



**Arab American University**  
**Faculty of Graduate Studies**

**The Impact of International Financial Reporting  
Standard “IFRS 9” on Financial Performance:  
Evidence from Palestinian Banks**

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**This thesis was submitted in partial fulfillment  
of the requirements for the Master`s  
degree in Accounting and Auditing.**

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## Thesis Approval

### **The Impact of International Financial Reporting Standard “IFRS 9” on Financial Performance: Evidence from Palestinian Banks**

By

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This thesis was defended successfully on 19/02/2024 and approved by:

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1. Dr. Ahmad Abu Alrub: Supervisor
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## Declaration

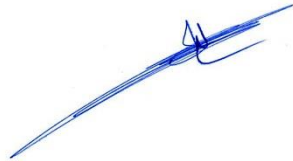
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**Date: 14/07/2024**

## **Acknowledgment**

I thank Allah Almighty for his blessings, and I appreciate everyone who seeks to serve this country. I also want to give special thanks to my supervisor, Dr. Ahmad Abu Alrub, my family, and my friends.

## **Abstract**

International Financial Reporting Standard 9 (IFRS 9) came into effect on 1 January 2018, and early application was allowed. IFRS 9 shifts the looking of banks from backward to forward and from historical to future expectations in the financial statements reports, and this study aims to examine the impact of IFRS 9 on the financial performance of Palestinian banks. Over the period 2014Q1-2021Q4, the period is divided into pre-IFRS 9 adoption and post-IFRS 9 adoption. By using the generalized method of moments (GMM), the results show that the impact of IFRS 9 is negative on the financial performance of banks, mainly because of the negative effect of increasing credit loss provision because of the new model of impairment under IFRS 9, which is expected credit loss model. The negative impact of this provision is the most significant compared to other variables. Also, this new model leads to increases in the strength of the negative influence of the direct credit facilities to asset ratio on the financial performance of banks.

### **Keywords**

IAS 39, IFRS 9, financial performance, expected credit loss.

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### List of abbreviations

IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IAS	International Accounting Standards
IFRS	International Financial Reporting Standard
G20	Group of 20
ECL	Expected credit loss
GMM	Generalized method of moments
ROA	Return on Asset
ROE	Return on Equity
NIM	Net Interest Margin
NM	Net profit margin
CAR	Capital Adequacy Ratio
GAAP	General Accepted Accounting Principle
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
FVTPL	Fair value through profit or loss
AC	Amortized cost
FVOCI	Fair value through other comprehensive income
AFS	Available for sale
HTM	Held to maturity
HCE	Human capital efficiency
CEE	Capital employed efficiency
NPF	Non-performance financing

SSB	sharia supervisory board
GCG	Good corporate governance
ECB	European Central Bank

# **Chapter One**

## **Introduction**

## **1.1 Introduction**

Globalization has increased interconnectedness among markets across countries, allowing more investors to explore new investment options and analyze distant markets more extensively than ever before (Hall, 2023). Investors need to know about the companies that they want to invest in to make decisions, so they need financial statements because financial statements offer an overview of the state of a company's finances at a specific moment in time, including details about its operations, profitability, cash flow, and general situation (Maverick, 2022). Based on this, it was necessary to regulate the preparation of financial statements to assist investors and other interested parties in making informed decisions.

Companies prepare financial statements by following requirements called accounting standards. The International Accounting Standards Board (IASB), established in 2001 and replacing the International Accounting Standards Committee (IASC), sets these standards, which are called International Financial Reporting Standard (IFRS) Standards (IFRS Foundation, 2018).

IFRS Standards have been set to serve the public interest by enhancing trust, growth, and financial stability all over the world, via bringing to the financial market transparency by promoting financial information quality and international comparability, accountability by providing the needed information to hold management accountable, and efficiency by helping investors to determine across the world the risks and opportunities, and the mission for IFRS Foundation and IASB is to develop that (IFRS Foundation, 2018).

To carry out that mission, the IFRS Foundation and IASB monitor the world situation and develop accounting standards according to any changes or problems. They develop accounting standards by replacing or amending the old ones or setting new ones. One of

the critical issues that the IASB faced and was forced to take responsibility for was the financial crisis of 2008.

In this financial crisis, an accounting standard was blamed for that; International Accounting Standards 39 (IAS 39) “Financial Instruments: Recognition and Measurement,” was blamed as one of the primary causes of the financial crisis, and because of the recognition time of loan losses, it was limited and caused a late in future expected losses recognition (Eriotis et al., 2019). The European Union (EU), the African Union (AU), and 19 sovereign nations make up the Group of 20 (G20), an intergovernmental forum (Wikipedia, 2024). As they declared, some of the G20 leaders’ principles are strengthening accountability and transparency and enhancing integrity in financial markets (G20 Information Centre London, 2009). According to that, G20, after the 2008 financial crisis, requested improvement and changes in loan loss accounting standards (Novotny-Farkas, 2015).

In response to the financial crisis, IASB issued the new standard IFRS 9 (Financial Instruments), which came into effect on 1 January 2018. Early application was allowed. Hans Hoogervorst, chairman of the IASB, said that this standard came to improve the reporting of financial instruments, as the Financial Stability Board, G20, and others requested, and this standard will enhance the confidence of investors in the financial system and banks’ balance sheets (IFRS Foundation, 2014).

IFRS 9 replaced the standard IAS 39, and in this replacement, IASB shifted to fair prices and future expectations instead of historical or fair prices, affecting companies' accounting (Gornjak, 2017). Also, the IASB introduced a new impairment model and approach to classifying and measuring financial instruments in IFRS 9. The impairment model in IFRS 9 is expected to be a credit loss model, whereas in IAS 39, it was an incurred loss model (Groff & Mörec, 2021). Therefore, the replacement significantly affects accounting, making decisions, activities, processes, and financial statements (Gornjak, 2017).

## **1.2 Research problem.**

Under IFRS 9, the expected credit losses provision will be recognized before the loss occurs (Sultanoğlu, 2018), while in the previous standard, IAS 39, the recognition is after the loss occurred, which means that the impairment model under IFRS 9 is the expected loss model, while under IAS 39 was the incurred loss model (Gebhardt, 2016). Moreover, the expected loss measurement, is from the main differences between the two standards (Ntaikou & Vousinas, 2018). Consequently, this new requirement under IFRS 9 will cause an increase in credit loss provisions because banks must record provisions for expected credit loss before it occurs, and maybe this loss will not occur because the financial instrument is good. Because of that, it is expected that the banks will start focusing on the quality of the credit that will be given, and undoubtedly, that will affect the financial performance of the banks because, on the one hand, the credit loss provision will increase because it will be expected and from the other hand this provision will affect the amount of assets and reduce it because it is known that the important assets for banks that generate

revenue, is providing direct facilities and financing. Now, this item will be reduced because of the new expected credit loss model compared to IAS 39 requirements.

The new recognition that IFRS 9 requires and that banks must apply it and its effect arise from the aim of this research, which is to find the impact of applying IFRS 9 on the financial performance of banks by taking Palestinian-listed banks as a case study.

Because IFRS 9 adoption is new and, as far as we know, there is no research in Palestine studying the impact of IFRS 9 on banks' performance, and as known in Palestine, the banking sector is so important, so this study is to examine the banks' performance on the 6 local Palestinian banks profitability. Over the quarterly period from 2014Q1 –2021Q4, the period is divided into pre-IFRS 9 adoption and post-IFRS 9 adoptions. Whereas the value under the adoption of IFRS reflects the mark-to-market value of financial assets. Therefore, this study aims to examine how raising transparency standards and simplifying financial regulations could boost financial stability and, in turn, help participants regain trust in the financial system.

It is significant for academics, regulators, and financial policymakers since they are all concerned about implementing IFRS 9, which focuses on fair value accounting, particularly regarding the banking industry. Their worries, along with others, stem from the extent of its impact and its subsequent effects on banks' operations. This study aims to ascertain how certain Palestinian banks behave regarding capital adequacy, liquidity, capital structure, and asset quality in light of IFRS 9's distinct impact on bank performance. Throughout the history of the financial markets and businesses, it has been customary for them to publish their financial reports based on current market value prices. This is because linked parties and investors consider market values to be more useful and pertinent when making judgments.



### **1.3 The Significance of the Study.**

The research examines the impact of IFRS 9 on bank financial performance by studying Palestinian-listed banks. Moreover, the results may provide the banks with recommendations that will help them improve their financial performance.

This research tries to find the impact of IFRS 9 on Palestinian banks' profitability, liquidity, capital structure, capital adequacy, and asset quality. Finding out how these things are affected by IFRS 9 might be an answer for banks to find out how this standard affects their financial performance so they know how to manage their performance in a way that could improve or keep improving it.

Furthermore, compared to the IAS 39 incurred loss model, the most significant impact of IFRS 9 is the rise in loan loss provisions resulting from the new expected loss impairment model. The banks call attention to the significant judgments that have had to be made when applying this standard, as well as the complexity of the modeling needed for the impairment model under IFRS 9. The increases in the provisions are significant and quite different. Therefore, this study discusses the interim state of the economy in Palestine as an unstable market both financially and politically. With one exception, the main effect of IFRS 9 on banks has been a significant increase in the extent of their credit loss allowances, which will raise their resilience to adverse economic events. However, it is possible that this is not the earthquake that some had predicted. This study focuses on several types of local banks in Palestine, including commercial and Islamic banks, because the new allowance for their assets remains significantly variable amongst institutions.

Moreover, because the standard is new and applied on 1 JAN 2018, this research adds new empirical evidence to the current study. Also, this research by studying the impact

of IFRS 9 on financial performance for both types of banks, Islamic and commercial banks, has another contribution because, as far as we are aware, the other studies did not focus on Islamic banks or distinguish if there is a difference in the impact of IFRS 9 on banks according to the type of bank, Islamic and commercial.

#### **1.4 Research Objectives.**

This research aims to examine the impact of IFRS 9 on the financial performance of banks by taking Palestinian-listed banks as a case study. The main objective is divided into five objectives, and through achieving these objectives, we can achieve the main objective:

- 1- To examine the impact of liquidity pre- and post-adoption IFRS 9 on a bank's financial performance.
- 2- To examine the impact of capital structure pre- and post-adoption IFRS 9 on a bank's financial performance.
- 3- To examine the impact of capital adequacy pre- and post-adoption IFRS 9 on a bank's financial performance.
- 4- To examine the impact of asset quality pre- and post-adoption IFRS 9 on a bank's financial performance.
- 5- To investigate whether IFRS 9 impacts banks differently according to their type, whether they are Islamic or commercial banks.

#### **1.5 Research Questions**

The main question is: What is the impact of IFRS 9 on the financial performance of banks?

To answer this question, the research needs to answer the following sub-questions:

- 1- What is the impact of liquidity pre- and post-adoption IFRS 9 on a bank's financial performance?
- 2- What is the impact of capital structure pre- and post-adoption IFRS 9 on a bank's financial performance?
- 3- What is the impact of capital adequacy pre- and post-adoption IFRS 9 on a bank's financial performance.?
- 4- What is the impact of asset quality pre- and post-adoption IFRS 9 on a bank's financial performance?
- 5- Is there any difference in the impact of IFRS 9 on banks according to the bank's type, Islamic or commercial?

### **1.6 Structure of the Study.**

The remainder of this research is structured as follows:

Chapter Two: This chapter talks about the banking sector in Palestine by mentioning the local and foreign banks operating in Palestine. It will show the performance trends of some items in financial position and income statement for the banking sector by charts.

Chapter Three: Provides a literature review on IFRS 9. It starts by discussing the objectives of IASB and IFRSs and the impact of IFRSs on financial information. Then, it discusses IAS 39 and IFRS 9, which came to replace it, and the comparison between them. Finally, it discusses the impact of IFRS 9 in different ways.

Chapter Four: This chapter discusses the research data and methodology and provides a literature review of the generalized method of moments (GMM) used to test the data.

Chapter Five: This chapter provides the statistical results, correlation, and GMM regression results, and its discussion will mention some studies with the same or opposite results.

Chapter Six: This chapter summarizes the findings and conclusions. It also provides recommendations for parties related to this study, such as Palestinian banks, suggestions for future researchers, and information on the obstacles faced in this study.

Finally, there is a list of references and an appendix.

## **Chapter Two**

### **Overview of the Banking Sector in Palestine**

## **2.1 Banks Operating in Palestine.**

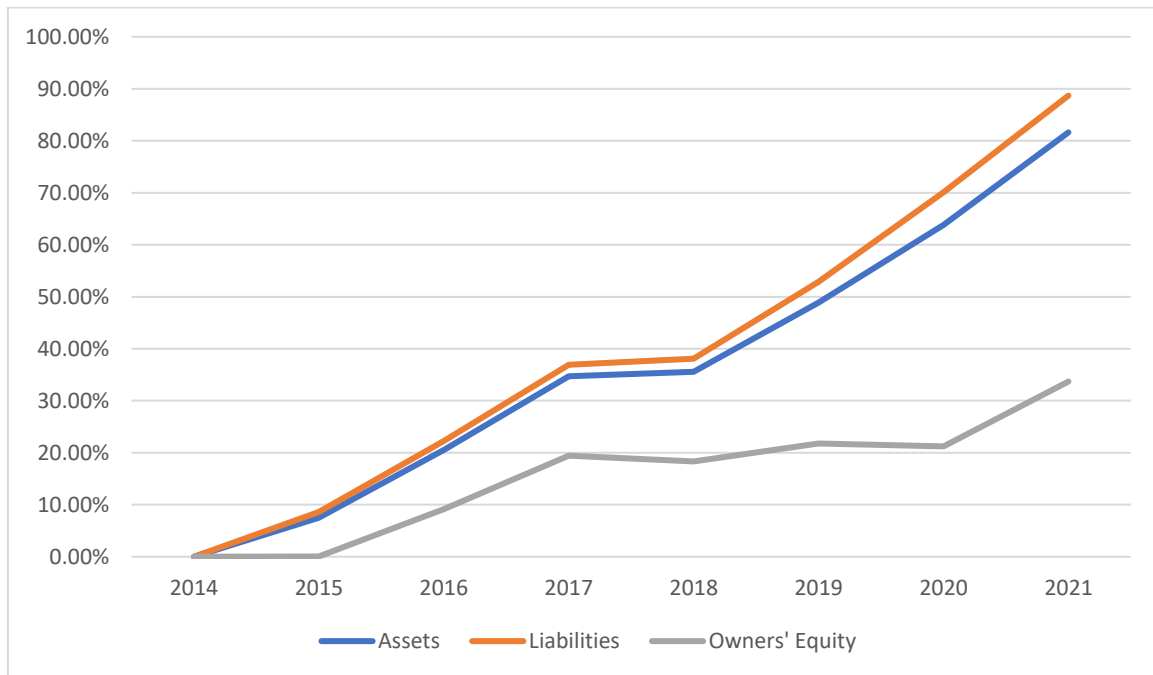
According to the Palestine Monetary Authority, 13 banks operate in Palestine; 7 are local, and the other 6 are foreign banks.

A list of Licensed Banks Operating in Palestine is presented in Appendix A.

The financial situation in the figures below is prepared using the aggregated financial statements prepared by the Association of Banks in Palestine for the local banks and the branches operating in Palestine from foreign banks. In preparing these aggregated financial statements, according to the Association of Banks in Palestine, it took into account the variations in naming items among Islamic banks, reclassified some items for some banks to present the aggregated financial statements, and Arab Islamic Bank statements excluded because it is a subsidiary of Bank of Palestine and Bank of Palestine's statements include statements of Arab Islamic Bank.

The Figures below show the performance trend for the banking sector in Palestine from 2014 to 2021 for the essential items in the financial position statement and income statement. Moreover, during this period, the most important events were the application of IFRS 9 in 2018 and the Coronavirus (COVID-19) Pandemic in 2020.

## 2.2. Financial position statement performance trend.

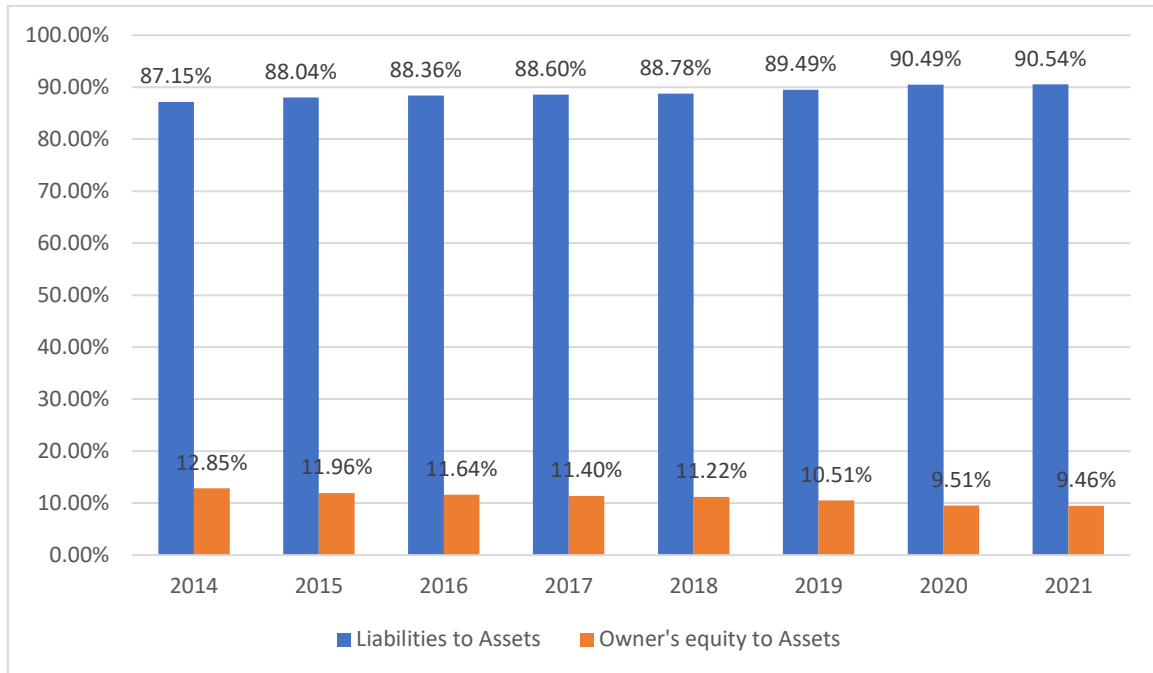


**Figure 1: Assets, liabilities, and owner’s equity performance trend between 2014 and 2021**

Source of data: from the Association of Banks in Palestine website [www.abp.ps](http://www.abp.ps).

From 2014 to 2021, it is clear that assets increased, and the increase in assets came from the increase in liabilities, which is expected because a bank's most important asset and the largest proportion of its assets are credit facilities and financing. This asset came from the most crucial liability, customers’ deposits.

Moreover, it shows that in 2018, the increase in assets was low compared to other years, and there was a decrease in Owner’s equity. That is because of the impact of applying IFRS 9, which showed by adjusting the opening balance for the Owner’s equity as of 1 January 2018, and the adjustment was by decreasing the balance.

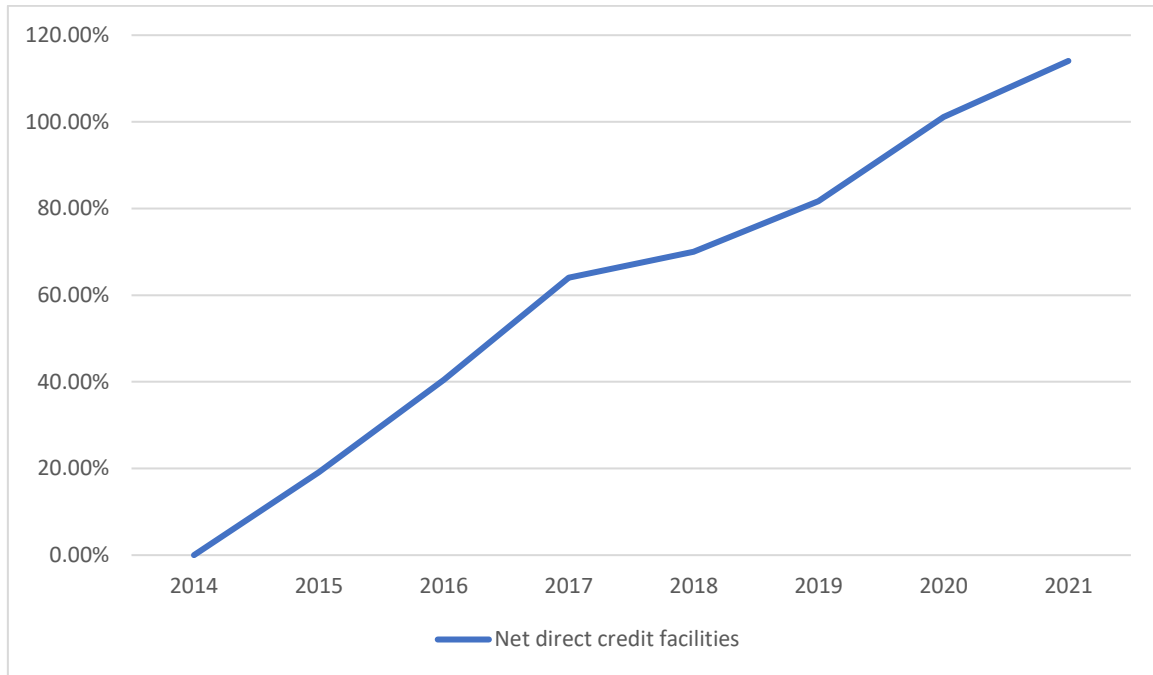


**Figure 2: Liabilities and owner's equity ratios performance trend between 2014 and 2021**

Source of data: from the Association of Banks in Palestine website [www.abp.ps](http://www.abp.ps).

It is clear that over the years, the ratio of liabilities to assets has increased compared with the Owner's equity ratio. Moreover, the most essential item used to finance banks' assets comes from the liabilities of customers' deposits. The bank uses customers' deposits to give credit facilities to others and generates income from the differences between the percentage given for customers' deposits and the percentage taken for giving credit facilities.

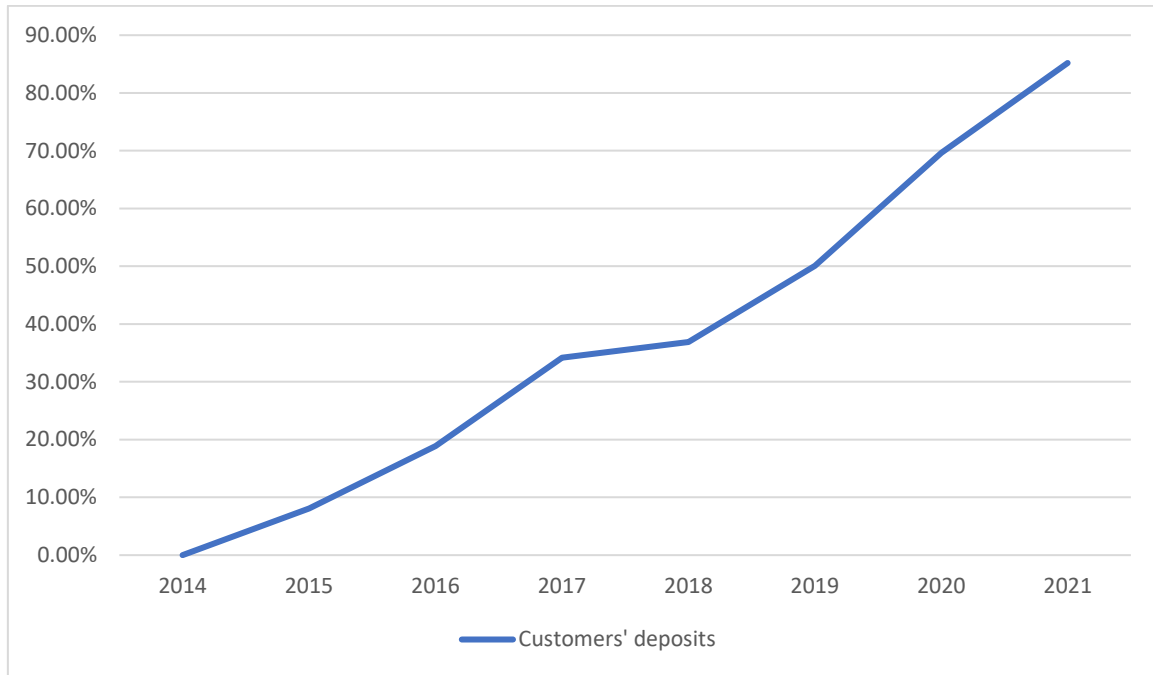




**Figure 3: Net direct credit facilities performance trend between 2014 and 2021**

Source of data: from the Association of Banks in Palestine website [www.abp.ps](http://www.abp.ps).

It seems that something happened in the year 2018 because the percentage of increase from the year 2014 to the year 2017 was almost stable, but in 2018, it is clear that this percentage of increase decreased, and the critical event that year was applying IFRS 9, and in IFRS 9 the expected credit loss model causes an increasing in the allowance for credit losses. Moreover, this item is deducted from the total direct credit facilities to calculate the net direct credit facilities, so the new model under IFRS 9, in turn, decreases total net direct credit facilities in comparison with the old model because of the way of calculating the allowance for credit losses.

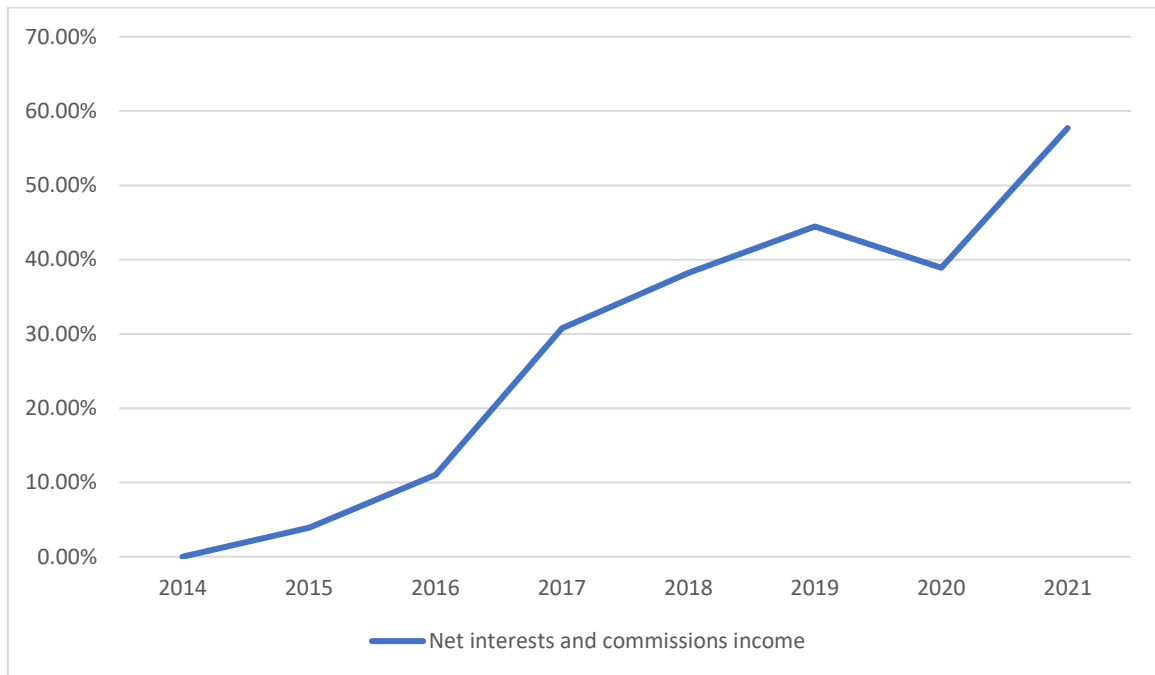


**Figure 4: Customers' deposits performance trend between 2014 and 2021**

Source of data: from the Association of Banks in Palestine website [www.abp.ps](http://www.abp.ps).

Customers' deposits have trended upward over the years, and this item is the most important liability used to generate operating income for banks because it is used to finance credit facilities, the most important asset for banks.

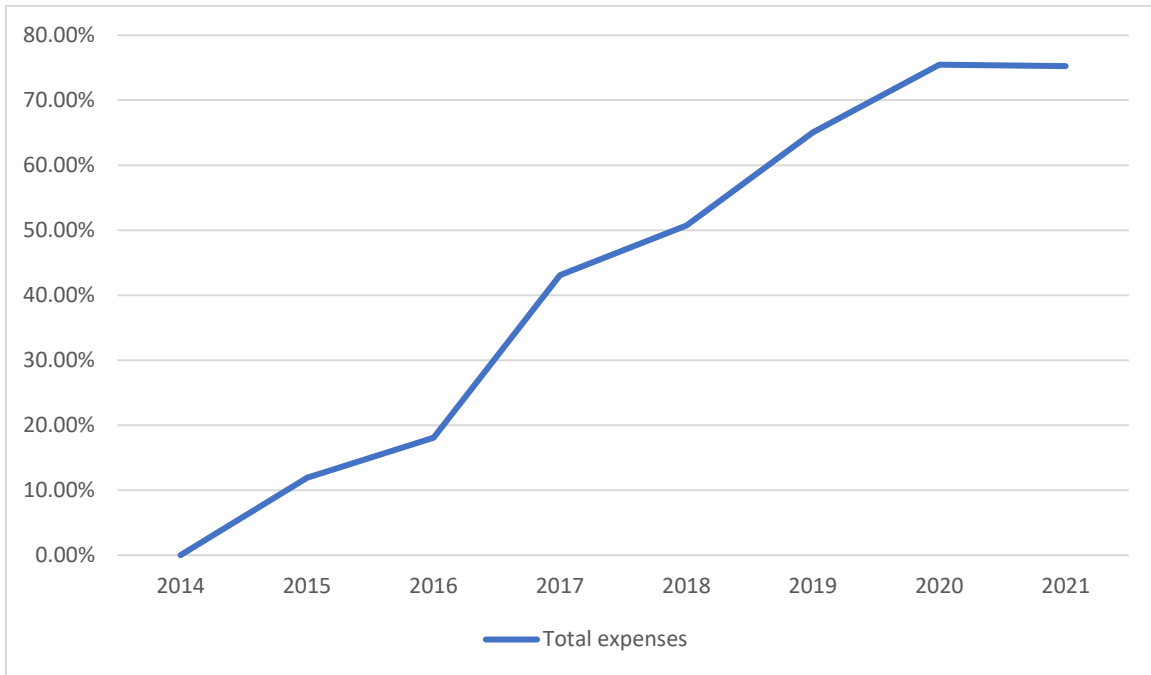
### 2.3. Income statement performance trend.



**Figure 5: Net interests and commissions income performance trend between 2014 and 2021**

Source of data: from the Association of Banks in Palestine website [www.abp.ps](http://www.abp.ps).

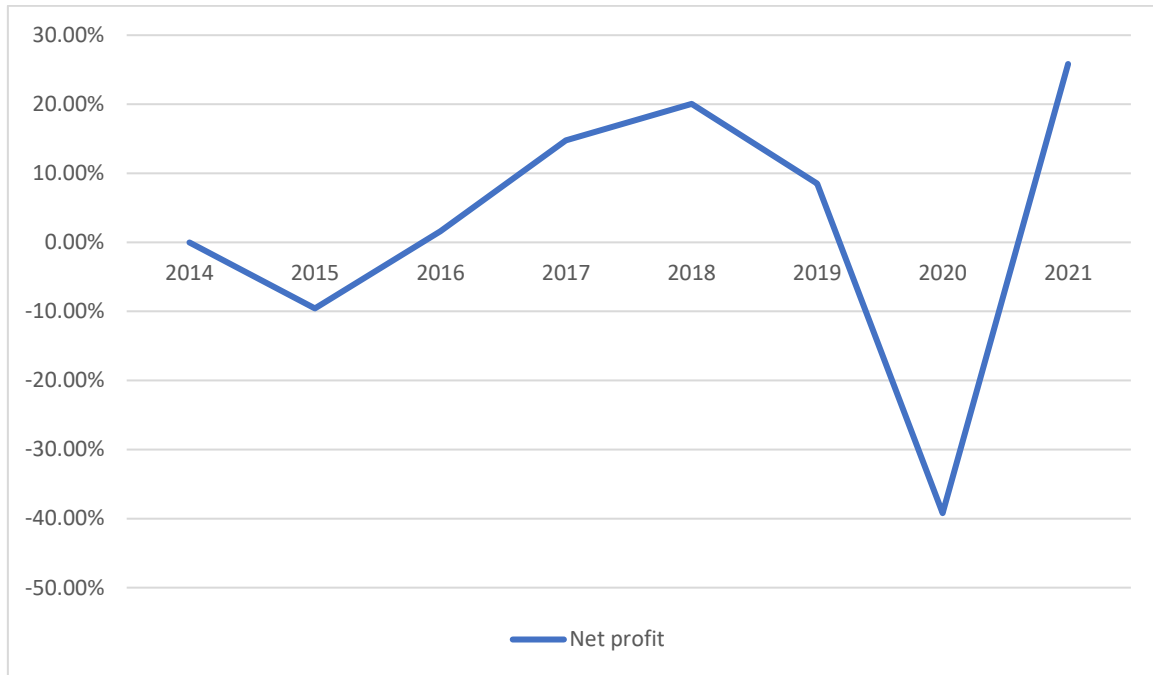
The Net interest and commission income has been increasing over the years, except in 2020, when it decreased because of the impact of the Coronavirus (COVID-19) Pandemic, which affected the whole world.



**Figure 6: Total expenses performance trend between 2014 and 2021**

Source of data: from the Association of Banks in Palestine website [www.abp.ps](http://www.abp.ps).

Total expenses also increase with time, which is expected according to the increase in assets because, generally, increasing expenses are related to an increase in assets.



**Figure 7: Net profit performance trend between 2014 and 2021**

Source of data: from the Association of Banks in Palestine website [www.abp.ps](http://www.abp.ps).

In general, the net profit for banks in Palestine has increased over the years compared with 2014, except in 2020. This year, profits decreased because of the impact of the coronavirus (COVID-19) pandemic.

**Chapter Three**  
**Literature review**

### **3.1 IASB and IFRSs objectives.**

After the year 2000, IASC was replaced by IASB; IASB has three objectives. The first one is the improvement of inherited standards from IASC, the second one is the convergence between accounting standards by reducing the international differences in them, and the last one is to be the leader and lead with the other standard setters in the world by developing new accounting standards for the problems that do not appropriately address yet by the international standard-setting community (Whittington, 2005). Adding to that, the two objectives often stated by IFRS adoption are enhancing reporting quality and producing a single set of accounting standards with high quality. The other is the improvement of comparability by reducing the differences in financial reports between countries (De George et al., 2016).

### **3.2 Financial information quality and comparability after IFRS adoption:**

“The objective of general-purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions relating to providing resources to the entity” (IASB, 2018). Financial information must be faithfully represented and relevant to be useful, so it needs to be verifiable, comparable, understandable, and timely to enhance its usefulness (IASB, 2018).

Accounting quality is “the extent to which the financial statement information reflects the underlying economic situation” (Chen et al., 2010). Financial reporting quality is also defined as “the faithfulness of the information conveyed by the financial reporting process” (Martínez-Ferrero, 2014).

The comparability of financial accounting information is “financial accounting information on similar transactions or events that are comparable to one another if they are collected and transformed by applying the same accounting methods” (Krisement, 1997). Also, Comparability is “the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items” (IASB, 2018).

Over the years, many studies from different areas provided different evidence about the impact of IFRS on accounting quality. In studying the impact of IFRS on accounting quality through a literature review, Soderstrom and Sun (2007) concluded that the international accounting literature generally found that the voluntary adoption of IFRS positively impacts accounting quality. However, as case studies, some confirmed a positive impact, and some found the opposite. In the European Union, Chen et al. (2010) found that IFRS played a role in accounting quality improvement. Moreover, from Turkey, Uyar (2013) enhanced that by saying that in Turkey, the switch in accounting standards from domestic standards to IFRS increased the accounting quality, and this direction in the changing in accounting quality in this country is the same as in EU countries. Also, in Saudi Arabia, the result of Malo-Alain et al. (2021) was that IFRS positively impacts accounting performance quality and causes improvement in qualitative characteristics of accounting information.

In contrast, in Germany, Paananen and Lin (2009) concluded that the quality of accounting under the IAS and IFRS is decreasing over time. In addition, Ahmed et al. (2013), in studying 20 countries on different continents, found that accounting quality decreased after the mandatory adoption of IFRS. However, what differed from all the results of Bryce et al. (2015) was that adopting IFRS has an insignificant effect on accounting quality in Australia.



According to different results above, and as an explanation for that, Soderstrom and Sun (2007) said that accounting quality after IFRS adoption could also be related to and affected by other factors, such as the country's legal and political system, which can indirectly affect accounting quality. Moreover, Chen et al. (2010) said that they do not expect accounting information to be the same quality after adopting IFRS across countries because another factor will affect accounting information quality. That can lead us to conclude that other factors may prevent IFRS from achieving its objective of enhancing the quality of reporting.

There are different results in researching the impact of IFRS on financial information quality, same as the impact of IFRS on financial information comparability; there is a different impact according to some studies; in general, the IFRS improves comparability, but in others, there is another impact. For DeFond et al. (2011) they indicated that IFRS improved comparability by their expectation that mandatory implementation of IFRS led to comparability improvement, and that caused an increase in investment in cross-border, and that what they could prove it, specifically in countries with strong credible implementation and increase in uniformity. Moreover, in studying 17 European countries, Yip and Young (2012) found that IFRS adoption improves information comparability cross-country. Also, Brochet et al. (2013) found that IFRS adoption enhanced the comparability of financial statements in the United Kingdom. Adding evidence from Nigeria, by Jinadu et al. (2017), IFRS enhances both the comparability and quality of financial statements and information.

Not only the adoption of IFRS but also the convergence between it and the U.S. General Accepted Accounting Principle (GAAP), which is an objective for IASB, led to improvement in comparability, according to Lin et al. (2019), who studied this by taking

Germany as a case study and concluded that both adoption and convergence increase comparability.

For another researchers they found a different direction in the impact of IFRS adoption on financial information comparability, such as Cascino and Gassen (2010), who found that the impact of mandatory IFRS adoption is limited; it increases the comparability in some items on the balance sheet, while it has no effect on the comparability of earnings attributes, and that maybe because there is another factors affect the shape of accounting information, like the incentives, and also the different infrastructures of countries prevent from getting a fully comparable in the information.

Another result was obtained from the same researchers but in different years. However, convergence is one of the IASB objectives. Cascino and Gassen (2015) found that in public companies that adopt IFRS, the accounting information becomes less comparable to the provided accounting information from the private companies in the same country but adopt local GAAP. In enhancing their opinion about factors that affect the shape of accounting information, adding to IFRS adoption, and that may affect the improvement in comparability, Yip and Young (2012)said that the institutional environment of firms affects the comparability improvement cross-country.

### **3.3 IAS 39 and IFRS 9**

Based on the IASB's objectives, which are to improve the standards issued by the IASC and develop standards for problems that have yet to be addressed, IFRSs replaced some IASs after some changes and problems in the world, and one of the important replacements was IAS 39.

IAS 39 was issued in March 1999 by the IASC and adopted in April 2001 by IASB (IFRS Foundation, 2023). And in July 2014, the last version of IFRS 9 was published to replace IAS 39 (Ntaikou & Vousinas, 2018).

The financial crisis 2008 was the beginning of the elimination of IAS 39, which forced IASB to undertake its responsibility to improve the standards and fix the problems that occur because of the standards or because there is no standard to address them. According to André et al. (2009) study, IAS 39 was blamed for creating this financial crisis in 2008 because of unrealized losses that were reported and the fair value in reporting under this standard. Supporting them in blaming IAS 39 for the financial crisis that had to be addressed, Nadia and Rosa (2014) mentioned that IASB replaced IAS 39 with IFRS 9 to improve the mechanisms of Financial Instruments measurement and classification, which was the main reason that caused the financial crisis.

Some studies mentioned that the main problem in this standard was not the fair value accounting but the insufficient information in the financial reports, such as Barth and Landsman (2010), who concluded that fair value accounting did not play role or played a little role in financial crisis, and it is probable that the transparency of information that related with asset securitizations and derivatives were not sufficient for investors so they can assess the bank assets and liabilities in terms of their riskiness and values. Jarolim and Öppinger (2012) also said that fair value accounting was not the spark of the financial

crisis but enhanced the crisis impact. Gebhardt (2016) also said that IAS 39 was blamed for insufficient and delayed credit loss recognition.

IASB replaced IAS 39 with IFRS 9 to improve financial instruments accounting in response to interested parties' requests. For that, the replacement project was divided into three phases. IASB started the project and issued the chapters of IFRS 9 in 2009, and on 1 January 2018, the entities had to apply this standard for annual periods on this date or after. Also, IASB allowed the earlier application (IFRS Foundation, 2023).

The first phase of IFRS 9 is the classification and measurement of financial assets, the second phase is related to the impairment of financial assets, and the last phase is hedging accounting (Brabant, 2018).

**Table 1: Key Category Comparison of IFRS 9 and IAS 39**

<b>Category</b>	<b>IAS 39</b>	<b>IFRS 9</b>
The purpose of the standard	Applies to all financial assets, with a few exceptions.	The same.
The initial recognition of assets	When an organization becomes a party to the contractual provisions.	The same.
Initial measurement	The fair value including transactions costs (for financial assets that are not intended for trading purposes).	The same.
Subsequent measurement	The fair value. Amortized cost. Cost (for the share-based instruments, which do not have a reliable fair value measurement).	Fair value through profit or loss (FVTPL). Amortized cost (AC). Fair value through other comprehensive income (FVOCI).
Types of classification	Available for sale (AFS). Held to maturity (HTM). Loans and receivables. Fair value through profit or loss (FVTPL).	Fair value through profit or loss (FVTPL). Amortized cost (AC). Fair value through other comprehensive income (FVOCI).
Reclassification	Reclassification is prohibited through profit or loss after initial recognition.	Change of business model.
Equity instruments	All equity instruments available for sale are measured at a fair value in another comprehensive income.	Irrevocable choice to designate as fair value through other comprehensive income, fair value through profit and loss if held for trading.
Gains and losses	Usually through profit or loss.	Usually through profit or loss.
Impairment	Several models of impairment, model of incurred losses.	A unified model of impairment for all financial instruments – the expected loss model.

Source: Adapted from Huian (2012).

In the replacement, the most significant changes are the classification and subsequent measurement of financial instruments; in IAS 39, for classification, there are four

categories, and for measurement, there are three categories, while in IFRS 9, for both classification and measurement, there is same three categories. Moreover, the entities will move from backward-looking to forward-looking (Gornjak, 2017). This shift is because, under IFRS 9, the Impairment is according to the expected loss approach (ECL), while under IAS 39, it is according to the incurred losses approach (Porretta et al., 2020). The expected loss approach considers “the process of identifying default scenarios, estimating the financial deficits linked to each default scenario, multiplying predicted losses by the default’s probability of occurring, and adding up the outcomes of all potential default events” (Omukhulu, 2020).

Because of these differences between the two standards, Mechelli and Cimini (2021) concluded that IFRS 9 is more relevant than IAS 39 when an environment protects investors and corporations with high-quality governance mechanisms.

### **3.4 The Impact of IFRS 9 adoption on performance.**

After blaming IAS 39 for the financial crisis, some studies came to find out if IFRS 9 will improve the financial situation as a standard to fix the problems that IAS 39 caused. Novotny-Farkas (2016) said about financial stability that IFRS 9 might enhance it through the early recognition of credit losses, which will reduce the overstated regulatory capital and reduce the loss overhangs accumulate; furthermore, through the expanded disclosure requirements, which probably has a contribution in increasing the effective disciplinarian in markets Also, Kund and Rugilo (2018) concluded that IFRS 9 enhancing the financial stability by lighten the procyclical impacts, and the new expected credit losses approach under IFRS 9 may positively impact on financial stability.

Furthermore, when the countries started adopting IFRSs to improve the quality of accounting information, the researchers started to examine the impact of this adoption and whether it added the value that came for it. In Europe, Armstrong et al. (2010) studied the market reaction to IFRS adoption; the results were consistent with the expectation of investors that the IFRS adoption will improve the information quality, including any related to IAS 39 adoption that is controversial standard because firms that had a higher information asymmetry and lower information quality before adoption, the reaction was incrementally positive. For banks, the reaction was more positive.

Even pre-adoption of IFRS 9, for Onali and Ginesti (2014), the market reaction was positive to introducing IFRS 9, and the investors saw that the new regulation would enhance shareholders' wealth. Moreover, the investors believed that IFRS 9 would address the problems in IAS 39. Also, Ntaikou and Vousinas (2018), in studying the expected impact of the new regime IFRS 9, found that the coming benefits are expected to serve the investors in their strategies and their necessity to get accurate information and detailed.

After finding the impact of IFRS 9 on financial stability as a whole, it should be known that the banks are the most corporate affected by IFRS 9 because the significant change in IFRS 9 is the expected credit approach, and the main asset in banks is the loans and financing. So, some studies focused on finding the impact of this new expected credit approach and how the loan loss provisions will be affected under IFRS 9.

In studying the impact of IFRS 9 on loan loss provisions in banks, taking the commercial banks in Jordan as a case study, Al-Sakini et al. (2021) found that IFRS 9 caused an increase in loan loss provisions size. Blažeková (2017) said that the impact of increasing

credit risk provisions enhances market discipline because of reliable and detailed disclosures and because of sufficient information about firms' capital.

Regarding the new expected credit approach under IFRS 9, Frykström and Li (2018) concluded that this new approach and the appropriate time recognition of credit losses decrease procyclicality; they also contribute to improving the management of banks' credit risk and increase transparency on credit risks and banks' asset quality.

From all the results above about the impact of IFRS 9 on banks, it logically indicates that the bank's performance could be affected. However, the performance indicators and determinants of banks should be mentioned before studying this impact.

CAMELS framework, used as one of the most famous methods for analyzing the financial health of banks, firstly it was known as CAMEL and contains five components: capital adequacy, asset quality, management quality, earnings ability and liquidity, and it was created by bank regulatory agencies in USA in year 1979, then in 1996 another component added to the past components which is S and it refers to sensitivity, and this method became CAMELS framework (Roman & Şargu, 2013). CAMELS components, which indicate the bank's financial performance, are measured by ratios. For example, Quoc Trung (2021) used the capital adequacy ratio to measure capital adequacy, non-performing loans/total loans to measure asset quality, total cost/total income to measure management quality, return on equity (ROE) to measure earnings ability, total loans/total deposits to measure liquidity, and bank asset/total asset banking sector to measure sensitivity.



For commercial banks, Ongore and Kusa (2013) used ROE, ROA, and Net Interest Margin (NIM) ratios in their study in Kenya to measure profitability and use them as bank performance indicators. For measuring profitability for Islamic banks, Eljelly and Abdelgadir Elobeed (2013) used ROA and Net Profit Margin (NM) ratios because of the differences in the type of work for each bank.

There are indicators and determinants for the financial performance of banks. According to Ongore and Kusa (2013), the financial performance of commercial banks in Kenya is mainly paid by management and board decisions. Moreover, as determinants of commercial Banks' financial performance but from another country, which is Bangladesh, Yesmine and Bhuiyah (2015) found some factors that affect financial performance positively and negatively, operating efficiency and asset utilization have a positive impact, while credit risk has a negative impact. Also, Nuhiu et al. (2017) concluded that internal factors such as management efficiency, capital adequacy, and asset quality mainly drove the profitability of commercial banks in Kosovo.

For Islamic banks, the results of Kabir Hassan and Bashir (2003) show that favorable macroeconomic situations have a positive impact on performance, explicit and implicit taxes have a negative impact on performance, and overhead has a strong positive relationship with profitability. Nawaz and Haniffa (2017) found that human capital efficiency (HCE) and capital employed efficiency (CEE) have a positive relationship with financial performance. Adding to them as other factors that influence the financial performance and profitability in Islamic banks, Mukhibad and Khafid (2018) gave evidence from Indonesia and concluded that non-performance financing (NPF) disclosures, temporary syirkah fund, number of Sharia Supervisory Board (SSB) and Good Corporate Governance (GCG) affected profitability.

According to the indicators of banks' financial performance, IFRS 9 could affect some of these factors, which will affect the financial performance. For example, Blažeková (2017) found that banks' capital bases decreased after the IFRS 9 regulation. Supporting this result, Sultanoglu (2018) found that the expected credit loss model under IFRS 9 causes a decrease in the total capital ratio in Turkish banks.

As an indirect impact of IFRS 9 on banks' profitability, Ul Mustafa et al. (2012) concluded that loan loss provision has an essential effect on banks' profitability in Pakistan. Loan loss provisions are already affected by IFRS 9 based on studies such as Sultanoglu (2018), who indicates that the expected credit loss model by IFRS 9 results in an increase in loss provisions. That means that IFRS 9 affected the financial performance of banks.

### **3.5 IFRS 9 implementation and Banking sector.**

Adding to the impact of IFRS 9 on accounting information quality, comparability, and bank performance, some studies from different countries tried to see the impact on the banking sector from another side. For example, in Indonesia, Lie and Sumirat (2018) found that IFRS 9 implementation causes an increase in allowance expenses, which in turn causes a decrease in the bank's earnings, and according to that, a lower capital, but it leads to better composition of Capital Adequacy Ratio (CAR), because in any event of default, the losses covered from allowance instead of the capital, because banks already have enough allowance, also the better composition of CAR causes an improvement in Bank's soundness. For Collaku et al. (2021) in studying IFRS 9 transition impact on commercial banks in Kosovo, their result demonstrated that while the adoption of IFRS 9 causes volatility and re-consolidation of capital, it, in the long run, decreases the possibility of unexpected and significant losses. Addition impact of IFRS 9 on the

banking sector, and from Lebanon, one of Dib and Feghali (2021) study's results was that the rise in provision according to the expected credit loss model has a strong positive relationship with the investment securities portfolio, and negative with the historical credit loss ratio.

Moreover, by studying 666 banks across 61 countries, Kyiu and Tawiah (2023) concluded that IFRS 9 implementation reduces bank risk because of timely recognition and increasing transparency under this standard. After IFRS9 implementation, the world's first challenge was the COVID-19 pandemic. So, some researchers studied if IFRS 9 rules impacted banks during or after this pandemic or if they could help the banks. Neisen and Schulte-Mattler (2021) concluded that during and after the COVID-19 pandemic, IFRS 9 transition rules increased the possibility of banks' lending effectively to the real economy. Also, Ari et al. (2020) concluded that non-performing loans resolution post-COVID-19, in comparison with a post-2008 crisis, is different for European banks because after COVID-19 and due to the forward-looking under IFRS 9, and that leads to faster recognition of NPL, and thus resolution it.

### **3.6 Bank's Performance Determinants**

#### **3.6.1 Bank's performance "Profitability"**

A bank's performance is defined as the "bank's capacity to generate sustainable profitability" (ECB, 2010). From the most traditional measures of performance that used widely return on assets (ROA) and return on equity (ROE) (ECB, 2010).

ROA is calculated by dividing profit after tax by total or average assets, and it shows how effectively and efficiently the bank generates profit by efficiently utilizing assets (Ekinici & Poyraz, 2019). ROE is calculated by dividing profit after tax by total or average equity,

and it shows the bank's ability to use the invested money of shareholders to generate profit (Ekinci & Poyraz, 2019).

According to the previous studies, some factors determine the profitability and affect it:

### 3.6.2 Liquidity

Liquidity is one of the profitability determinants, and it means a bank's ability to respond to withdrawal needs and meet its short-term obligations (Olagunju et al., 2011). Some studies observed that liquidity is one determinant for profitability, such as from UAE, Tabash and Hassan (2017) found that in the profitability of Islamic and commercial banks, liquidity is a determinant variable; in commercial banks, capital adequacy is another determinant variable. Also, from Nigeria, Olalere et al. (2017) found that liquidity and capital adequacy have a significant impact on the profitability of banks

### 3.6.3 Capital Structure

Capital structure refers to the combination of equity and debt financing (Niu, 2008). This factor also affects profitability, and some studies found that, like Obuobi et al. (2020) from Ghana and Birru (2016) from Ethiopia, both studies found that capital structure affects banks' performance.

### 3.6.4 Capital Adequacy

Capital adequacy, which is defined as a “situation where the adjusted capital is sufficient to absorb all losses and cover fixed assets of the bank, leaving a comfortable surplus for the current operation and future expansion” (Ebhodaghe, 1991), is also another determinant factor that found by studies that have significant impact on profitability, such as Yusuf and Surjaatmadja (2018) and Sofie Abdul Hasan et al. (2020) from Indonesia found that capital adequacy ratio significantly impacted profitability. From Kosovo, Nuhiu et al. (2017) concluded that the profitability of commercial banks is driven mainly

by capital adequacy as one factor of the internal determinant factors. Similar to them, from India, Gupta and Mahakud (2020) concluded that capital adequacy affects the bank's performance.

#### 3.6.5 Asset Quality

Asset quality, also known as credit quality, is defined as the overall risk associated with a person's or institution's various assets (Nzoka, 2015). Many researchers were able to find that asset quality influences profitability. For example, from Tunisia, Bougatef (2017) results show that liquidity, capitalization level, and asset quality affect a bank's profitability, similar to him from India, Al-Homaidi et al. (2018) and Almaqtari et al. (2019) concluded that asset quality ratio and liquidity ratio have a significant influence on ROE. another study for Al-Homaidi et al. (2020) too, observed that liquidity, capital adequacy and asset quality are internal determinants in affecting ROA, and capital adequacy and asset quality in affecting ROE.

**Chapter Four**  
**Research Data and Methodology**

#### **4.1 Data collection and sampling**

13 banks operate in Palestine, 7 of which are local, and the remaining are foreign banks. According to the type of services provided by these banks, 3 are Islamic, the rest are commercial, and these Islamic banks are local.

A list of local banks in Palestine and their type (Islamic/ commercial) is presented in Appendix B.

This research is interested in studying local banks because they affect and are affected by the Palestinian economy, whereas Foreign Banks could be affected by decisions and factors from outside Palestine. However, one local bank, Safa Bank, was excluded because the date of its establishment does not cover the period needed in this research.

The data for this research is secondary data collected from the published annual financial statements of Palestinian listed banks and the Association of Banks in Palestine from 2014Q1 to 2021Q4. The period is divided into pre-IFRS 9 adoption and post-IFRS 9 adoption, with data from 2014Q1 to 2017Q4 for pre-IFRS 9 adoption and 2018Q1 to 2021Q4 for post-IFRS 9 adoption.

## 4.2 Variables measurement

The variables that used to answer the research questions are the following, as shown in

Table 2:

**Table 2: Variables description and previous studies used**

Variable	Measure	Notation	Empirical studies
<b>Dependent variable</b>			
Return on assets	Net profit ÷ Total assets	ROA	Abusharbeh (2016)
Return on equity	Net profit ÷ Total owners' equity	ROE	Wuave et al. (2020)
<b>Independent Variables</b>			
Liquidity	Customers 'deposits ÷ Total assets	DAR	Ibrahim (2017)
Liquidity	Net direct credit facilities ÷ Total assets	DCFAR	Sathyamoorthi et al. (2020)
Liquidity	Net direct credit facilities ÷ Customers' deposits	DCFDR	Islam & Nishiyama (2016)
Capital Structure	Total liabilities ÷ Total assets	LAR	Quoc Trung (2021)
Capital Structure	Total owners 'equity ÷ Total assets	EAR	Mohsin Jadah et al. (2020)
Capital Structure	Retained earnings ÷ Total owners' equity	REER	Yusra et al. (2019)
Capital adequacy	Tier 1 Capital + Tier 2 Capital ÷ Risk-Weighted Assets	CAR	Abu Alrub et al. (2018)
Asset quality	provision for credit losses on direct credit facilities ÷ direct credit facilities	CLPR	Al-Sakini et al. (2021)
Dummy variable for Commercial banks	0 value for Islamic banks and 1 value for commercial banks	Dumco	
Dummy variable for Islamic banks	0 value for commercial banks and 1 value for Islamic banks	DumI	
Dummy variable for application IFRS 9	0 value for a period before applying IFRS 9, and 1 value for a period after applying IFRS 9	DumIFRS9	

Note: The variations in item names in Islamic banks were considered when naming variables.



### 4.3 Econometric model

To measure the variables for answering the research questions, the research needs a quantitative research methodology using descriptive statistics analysis. The one that is used is the generalized method of moments (GMM) for panel data.

The difference and system generalized method of moments estimator's developers were Holtz-Eakin, Newey, and Rosen (1988); Arellano and Bond (1991); Arellano and Bover (1995); and Blundell and Bond (1998), and these estimators made for situations that have many individuals and few time periods (Roodman, 2009).

GMM model developed by Arellano and Bond (1991); Blundell and Bond (1998) to be used for dynamic panel data (Ullah et al., 2018).

The cause-and-effect relationship for underlying phenomena in dynamic panel data is generally dynamic over time, and for capturing this, lags of the dependent variables are used as explanatory variables, and lagged values of the dependent variables are used as instruments to control the endogenous relationship (Ullah et al., 2018). These instruments are internal according to what the difference and system GMM estimators assumed because these estimators are designed for general use (Roodman, 2009).

Following the developers of the GMM model, the formula of the regression equation in this research will be:

$$Y_{i,t} = \alpha Y_{i,t-1} + B_0 X_{i,t} + \mu_{i,t} + \varepsilon_{i,t}$$

Where  $Y_{i,t}$  denotes banks' performance,  $Y_{i,t-1}$  is a one-period lag operator (previous year bank performance),  $B_0 X_{i,t}$  represents explanatory variables,  $\mu_i$  is an unobserved bank's specific effect,  $\varepsilon_{i,t}$  represents the error term, the subscript i represents the bank, and the subscript t represents the time period.

Rewriting the equation for the research by using the variables, and because there are two dependent variables, the two equations are:

$$1- ROA_{i,t} = ROA_{i,t-1} + DAR_{i,t} + DCFAR_{i,t} + DCFDR_{i,t} + LAR_{i,t} + EAR_{i,t} + REER_{i,t} + CAR_{i,t} + CLPR_{i,t} + Dumco_{i,t} + DumI_{i,t} + DumIFRS9_{i,t} + \mu_{i,t} + \varepsilon_{i,t}$$

$$2- ROE_{i,t} = ROE_{i,t-1} + DAR_{i,t} + DCFAR_{i,t} + DCFDR_{i,t} + LAR_{i,t} + EAR_{i,t} + REER_{i,t} + CAR_{i,t} + CLPR_{i,t} + Dumco_{i,t} + DumI_{i,t} + DumIFRS9_{i,t} + \mu_{i,t} + \varepsilon_{i,t}$$

## **Chapter Five**

### **Results and Discussion**

## 5.1 Data Analysis

The proxies used to measure the bank's performance are ROA and ROE, which indicate the bank's profitability. For measuring IFRS 9 impact, the proxies used as dependents are DAR, DCFAR, and DCFDR, which indicate the bank's liquidity, and LAR, EAR, and REER as indicators for capital structure, CAR, CLPR as indicators for Asset quality, and these ratios used by Association of banks in Palestine. Also, dummy variables were used: Dumco for commercial banks, DumI for Islamic banks, and DumIFRS9 for IFRS 9 application. All details about these variables are shown in Table 2.

The results firstly examined the entire period starting from the year 2014Q1 to 2021Q4 by giving the IFRS 9 application dummy variable to see if there is an impact of IFRS 9 on the bank's performance, and the results show that there is a statistically significant relationship between IFRS 9 and bank's performance. After that, the results were examined separately for the period starting from year 2014Q1 to 2017Q4 pre-IFRS 9 adoption and for the period starting year 2018Q1 to 2021Q4 post-IFRS 9 adoption to see how IFRS 9 affects the performance by affecting liquidity, capital structure, capital adequacy, and asset quality. Also, to see how was the impact on the bank according to its type. The GMM regression results for the abovementioned periods will be discussed as reported in Tables 10, 11, and 12.

## 5.2 Descriptive Statistics

Tables 4, 5, and 6 show descriptive statistics results, and Tables 7, 8, and 9 show correlation.

**Table 3: Period's Sample and Models Specification**

Models	Year specifications	Banks No
M1	From year 2014Q1 to 2021Q4	6
M2	From year 2014Q1 to 2017Q4 pre-IFRS 9 adoption	6
M3	From year 2018Q1 to 2021Q4 post-IFRS 9 adoption	6

**Table 4: Descriptive Statistics of Banks' Performance in Palestine from the Year 2014Q1 to 2021Q4**

Stats	ROE	ROA	DAR	DCFAR	DCFDR	LAR	EAR	REER	CAR	CLPR
mean	0.088	0.009	0.765	0.562	0.683	0.885	0.115	0.082	0.167	0.017
Median	0.093	0.009	0.781	0.582	0.718	0.904	0.096	0.082	0.144	0.012
Std. Dev	0.037	0.003	0.058	0.090	0.102	0.044	0.044	0.040	0.058	0.013
min	- 0.009	- 0.001	0.599	0.269	0.428	0.770	0.071	0.006	0.118	0.001
max	0.175	0.017	0.868	0.731	0.879	0.929	0.230	0.212	0.349	0.052

**Table 5: Descriptive Statistics of Banks' Performance in Palestine from the Year 2014Q1 to 2017Q4 pre-IFRS 9 adoption**

Stats	ROE	ROA	DAR	DCFAR	DCFDR	LAR	EAR	REER	CAR	CLPR
mean	0.092	0.010	0.751	0.552	0.683	0.876	0.124	0.078	0.176	0.009
Median	0.097	0.010	0.771	0.551	0.710	0.892	0.108	0.077	0.147	0.008
Std. Dev	0.036	0.003	0.066	0.093	0.112	0.043	0.043	0.032	0.064	0.006
min	0.022	0.005	0.599	0.269	0.428	0.770	0.084	0.022	0.118	0.001
max	0.144	0.017	0.868	0.711	0.840	0.916	0.230	0.159	0.349	0.034

**Table 6: Descriptive Statistics of Banks' Performance in Palestine from the Year 2018Q1 to 2021Q4 post-IFRS 9 adoption**

Stats	ROE	ROA	DAR	DCFAR	DCFDR	LAR	EAR	REER	CAR	CLPR
<b>mean</b>	0.083	0.008	0.779	0.571	0.682	0.894	0.106	0.087	0.158	0.026
<b>Median</b>	0.091	0.008	0.788	0.590	0.722	0.913	0.087	0.087	0.141	0.024
<b>Std. Dev</b>	0.037	0.003	0.043	0.086	0.092	0.044	0.044	0.047	0.049	0.013
<b>min</b>	-0.009	-0.001	0.660	0.402	0.501	0.778	0.071	0.006	0.120	0.004
<b>max</b>	0.175	0.015	0.836	0.731	0.879	0.929	0.222	0.212	0.328	0.052

As shown in the descriptive statistics Tables above, the average for ROE and ROA, which refers to banks' performance, in the periods pre-IFRS 9 adoption is 0.092 and 0.010, respectively, while in the periods IFRS 9 adoption is 0.083 and 0.008, respectively, which shows that the average for ROE and ROA decreased.

The average for DAR, DCFAR, and DCFDR, which refer to bank liquidity, in the periods pre-IFRS 9 adoption was 0.751, 0.552, and 0.683, respectively. However, post-IFRS 9, the average became 0.779, 0.571, and 0.682, respectively, which is almost the average for ratios that refer to the liquidity increase after IFRS 9.

Also, almost all ratios referring to the capital structure increase after IFRS 9. For LAR and REER, the average before IFRS 9 is 0.876 and 0.078; after the standard, it is 0.894 and 0.087, respectively, except for the ratio EAR, which was 0.124 before IFRS 9 and decreased after IFRS 9 to 0.106.

The CAR average decreased from 0.176 to 0.158, while CLPR, which refers to Asset quality, increased from 0.009 to 0.026.

### 5.3 Correlation

The degree of link between two variables is known as correlation (Asuero et al., 2006).

The correlation matrix was employed to ensure that multicollinearity did not contaminate the results.

**Table 7: Correlation from the Year 2014Q1 to 2021Q4**

	ROE	ROA	DAR	DCFAR	DCFDR	LAR	EAR	REER	CAR	CLPR
ROE	1.000									
ROA	0.817	1.000								
ICRR	-0.432	-0.334								
DAR	0.531	0.196	1.000							
DCFAR	0.542	0.247	0.621	1.000						
DCFDR	-0.011	-0.046	-0.064	0.216	1.000					
LAR	0.528	-0.012	0.725	0.613	0.083	1.000				
EAR	-0.528	0.012	-0.725	-0.613	-0.083	-1.000	1.000			
REER	0.679	0.421	0.440	0.388	-0.123	0.513	-0.513	1.000		
CAR	-0.592	-0.186	-0.725	-0.646	-0.196	-0.859	0.859	-0.484	1.000	
CLPR	-0.059	-0.285	0.101	0.212	-0.085	0.195	-0.195	0.256	-0.002	1.000

**Table 8: Correlation from the Year 2014Q1 to 2017Q4 Pre IFRS 9 Adoption**

	ROE	ROA	DAR	DCFAR	DCFDR	LAR	EAR	REER	CAR	CLPR
ROE	1.000									
ROA	0.872	1.000								
ICRR	-0.238	-0.053								
DAR	0.818	0.648	1.000							
DCFAR	0.807	0.616	0.683	1.000						
DCFDR	-0.052	-0.121	-0.031	0.259	1.000					
LAR	0.670	0.260	0.661	0.600	0.093	1.000				
EAR	-0.670	-0.260	-0.661	-0.600	-0.093	-1.000	1.000			
REER	0.784	0.690	0.669	0.638	-0.030	0.526	-0.526	1.000		
CAR	-0.754	-0.426	-0.801	-0.705	-0.153	-0.933	0.933	-0.631	1.000	
CLPR	-0.326	-0.013	-0.558	-0.412	-0.254	-0.747	0.747	-0.281	0.812	1.000

**Table 9: Correlation from the Year 2018Q1 to 2021Q4 Post IFRS 9 Adoption**

	ROE	ROA	DAR	DCFAR	DCFDR	LAR	EAR	REER	CAR	CLPR
ROE	1.000									
ROA	0.791	1.000								
ICRR	-0.535	-0.446								
DAR	0.249	-0.279	1.000							
DCFAR	0.297	-0.081	0.526	1.000						
DCFDR	0.025	0.029	-0.138	0.161	1.000					
LAR	0.469	-0.158	0.830	0.615	0.076	1.000				
EAR	-0.469	0.158	-0.830	-0.615	-0.076	-1.000	1.000			
REER	0.668	0.373	0.251	0.207	-0.213	0.504	-0.504	1.000		
CAR	-0.458	-0.0004	-0.555	-0.554	-0.269	-0.774	0.774	-0.385	1.000	
CLPR	0.193	-0.126	0.250	0.521	-0.039	0.485	-0.485	0.421	-0.278	1.000

In the 3 Tables above, it appears that there is a high correlation between some dependent variables. However, this study depends on the Arellano-Bond test to drop the variables because of collinearity, which was dropped from the panel analysis shown in Tables (10, 11, 12).

**Table 10: GMM Model Estimation, Dependent Variables ROA, ROE Model 1**

Variables	ROA		ROE	
	$\beta$	$z$ - $S$	$\beta$	$z$ - $S$
ROA <sub>L1</sub> / ROE <sub>L1</sub>	0.69558	33.86***	0.73862	35.93***
DAR	0.00670	5.09***	0.10331	6.88***
DCFAR	-0.00162	-1.57	-0.03756	-3.32***
DCFDR	0.00370	4.56***	0.08003	9.01***
EAR	0.03799	14.95***	0.15222	6.05***
REER	0.02447	17.19***	0.29081	18.00***
CAR	-0.01873	-10.85***	-0.05949	-3.23***
CLPR	-0.00835	-0.97	-0.29381	-3.04***
Dumco	0.00036	1.34	0.00440	1.82
DumI	-0.00036	-1.34	-0.00440	-1.82
DumIFRS9	-0.00013	-10.11***	-0.00059	-3.40***
cons	0.01538	10.51***	0.15101	8.42***



Sargan test <sup>a</sup>	Chi <sup>2</sup> (80) = 572.22	Chi <sup>2</sup> (80) = 683.10
AR (1) <sup>b</sup>	Z = 1.82 P-v = 0.069	Z = 1.64 P-v = 0.101
AR (2) <sup>b</sup>	Z = 1.52 P-v = 0.129	Z = 1.59 P-v = 0.112

Note: LAR dropped because of collinearity.

\*\* and \*\*\* denote significant level at 5% and 1% respectively.

<sup>a</sup>The test for over-identifying restrictions in GMM dynamic model estimation.

<sup>b</sup>Arellano-Bond test that average auto-covariance in residuals of order 1, and 2 is 0 ( $H_0$ : no autocorrelation).

In model 1 for the whole period, to find if there is an initial Indication that the IFRS 9 application impacts bank performance, the IFRS 9 application was taken as a dummy variable. It was found that the IFRS 9 application has a negative and statistically significant relationship at the 1% level with ROA and ROE by -0.00013 and -0.00059, respectively.

For liquidity, DAR and DCFDR both have a positive and statistically significant 1% level relationship between them and ROA and ROE, but DCFAR has a negative and statistically significant 1% level relationship with only ROE: DAR by 0.00670 and 0.10331, respectively, DCFDR by 0.00370 and 0.08003, respectively, and DCFAR by -0.03756.

In ratios referring to capital structure, LAR dropped because of collinearity, and EAR and REER both have a positive and statistically significant relationship at the 1% level with banks' performance, EAR with ROA and ROE by 0.03799 and 0.15222, respectively, and REER by 0.02447 and 0.29081, respectively.

It also shows that CAR has a negative and statistically significant relationship at the 1% level with ROA and ROE by -0.01873 and -0.05949, respectively.

Asset quality, represented by CLPR, has a statistically significant relationship at the 1% level with only ROE, and it is a negative relationship by -0.29381.

A dummy variable has been used for commercial and Islamic banks to see if there is an impact on bank performance according to the type of bank. Both do not have a statistically significant relationship with bank performance.

However, for implementing IFRS 9 and giving it a dummy variable, the results show a negative statistically significant relationship between IFRS 9 application and ROA and ROE at the 1% level by -0.00013 and -0.00059, respectively. This indicates that IFRS 9 negatively impacts banks' performance.

According to the new ECL model under IFRS 9, the impact is expected to be negative, leading to increased credit loss provision. Lie and Sumirat (2018) found this in their study: IFRS 9 implementation increases allowance expenses, which in turn decreases the Bank's earnings and, therefore, the capital.

Below, after analyzing the data before and after IFRS 9 adoptions, more clarification is provided about how IFRS 9 impacts profitability.

**Table 11: GMM Model Estimation, Dependent Variables ROA, ROE Model 2**

Variables	ROA		ROE	
	$\beta$	$z-S$	$\beta$	$z-S$
ROA <sub>LI</sub> / ROE <sub>LI</sub>	0.65591	20.96***	0.87918	26.57***
DAR	0.00978	5.31***	0.02546	1.94
DCFAR	-0.00164	-1.43	-0.04701	-5.93***
DCFDR	-0.00003	-0.03	-0.00009	-0.01
LAR	-0.03286	-6.05***	0.12953	3.43***
REER	0.00171	0.94	-0.02988	-1.91
CAR	-0.02349	-5.79***	-0.15564	-5.20***
CLPR	0.08380	3.92***	1.02196	5.53***
Dumco	-0.0029	-0.89	0.0170	5.10***
DumI	0.00028	0.82	-0.01870	-6.10***
cons	0.03821	5.32***	-0.08083	-1.89

<b>Sargan test<sup>a</sup></b>	Chi <sup>2</sup> (47) = 142.65	Chi <sup>2</sup> (47) = 257.94
<b>AR (1)<sup>b</sup></b>	Z = 2.51 P-v = 0.125	Z = 1.13 P-v = 0.250
<b>AR (2)<sup>b</sup></b>	Z = 2.90 P-v = 0.133	Z = 1.15 P-v = 0.258

Note: EAR dropped because of collinearity.

\*\*, and \*\*\* denote significant level at 5% and 1% respectively.

<sup>a</sup>The test for over-identifying restrictions in GMM dynamic model estimation.

<sup>b</sup>Arellano-Bond test that average auto-covariance in residuals of order 1, and 2 is 0 (*H0*: no autocorrelation).

**Table 12: GMM Model Estimation, Dependent Variables ROA, ROE Model 3**

Variables	ROA		ROE	
	$\beta$	<i>z-S</i>	$\beta$	<i>z-S</i>
ROA <sub>LI</sub> / ROE <sub>LI</sub>	0.64861	17.32***	0.54306	14.81***
DAR	-0.01365	-3.27***	-0.11491	-2.43**
DCFAR	0.00035	0.16	-0.12507	-4.79***
DCFDR	-0.00310	-1.47	0.10779	4.59***
LAR	-0.00989	-1.29	0.18834	2.33**
REER	0.01496	3.27***	0.29317	6.26***
CAR	0.00353	0.85	0.09634	2.13**
CLPR	-0.02070	-0.79	-1.62875	-5.59***
Dumco	0.0081	1.22	0.0283	5.95***
DumI	-0.00091	-1.62	-0.05267	-6.95***
cons	0.04993	9.83***	0.29212	6.38***
<b>Sargan test<sup>a</sup></b>	Chi <sup>2</sup> (47) = 221.99		Chi <sup>2</sup> (47) = 276.11	
<b>AR (1)<sup>b</sup></b>	Z = 1.61 P-v = 0.107		Z = 2.02 P-v = 0.144	
<b>AR (2)<sup>b</sup></b>	Z = 1.49 P-v = 0.138		Z = 1.86 P-v = 0.163	

Note: EAR dropped because of collinearity.

\*\*, and \*\*\* denote significant level at 5% and 1% respectively.

<sup>a</sup>The test for over-identifying restrictions in GMM dynamic model estimation.

<sup>b</sup>Arellano-Bond test that average auto-covariance in residuals of order 1, and 2 is 0 (*H0*: no autocorrelation).

For DAR, DCFAR, and DCFDR, which are considered indicators of banks' liquidity, DAR before IFRS 9 it has a positive and statistically significant relationship at the 1% level with ROA by 0.00978, while after IFRS 9, it has a negative and statistically significant relationship at the 1% level by -0.01365 with it, and a negative and statistically significant relationship at the 5% level by -0.11491 with ROE. DCFAR before and after IFRS 9 has no statistically significant relationship with ROA, While before IFRS 9, it has a negative and statistically significant relationship at the 1% level by -0.04701 with ROE, and after IFRS 9, it still has with ROE a negative and statistically significant relationship at the 1% level by -0.12507, also DCFDR same as DCFAR in relationship with ROA, it has no statistically significant relationship before and after IFRS 9, but with ROE, before IFRS 9 also there is no statistically significant relationship with DCFDR, but between them after IFRS 9 there is a positive and statistically significant relationship at the 1% level by 0.10779. So, the ratios that indicate banks' liquidity and depend on assets as denominators after IFRS 9 affect banks' performance negatively. However, the ratio depending on customers' deposits as denominators after IFRS 9 affects banks' performance positively.

In ratios that indicate capital structure, LAR in period pre-IFRS 9 adoption has a statistically significant relationship at the 1% level with ROA and ROE, but with ROA is a negative relationship by -0.03286 and with ROE a positive relationship by 0.12953. But in the post-IFRS 9 adoption period, LAR has a statistically significant relationship with ROE only, and it is a positive relationship at the 5% level by 0.18834. while for REER in the period pre-IFRS 9 adoption, there is no statistically significant relationship with both ROA and ROE, but in the period post-IFRS 9 adoption, it has a positive statistically significant relationship with both ROA and ROE at the 1% level by 0.01496 and 0.29317

respectively. So, in general, after IFRS 9, the capital structure positively impacts banks' performance.

CAR before IFRS 9 has a negative statistically significant relationship with both ROA and ROE at the 1% level by -0.02349 and -0.15564, respectively, but after IFRS 9, it has a statistically significant relationship only with ROE, and it is positive at the 5% level by 0.09634. So, it seems that after IFRS 9, CAR positively impacted banks' performance.

For asset quality, CLPR before IFRS 9 implementation, there is a positive and statistically significant relationship with both ROA and ROE at the level 1% by 0.08380 and 1.02196, respectively, but after the implementation, it has only with ROE a statistically significant relationship at the level 1% and it becomes a negative by -1.62875.

According to the type of banks' work, whether Islamic or commercial, it is shown that before and after IFRS 9, there is no statistically significant relationship with ROA, but with ROE, there is a statistically significant relationship at the level 1% before and after IFRS 9 application, but for Islamic banks the relationship before and after is negative by -0.01870 and -0.05267 respectively, and for commercial banks the relationship before and after is positive by 0.0170 and 0.0283 respectively. So, the Islamic type of work affects the performance of banks negatively, and after IFRS 9, the impact becomes more in the same direction. For commercial type of work, it affects the performance of banks positively and negatively, and after IFRS 9, the impact becomes more in the same direction, too.

**Table 13: Summary of Significant Relationships between Variables pre-IFRS 9 Adoption and post-IFRS 9 Adoption**

Variable	Notation	Pre-IFRS 9 adoption		Post-IFRS 9 adoption	
		ROA	ROE	ROA	ROE
Liquidity	DAR	0.00978	-	-0.01365	-0.11491
Liquidity	DCFAR	-	-0.04701	-	-0.12507
Liquidity	DCFDR	-	-	-	0.10779
Capital Structure	LAR	-0.03286	0.12953	-	0.18834
Capital Structure	REER	-	-	0.01496	0.29317
Capital adequacy	CAR	-0.02349	-0.15564	-	0.09634
Asset quality	CLPR	0.08380	1.02196	-	-1.62875
Dummy variable for Commercial banks	Dumco	-	0.0170	-	0.0283
Dummy variable for Islamic banks	DumI	-	-0.01870	-	-0.05267

The results show that, generally, after adopting IFRS 9, the relationship between the banks' performance and their liquidity, capital structure, capital adequacy, and asset quality changed. Also, it is shown that all the ratios above after IFRS 9 adoption have a significant relationship with ROE.

For liquidity, as much as DAR increases, as much, the liquidity increases, and liquidity risk decreases. However, the liquidity in this case comes from debts because the primary source for banks for funding is the customer's deposits. But for DCFAR and DCFDR, as much as they increase, as much as liquidity decreases because credit facilities from the least liquid assets, so when the credit facilities increase, the liquidity decreases. So, before IFRS, the results show that DAR has a positive relationship with ROA, and DCFAR has a negative relationship with ROE, while DCFDR has not have any impact on ROA or

ROE, and that means before IFRS 9, the liquidity has a positive relationship with the financial performance of banks, so, it seems the banks could manage both liquidity and profitability. This result is consistent with Ibrahim (2017), who observed that the increase in liquidity ratios would cause an increase in the ROA of commercial banks in Iraq, and consistent with Wuave et al. (2020), who concluded that liquidity ratio has a significant and positive effect on ROA, ROE and net interest margin (NIM) of banks in Nigeria.

While after IFRS 9, DAR has a negative influence on both ROA and ROE, and DCFAR its impact still same, on ROE and its negative, also DCFDR become has an effect on ROE and its positive, and these results especially for DAR and DCFAR probably because of the new expected credit loss model, which cost the banks more than before for same granted credit facilities, so new credit facility means more expense even this credit facility has a quality and good, and for same reason the deposit of customers become costing the banks than before, and sure for competition and keep attracting new customers it's difficult for banks to increase the interest and profit of credit facilities and decreasing the interest and profit of deposits, and it must take in consideration that in this period after IFRS 9 application, that COVID-19 happened and led to more expenses and less revenues and that perhaps affecting the results and led the increasing of credit facilities and deposits decrease the profitability, another reason for this inverse relationship, maybe the banks didn't manage the assets in a good way and has a poor asset quality. Regarding the positive relationship between DCFDR and ROE, as the proportion of credit facilities from deposits increases, revenues increase compared to expenses on deposits. However, in general, the relationship between liquidity and profitability Seemingly became negative after implementing IFRS 9. This direction of the relationship is compatible with some conclusions of Mishra and Pradhan (2019), who found that in private Sector banks in

India, liquidity has a significantly negative effect on ROA, while with ROE, there is no statistically significant relationship, and with some conclusions of Abu Alrub et al. (2018) who found that liquidity after IAS/IFRS adoption after world crisis has a negative effect on bank profitability in Lebanon banking sector.

For capital structure, before IFRS 9, LAR has a negative influence on ROA but a positive on ROE, and that indicates that using debts in financing and increasing the liabilities affects the efficiency of using assets negatively, and that could be because of the limited investment that the banks use customer deposits to finance it because the primary source in financing for banks is the customer deposits more than internal financing, but same time it generates profit and leads increase in ROE. These results for the relationship between LAR and ROA and ROE are similar to some studies findings and consistent with a part of some studies results, and in contrast with the other part, some studies have the same results about impacting on ROA but not ROE and others have same results about ROE but not ROA. For example, Meero (2015) found a significant negative relationship between financial leverage and ROA and a positive relationship between equity to assets ratio and ROA. Another study has the same result about ROA but the opposite of ROE, Siddik et al. (2017) results, who observed that capital structure has a significantly negative impact on the performance of banks in Bangladesh and total debt/total assets, which was one of the capital structure variables, inversely affects ROA and ROE. On the other hand, another study has the same result about ROE but the opposite of ROA; Zelalem (2020) found that the debt-to-equity ratio significantly positively affects banks' performance, as measured by ROA and ROE. And for the REER variable, it has no influence on both ROA and ROE.



After the IFRS 9 application, both LAR and REER positively impact performance. LAR has a positive impact on ROE and no significant impact on ROA, which means there is more profit and no relationship with the efficiency of using assets. This direction of the relationship between LAR and banks performance is similar to Nwude and Anyalechi (2018) findings, who concluded that the debt-equity ratio has no significant relationship with ROA, but it has a positive significant relationship with the ROE of commercial banks in Nigeria. For REER, it has a positive impact on both ROA and ROE, and that means increasing retained earnings as an internal source of financing and using it in investment will increase ROA and ROE.

For capital adequacy before IFRS 9, it is clear that the relationship is negative with financial performance ROA and ROE, and that is consistent with the results of Abu Alrub et al. (2018), who found that capital adequacy after IAS/IFRS adoption after world crisis has a negative effect on bank profitability in Lebanon banking sector, and also consistent with the result of Gizaw et al. (2015) about impacting on ROE but not on ROA, they observed that capital adequacy has a significant negative impact on ROE and there is no significant impact on ROA. While in the period after the IFRS 9 application, capital adequacy impact changed, it has a non-significant influence on ROA, and its effect becomes positive on ROE, similar to the conclusion of Mehta and Bhavani (2017), they concluded that capital adequacy has a positive significant relationship with Banks' Profitability in UAE Banking Sector. This is also similar to Ezike and Oke (2013) findings, which show that capital adequacy has a positive major influence on banks' performance.

For asset quality, CLPR significantly positively influences ROA and ROA. This result is compatible with the results of Gizaw et al. (2015), who observed that loan loss provisions

have a significantly positive relationship with ROA and ROE, while non-performing loans have a significantly negative relationship with ROA and ROE. For CLPR impacting, first of all, as known, less of this ratio means higher quality assets. According to many studies, the relationship between asset quality and performance is positive, such as Salike and Ao (2018), who concluded that poor asset quality has a significant negative relationship with banks' profitability in Asia, adding to them, Abu Alrub et al. (2018) concluded that in comparing with GAAP asset quality under the IAS/IFRS have a positive effect on bank profitability in Lebanon banking sector. According to that, the positive relationship between CLPR and profitability is surprising, but that could be because of good assets management in banks, so even if the provision for credit losses is increasing, the banks can earn more profit or could be because increasing the rate of interest and profit for risky credit facilities, or try to increase the profit through another assets.

In the period after IFRS 9, the relationship reverses with ROE and becomes no relationship with ROA. CLPR has a negative influence on ROE, which could be because of a new model of expected credit loss provision, which increases the credit loss provision, costing the banks more than before, even if the credit facility granted by the bank has good quality. Also, the results could be affected by COVID-19 and its consequences. This is similar to the result of Alhadab and Alshawneh (2016), who observed that the profitability of commercial banks in Jordan is affected negatively by loan loss provision.

For the type of bank, commercial or Islamic, there is no significant impact on ROA, but, interestingly, the type of bank has a significant impact on ROE; if the bank is commercial, the impact is positive, while if it is Islamic the impacting is negative and that for a period before and after implementation of IFRS 9, but after IFRS 9 the impacting becomes more

in the same direction. This result about differences in profitability is similar to Sabir et al. (2014) In Pakistan, who found that there is a difference in performance between commercial and Islamic banks. The profitability measured by ROA and ROE is lower in Islamic banks than in commercial banks. They found that the difference in performance between commercial and Islamic banks influences the depositors' behavior in investment decisions. Also, Satibi et al. (2018) in Indonesia found that conventional banks have more efficiency, more stability, and better quality of assets than Islamic banks and that because of some causes, such as weakness in information technology in Islamic banks compared with conventional banks, weakness in experience and competency of human resources, and the weakness of consciousness of people in using Islamic banking products in their transaction.

Furthermore, about more negative impacts after IFRS 9 implementation could be explained by some previous studies, such as Madah Marzuki et al. (2021), who concluded that Islamic financial institutions face challenges in IFRS 9, the challenges in terms of identification of financial instruments before recognition criteria, substance over form, representation of fair value, and the extent of risk management role in decreasing the manipulation in identifying business models. In addition to that, Alam (2020), in studying the Banking Sector of Bangladesh, said that in financial reporting, there is a contradictory environment in Islamic financial institutions because they follow the same reporting standards (IFRS) followed by conventional financial institutions, and that increases the Shariah violation in Islamic financial institutions, and he suggests that Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI ) must work together with IASB to minimize and harmonize the differences between the two accounting framework. Also, what could cause the differences according to the type of bank, in a

study by Mokhtar and Zakaria (2009), they found that in the UK and Japan, Islamic banks manage and define their non-performing loans in a different way from conventional banks, and they said that the implementation of the same guidelines designed for conventional banks would make it hard for Islamic banks to define the timing of report the financing as non-performing.

On the other hand, some studies found the opposite results about profitability in both types of banks. For example, results from Khediri et al. (2015) show that Islamic banks are, on average, better capitalized, more profitable, more liquid, have lower credit risk, and have more operating leverage compared with conventional banks.

According to these studies and to our community in Palestine, what maybe cause these differences in profitability and different impact, it could be also because the small share of Islamic banks in Palestine which maybe impact the behavior of customers and depositors, also, the less consciousness for people in Islamic financing, so they choose the most accessible services, also, as known the procedures in granting credit facilities in commercial banks is more accessible than Islamic, because in commercial banks the credit facilities are loans, and that fit all type of needed by people, because that means given cash so the customer can do what he wants, while in Islamic banks there are many type of credit facilities, whereas according to the purpose of the credit facility, the bank decide the way of financing it to be fit with Islamic rules, and that for people means more complication because more procedures, also no way for giving cash with interest because its Islamic bank, and people in general as its clear from the biggest share of commercial banks comparison with Islamic banks, they want the easiest and faster service more than following the religion teachings even though we are an Islamic country.

And for impacting more negatively on ROE for Islamic banks after IFRS 9 application, perhaps because of difficulties in implementation of IFRSs for them as Islamic banks and where at the same time they need to apply the standards by AAOIFI, also maybe because as previous studies found about the negative impact that both commercial and Islamic banks need to follow same standards while Islamic banks treat the credit facilities differently. It could indicate that Islamic banks have less quality assets, so before IFRS 9, the effect on ROE was negative. Also, after IFRS 9, the negative impact becomes greater with the new expected credit loss provision model.

## **Chapter Six**

# **Conclusion and Policy Implications**

## **6.1 Conclusion and Policy Implications**

This research examines the impact of IFRS 9 on a bank's financial performance. It examines the impact of liquidity, capital structure, capital adequacy, and asset quality pre- and post-adoption of IFRS 9 on a bank's financial performance. Also, it investigates whether there is a different impact of IFRS 9 application on banks according to their type: Islamic or commercial.

To find the impact of IFRS 9 adoption, firstly, the data was analyzed for the whole period starting from 2014Q1 to 2021Q4, by giving the IFRS 9 adoption Dummy variable, and the results show that the impact is significant and negative on the bank's financial performance measured by ROA and ROE. Secondly, the data was separated into two groups and then analyzed separately, pre- and post-IFRS 9 adoption, to explain the negative impact. The results show that IFRS 9 implementation leads all variables in the second analysis to affect the bank's financial performance measured by ROE, while before IFRS 9 implementation, some of them has not impact on ROE; not only that, IFRS 9 leads variables to have an effect, but also the variables that have an impact of ROE before and after IFRS 9, after IFRS 9 the direction of relationship changed, or if its stays same, the power of affecting increases. And about the financial performance of banks measured by ROA, some of the variables have an effect on it before IFRS 9, but after, almost all the effects disappeared, and only 2 variables had an effect on ROA.

Starting with asset quality, from the main differences between IAS 39 and IFRS 9 is the model of credit loss provision, which shifts from accrued to expected, and it is measured in this research by CLPR. It is clear from the results that after IFRS 9, CLPR has a significant negative impact on profitability measured by ROE. It has the strongest effect compared with the other effect of variables. Before IFRS 9, its impact is positive, meaning low asset quality leads to low profitability.

For liquidity, after IFRS 9 when the customer's deposits proportion from assets represented by DAR increases, that means more liquidity in the bank, and that impacts ROA and ROE negatively because it costs banks, while if these deposits used in granting direct credit facilities that will impact ROE positively, and that represented by variable DCFDR and its relation with ROE, while if direct credit facilities proportion from assets increase, ROE decrease and that represented by variable DCFAR and its relation with ROE. So, after IFRS 9, liquidity has a negative relationship with the bank's financial performance; hence, banks need to invest in customers' deposits, but at the same time, they need to diversity in investment in assets with low risk and not only focusing on direct credit facilities, because more direct credit facilities mean more expected credit loss provision which already has a negative impact on the financial performance of banks.

For capital structure in banks, the primary source for financing is customers' deposits, which represent the biggest proportion of liabilities; when this ratio increases, ROE increases, and that is represented by variable LAR and its relation with ROE. At the same time, retained earnings are considered an internal source of financing; when its proportion from equity increases, ROA and ROE increase, too, and that is represented by variable REER and its relationship with ROA and ROE. Moreover, when comparing the



profitability of internal and external sources of financing, internal financing is more profitable for banks.

For capital adequacy, after IFRS 9, CAR positively impacts ROE, and that could be because of the forward-looking credit loss provision, which enhances financial stability and asset quality. Hence, banks with more CAR are more robust, can invest more, grant more credit facilities, and generate more profit.

For investigating if there is a different impact of IFRS 9 adoption on banks according to its type, Islamic or commercial, IFRS 9 affects Islamic banks more negatively and commercial banks more positively, and that could be because of the difficult application of IFRSs because they are the same for commercial and Islamic, and Islamic banks same time they have to follow AAOIFI standards, or could be because Islamic banks in Palestine have less asset quality than commercial banks, so with IFRS 9 they have been affected more negatively while commercial have been affected positively.

So, the summary: According to the results and taking into account the nature of banks' work, which is to borrow money through customer deposits and lending through credit facilities, IFRS 9 adoption has a negative impact on the financial performance of banks in Palestine. However, at the same time, it led to enhanced asset quality because, for banks, the only way to reduce the expected credit loss provision is to lend and finance credit facilities with good quality and suitable guarantees.

As a recommendation for banks, they must benefit from the aim of IFRS 9 and enhance the quality of assets so they can keep granting credit facilities even in difficult situations, gain the trust of customers and depositors, and reduce the expense of expected credit loss provision. Also, they need to diversify their assets with low-risk assets and not focus on granting credit facilities as a financial instrument to generate profits.

As a suggestion for future researchers, I suggest considering the impact of the COVID-19 pandemic. It came a few years after applying IFRS 9 and could affect the results of impacting IFRS 9 on the financial performance of banks because the COVID-19 pandemic had a significant effect on the world.

The obstacle in this research was the lack of data. IFRS 9 was applied on 1 JAN 2018, and its impact on financial statements was reflected in the financial statement's balances for the year 2018, which means there is no long historical annual data after applying it.

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## Appendix

### Appendix A: List of Licensed Banks Operating in Palestine.

	Bank Name	Bank type
1	Arab Bank	Foreign Bank
2	Arab Islamic Bank	Local Bank
3	Bank of Jordan	Foreign Bank
4	Bank of Palestine	Local Bank
5	Cairo Amman Bank	Foreign Bank
6	Egyptian Arab Land Bank	Foreign Bank
7	Housing Bank for Trade & Finance	Foreign Bank
8	Jordan Ahli Bank	Foreign Bank
9	Palestine Investment Bank	Local bank
10	Palestine Islamic Bank	Local Bank
11	Quds Bank	Local Bank
12	Safa Bank	Local Bank
13	The National Bank	Local Bank

Source of data: from the Palestine Monetary Authority (PMA) website [www.pma.ps](http://www.pma.ps).

**Appendix B: list of Local Banks in Palestine and its Type (Islamic/ Commercial)**

	<b>Bank Name</b>	<b>Bank type</b>
1	Arab Bank	Foreign Bank/ Commercial
2	Arab Islamic Bank	Local Bank/ Islamic
3	Bank of Jordan	Foreign Bank/ Commercial
4	Bank of Palestine	Local Bank/ Commercial
5	Cairo Amman Bank	Foreign Bank/ Commercial
6	Egyptian Arab Land Bank	Foreign Bank/ Commercial
7	Housing Bank for Trade & Finance	Foreign Bank/ Commercial
8	Jordan Ahli Bank	Foreign Bank/ Commercial
9	Palestine Investment Bank	Local bank/ Commercial
10	Palestine Islamic Bank	Local Bank/ Islamic
11	Quds Bank	Local Bank/ Commercial
12	Safa Bank	Local Bank/ Islamic
13	The National Bank	Local Bank/ Commercial

Source of data: from the Palestine Monetary Authority (PMA) website [www.pma.ps](http://www.pma.ps).

## الملخص

دخل المعيار الدولي لإعداد التقارير المالية رقم 9 (IFRS 9) حيز التنفيذ في 1 يناير 2018، وتم السماح بالتطبيق المبكر. ينقل المعيار الدولي لإعداد التقارير المالية 9 نظرة البنوك من الخلف إلى الأمام ومن التوقعات التاريخية إلى التوقعات المستقبلية في تقارير البيانات المالية، وتهدف هذه الدراسة إلى دراسة تأثير المعيار الدولي لإعداد التقارير المالية 9 على الأداء المالي للبنوك الفلسطينية. خلال الفترة من الربع الأول من 2014 إلى الربع الرابع من عام 2021، تم تقسيم الفترة إلى ما قبل تطبيق المعيار الدولي لإعداد التقارير المالية 9 وما إلى بعد تطبيق المعيار الدولي لإعداد التقارير المالية 9. باستخدام طريقة العزوم المعممة (GMM)، أظهرت النتائج أن تأثير المعيار الدولي لإعداد التقارير المالية رقم 9 سلبي على الأداء المالي للبنوك، ويرجع ذلك أساسًا إلى التأثير السلبي لزيادة مخصص خسائر الائتمان بسبب النموذج الجديد لانخفاض القيمة بموجب المعيار الدولي لإعداد التقارير المالية رقم 9. وهو نموذج الخسارة الائتمانية المتوقعة. ويعتبر الأثر السلبي لهذا المخصص هو الأهم مقارنة بالمتغيرات الأخرى. كما يؤدي هذا النموذج الجديد إلى زيادة قوة التأثير السلبي لنسبة التسهيلات الائتمانية المباشرة إلى الأصول على الأداء المالي للبنوك.

### الكلمات المفتاحية

معيار المحاسبة الدولي 39، المعيار الدولي لإعداد التقارير المالية 9، الأداء المالي، خسارة الائتمان المتوقعة.