



Impact Assessment of IFRS 9 on Bank's Credit Portfolio

The Client

A large bank in Saudi Arabia with an asset base of approx. USD 50 billion

Scope and Approach

The client wanted to do the impact assessment of IFRS 9 on its credit portfolio as mandated by SAMA, Saudi Arabia's banking regulator. The scope of the project included classification and measurement of financial instruments as per IFRS 9 principles, and computation of the expected credit loss (ECL) through stage assessment of the financial instruments and its comparison against the loss allowances numbers of IAS 39 standard.

Aptivaa assisted in performing the impact assessment through a proprietary tactical solution, "LEO", which helps to design and implement forward looking Expected Credit Loss models as per IFRS 9 requirements. For the portfolios that are covered under PD rating models, outputs of existing rating models were used as the starting point (PDs). For the portfolios without a rating model, historical estimates of risk parameters were used. The PDs were calibrated by including the forward looking adjustments through macro-economic model. Aptivaa used 30DPD rebuttable assumption, Management decisions, rating grade movements etc. for stage assessments. For stage one instruments, one year loss was calculated while for stage two instruments, lifetime expected loss was calculated using binomial PD term structure.

Aptivaa also developed scenarios using the macro-economic model, which were used to calculate the scenario weighted ECL for the credit portfolios. The probability of each scenario was calculated using Aptivaa's proprietary scenario generation tool.

Results

The IFRS 9 expected credit loss was estimated and compared with the existing expected loss numbers (IAS 39) for all the assets classes.

Deliverables

- Classification and measurement framework
- Expected Credit Loss estimation framework and tool



About Us

Aptivaa is a vertically focused risk and compliance professional services firm offering risk consulting, solutions and analytical services to banks, insurers, as well as asset management and other financial services companies across the globe.

We have developed world-class competencies in high-stakes financial risk and compliance areas such as Enterprise Risk Management, IFRS 9, Credit, Market & Operational Risk, Basel II, Basel III, ICAAP, Risk Based Pricing, Risk Systems implementations etc. We strive to enhance our offerings in line with the latest regulatory updates and ever evolving risk management methodologies and frameworks across the industry.



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