

IFRS9 to help reinforce confidence in banking system

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The Peninsula

The implementation of "impairment" provisions under the newly-promulgated International Financial Reporting Standard 'IFRS9' from 2018, the health of Qatari banks will get strengthened further.

More prudent and stringent lending and investing conditions under IFRS 9 will further boost investor's confidence, say experts from the industry.

IFRS 9 is a revised financial reporting practice replacing the earlier version of IFRS (IAS 39). After the 2008 financial crisis, the US-based International Accounting Standards Board (IASB), decided to revise their accounting standards for financial instruments to address perceived deficiencies which were believed to have contributed to the magnitude of the crisis.

Commenting on the possible impact of the implementation of

NPL ratio in Qatar

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IFRS 9 provisions on Qatari banks, Dr R Seetharaman, Doha Bank's CEO, said that Qatar Central Bank (QCB) has been very active with regulations and issued guidelines as early as March 2016.

"The Qatari banking industry is well prepared for IFRS9. The banking system as well as Doha Bank has high capitalisation levels and can readily absorb any opening impacts," Dr Seetharaman told *The Peninsula*, yesterday.

He said that IFRS 9 will not impact capital ratios significantly. Qatari banks have been well provisioned having high coverage ratio and also banks



Dr. R. Seetharaman, CEO of Doha Bank (left) & Bahij Najj Al Khatib, Director of the Training Department of the Union of Arab banks.

has built up risk reserves which puts them in a good position.

"IFRS 9 will also support banks to change their business models focusing on capital planning and product mix evaluation, leading to more prudent and stringent lending and investing which will thereby boost investor's confidence," added the Doha Bank CEO.

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also maintain one of the lowest Non-Performing Loans (NPLs) ratios in the world. The average Non-Performing Loans (net of provisions/capital) of Qatari banks has further improved from 2 percent in 2014 to 1.7 percent in 2016. The new impairment provisions for expected losses are expected to create further cushions. "With the new provisions of impairment in the accounting principle under 'IFRS 9' banks

and financial institutions will be required to set aside a certain amount of profit against expected losses for unseen reasons, which also include the difference in the book value of assets and the real benefits expected to be generated by that specific assets," Bahij Najj Al Khatib, Director of the Training Department of the Union of Arab Banks (UAB), told this newspaper in an exclusive interview.

Bahij explained that when testing for impairment, the total expected benefits generated by a specific asset is periodically compared with that same assets book value. "It has been discovered that at times the book value of the asset exceeds the cash flow or benefit of the asset, the difference between the two is written off and the value of the asset declines on the company's balance sheet. This will help improve the position of a bank's balance sheet and real value of assets, and enhancing confidence of investors," he said. Bahij was here to participate at a training workshop on 'Impairment

Framework under 'IFRS 9' organised by UAB in association with the QCB.

He also said that the revised principles of IFRS will help avoid the situation that the world faced after the 2008 financial crisis when large number of banks and financial institutions, especially in the US went bankrupt or had to be bailed out due to toxic assets.

In the US alone, the Federal Deposit Insurance Corporation (FDIC) closed some 465 failed banks from 2008 to 2012. In contrast, in the five years prior to 2008, only 10 banks failed.

Reiterating the health of Qatari banks, Bahij added that banks in Qatar are very strong. They always take measures to protect the interests of investors as well as depositors. "Banks in Qatar are very-very safe. The regulatory measures taken by the QCB have truly strengthen them. In addition to that, the implementation of the provisions of IFRS9 will further make things much better."