB Website
5. BBK: Financial Statement Q1'18, Financial Statement FY17, Financial Statement FY16; FY17 Quarterly Reports – Q1, Q2, Q3, Bahrain Stock Exchange
6. Ithmaar Bank: Financial Statement Q1'18, FY17 PD2 and PD 3 Disclosures, Ithmaar Bank website, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3, Bahrain Stock Exchange;
7. Khaleeji: Financial Statement Q1'18, Financial Statement FY17, Financial Statement FY16, FY17 Quarterly – Q1, Q2, Q3; Bahrain Stock Exchange
8. NBB: Financial Statement Q1'18, Financial Statement FY17; FY17 Quarterly Reports – Q1, Q2, Q3, Bahrain Stock Exchange

Kuwait

1. AUBK: Financial Statement Q1'18; AUBK website
2. ABK: Financial Statement Q1'18; ABK website
3. Boubyan: Financial Statement Q1'18; Boubyan website
4. Burgan: Financial Statement Q1'18; Burgan website
5. GBK: Financial Statement Q1'18; GBK website
6. KFH: Financial Statement Q1'18; KFH website
7. KIB: Financial Statement Q1'18; KIB website
8. NBK: Financial Statement Q1'18; NBK website
9. CBK: Financial Statement Q1'18; CBK Website
10. Warba: Financial Statement Q1'18; Warba website

Oman

1. Ahli: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; Ahli Bank website
2. Alizz: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; Muscat Stock Exchange
3. Dhofar: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; Muscat Stock Exchange
4. Muscat: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; Muscat Stock Exchange
5. Nizwa: Financial Statement Q1'18, Financial Statement FY17; FY17 Quarterly Reports – Q1, Q2, Q3, Muscat Stock Exchange
6. Sohar: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; Muscat Stock Exchange
7. HSBC: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; Muscat Stock Exchange
8. NBO: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; Muscat Stock Exchange

Qatar

1. Ahli: Financial Statement Q1'18, Financial Statement FY17; FY17 Quarterly Reports – Q1, Q2, Q3; Qatar Exchange
2. Al Khaliji: Financial Statement Q1'18, Financial Statement FY17; FY17 Quarterly Reports – Q1, Q2, Q3; Qatar Exchange
3. Doha: Financial Statement Q1'18, Financial Statement FY17; FY17 Quarterly Reports – Q1, Q2, Q3; Qatar Exchange
4. MAR: Financial Statement Q1'18, Financial Statement FY17; FY17 Quarterly Reports – Q1, Q2, Q3; Qatar Exchange
5. QIIB: Financial Statement Q1'18, Financial Statement FY17; FY17 Quarterly Reports – Q1, Q2, Q3; Qatar Exchange
6. QIB: Financial Statement Q1'18, Financial Statement FY17; FY17 Quarterly Reports – Q1, Q2, Q3; Qatar Exchange
7. QNB: Financial Statement Q1'18, Financial Statement FY17; FY17 Quarterly Reports – Q1, Q2, Q3; Qatar Exchange
8. CBQ: Financial Statement Q1'18, Financial Statement FY17; FY17 Quarterly Reports – Q1, Q2, Q3, Qatar Exchange

Saudi Arabia

1. Al Rajhi: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; Al Rajhi Bank website and response to KPMG enquiries
2. Alinma: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; Alinma Bank website
3. ANB: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; ANB website
4. BAB: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; Bank Albilad website
5. BAJ: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; Bank AlJazira website
6. BSF: Financial Statement Q1'18, Financial Statement FY17; FY17 Quarterly Reports – Q1, Q2, Q3, BSF website and response to KPMG enquiries
7. Riyad: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; Riyad Bank Website
8. SAMBA: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; SAMBA Bank website
9. AAAL: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; AAAL website
10. NCB: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; NCB website
11. SABB: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; SABB website
12. SAIB: Financial Statement Q1'18, Financial Statement FY17, FY17 Quarterly Reports – Q1, Q2, Q3; Saudi Investment Bank website

United Arab Emirates

1. ADCB: Financial Statement Q1'18, Financial Statement FY17, Financial Statement FY16; FY17 Quarterly Reports – Q1, Q2, Q3; Abu Dhabi Commercial Bank website
2. ADIB: Financial Statement Q1'18, Financial Statement FY16, Financial Statement FY16; FY17 Quarterly Reports – Q1, Q2, Q3; Abu Dhabi Islamic Bank website
3. CBD: Financial Statement Q1'18, Financial Statement FY17, Financial Statement FY16; FY17 Quarterly Reports – Q1, Q2, Q3; Commercial Bank of Dubai website
4. DIB: Financial Statement Q1'18, Financial Statement FY17, Financial Statement FY16; FY17 Quarterly Reports – Q1, Q2, Q3; Dubai Islamic Bank website
5. ENBD: Financial Statement Q1'18, Financial Statement FY17, Financial Statement FY16; FY17 Quarterly Reports – Q1, Q2, Q3; Emirates NBD website
6. Mashreq: Financial Statement Q1'18, Annual Report FY17, Annual Report FY16; FY17 Quarterly Reports – Q1, Q2, Q3; Mashreq Bank website
7. RAK: Financial Statement Q1'18, Financial Statement FY17, Financial Statement FY16; FY17 Quarterly Reports – Q1, Q2, Q3; RAK Website
8. UNB: Financial Statement Q1'18, Financial Statement FY17, Annual Report FY16; FY17 Quarterly Reports – Q1, Q2, Q3; UNB Website
9. FAB: Financial Statement Q1'18, Pro Forma Financial Statement FY17; FY17 Quarterly Reports – Q1 (Pro forma), Q2, Q3; NBAD website (merged with FGB to form FAB)
10. SIB: Financial Statement Q1'18; Financial Statement FY17, Financial Statement FY16; FY17 Quarterly Reports – Q1, Q2, Q3; Sharjah Islamic Bank website

Other sources

1. The below currency conversion rates from Oanda.com have been used for all periods presented:
   a. Bahraini Dinar (BD)/US$ [2017: 2.6525]
   b. Kuwaiti Dinar[a] (KD)/US$ [2017: 3.2900]
   c. Omani Rial[b] (RO)/US$ [2017: 2.5974]
   d. Qatari Rial (QAR)/US$ [2017: 0.2747]
   e. Saudi Riyal (SAR)/US$ [2017: 0.2665]
   f. UAE Dirham (AED)/US$ [2017: 0.2722]

Note: [a]The Kuwaiti Dinar is pegged to a basket of currencies as compared to the other GCC currencies, which are pegged to the US$; [b]Omani Rial is converted using pegged rate of 1US$ = RO0.385 for 2016 and 2017

Appendix III: Footnotes

1. Total exposure includes exposure on full book (all applicable balance sheet component)
2. CET 1 capital at 31 December 2017 - total day 1 impact of ECL on equity as disclosed in Q1'18 Financial statements assuming no amortization for capital purposes/RWAs at 31 December 2017; Moreover, for sake of standardization and comparison, it is assumed that the assets subject to ECL have a risk-weighting of 100 percent and the same has been adjusted to calculate the estimated impact on CET1 Post-ECL adjustments. Further, we have not considered any likely transition arrangements that may be permitted by regulators
3. In case the impairment charge for loans and advances were not given, we have considered the total provision charge from the P&L (including due from banks, other assets and contingencies)
4. For Islamic banks, C&M is not applicable and they continue to apply their existing classification as per existing FAS therefore reclassification pie-charts excludes Islamic banks (except banks from KSA and UAE)
5. Showcases the ECL impact on the opening balance of retained earnings post adopting IFRS 9 (including transfer of risk reserve for banks in Qatar) and adjusted for dividend payouts;

Bahrain

6. Impairment charge for loans (financing assets for Islamic banks) was not available for Ithmaar Bank for quarter ending 31 March 2017, 30 June 2017 and 30 September 2017;

Oman

7. Stage-wise break up of ECL impact as of 1 January 2018 was not available for Bank Muscat
8. Stage-wise breakdown of ECL is not available for Bank Dhofar
9. Bank Muscat excluded from the chart as reclassification number was not available
10. Retained earnings and IFRS 9 impact on retained earnings was not available for Alizz Islamic Bank and Bank Nizwa;

Qatar

11. Stage-wise breakdown of ECL is not available for QIIB
12. For QNB, IFRS 9 impact at 1 January 2018 is shown as net of tax
13. For QNB and Doha Bank, the Post ECL CET1 ratio was directly taken from Q1'18 interim financial statements
14. For QIIB, CET1 capital is calculated as tier 1 capital at 31 December 2017 – sukuk eligible as additional capital at 31 December 2017;

Saudi Arabia

15. Total ECL and exposure includes ECL and exposure on loans and advances for all banks in KSA; Existing provision under IAS 39 as at 31 December 2017 may include provision for unfunded exposure for some banks.
16. For KSA banks, pie-chart includes effect of reclassification of financial assets and excludes any re-measurement impact
17. For KSA, banks are allowed to spread the day 1 impact over a period of five years, hence, the adjusted CET1 numbers therefore are what the full impact be if they were taken all at once

UAE

18. Stage wise break up of Exposure subject to ECL as of 31 March 2018 was not available for ADCB, ADIB, ENBD, Mashreq, RAKBANK and UNB
19. Stage-wise breakdown of ECL is not available for Bank ADCB, ADIB, DIB, ENBD, Mashreq, RAKBANK and UNB
20. Reclassification and re-measurement number was not available for Bank Mashreq
21. Since stage-wise ECL breakdown at 1 January 2018 is not available for majority of the banks and hence for consistency purposes we have taken Gross ECL at 31 March 2018
22. UAE banks are not disclosing CET1 capital, hence this KPI is excluded from UAE section.

Appendix IV: IFRS 9 publications

1. IFRS 9, 15, and 16 – a leap forward, June 2018, Link
2. Initial analysis FAS 30: Impairment, credit losses and onerous commitments, April 2018, Link
3. IFRS Update for Financial Services, April 2018, Link;
4. IFRS 9 – What should you put in your transition pack?, March 2018, Link;
5. Disclosures under IFRS 9, February 2018, Link;
6. Financial Instruments – Introducing IFRS 9, January 2018, Link;
7. IFRS 9: Financial Instruments for corporates – Are you good to go?, September 2017, Link, Link;
8. Banks – IFRS 9 pre-transition disclosures, December 2017, Link;
9. IFRS 9 – Opportunities and complexities for corporates, October 2017, Link;
10. Illustrative disclosures – Guide to annual financial statements – IFRS, September 2017, Link;
11. Financial instruments – IFRS Newsletter, July 2017, Link;
12. IFRS 9 for corporates – What's the impact on your business?, June 2017, Link;
13. IFRS 9 for Corporates, May 2017, Link;
14. IFRS 9 for banks – What's the impact on your business?, September 2016, Link;
15. Guide to annual financial statements: IFRS 9 – Illustrative disclosures for banks, March 2016, Link;
16. IFRS 9: Navigating the Transition, May 2015, Link;
17. First impressions: IFRS 9 Financial Instruments, September 2014, Link;
18. First Impressions: IFRS 9 Financial Instruments, December 2009, Link;

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