

-RESEARCH ARTICLE-

IFRS9 ADOPTION FACTORS, ITS IMPACT ON DISCLOSURE QUALITY, CORPORATE GOVERNANCE, AND THE VALUE OF GULF BANKS.

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—Abstract—

This work aims at analyzing how the IFRS9 was implemented and affected the disclosure quality and the governance mechanisms. Moreover, it will attempt to provide an evaluation of the impacts of IFRS9 on the banking institutions through comparison and analysis of published annual reports before and after the implementation of standard. The results prove that implementation of IFRS9 significantly impacts the quality of disclosures, governance practice and financial reporting. However, the sample banks have a requirement to streamline their operating models to meet fully the requirement of IFRS9 (both in letter and spirit). The study also shows that IFRS9 has some positive effects on the governance practices and helps in meeting the expectations of the stakeholders. The second step of the quantitative study is the outcome of the PLS

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SEM analysis based on 238 respondents working in similar banks and using a questionnaire-based method, which shows that the government policy is the most significant determinant in IFRS adoption and the next consideration is the ease of implementation and perceived benefits. Conversely, legal requirements did not have any considerable influence. Lastly, the research provides some policy implications on the policy-makers in the banking industry.

Keywords: IFRS9, Financial Reporting Quality, Disclosure Quality, Governance Procedures in the Banking Sector

INTRODUCTION

Both shareholders and investors are highly interested in the banking industry because it is a major player in funding the activities and projects of other industries and a direct investment in various industries, production, and service sectors (Liaw, 2011; Oh et al., 2013; Scholtens, 2006). The global financial crisis of 2008 has seen an escalation on the regulation of banks (Challoumis & Eriotis, 2024; Moshirian, 2011). The crisis revealed severe gaps in the financial management, which include the inadequacy in predicting credit risks, and the inadequacy to put in place enough provisions to alleviate the risk factor (Naili & Lahrichi, 2022). It is, therefore, the duty of regulatory authorities to fill these gaps through implementation of measures that would promote confidence in financial markets especially on banks. As such, researchers have focused on evaluating the impacts of the adoption of IFRS9 on financial statements prior to and following its adoption.

The introduction of IFRS9 has become a critical topic in the banking industry due to its ability to increase the financial transparency and enhance the risk management. IFRS9 is a standard developed as a reaction to the 2008 financial crisis and requires banks to use forward-looking models to estimate and recognise credit losses, instead of relying on the previous incurred loss model (Settlements, 2017). Although, the standard is meant to increase comparability as well as stability in the financial markets, its effective use hinges on a series of determinants. The most prominent ones are the policy of the government, perceived ease of application, perceived benefits, and legal requirements which will dictate how successful the implementation of IFRS9 in the work of the banks will be. Government policy (GP) is one of them and it is central to the facilitating adoption (Pilcher, 2011), Since policies that are sources of resources, incentives, and institutional support can significantly facilitate the process of transition (Mora, 2022).

Besides, the adoption is influenced by the perceived ease of implementation (PEI) and perceived benefits (PEB) of IFRS9, including the benefits of financial reporting and better management of risks (Ikpefan & Akande, 2012; Ilias et al., 2014). Those banks with adequate resources and experience would find implementing the standard

smoother, whereas those that they perceive the benefits of are more likely to adopt it out of will (Zahid & Simga-Mugan, 2024). In addition, studies note that stringent legal enforcement and additional disclosure provisions can also help to enhance the adoption of IFRS. A case in point, in European setting, IFRS application has been linked with lower equity costs among banks especially whereby it is backed by strict legal enforcement and extensive disclosure requirements (Yim, 2020). A conceptualization of these factors is thus very critical in the determination of the larger implications of the adoption of IFRS9 on the governance and financial performance of banks.

LITERATURE REVIEW

Implementing IFRS9 and Enhancing Disclosure Quality

With respect to banking institutions, financial reporting standards are rather significant since transparency is essential to making informed decisions on investments, as well as to proper competition between companies (Johri, 2024). The real credit loss model that is used in the IAS 39 (Financial Instruments) is considered by many as one of the main causes that exacerbated the global financial crisis. In its turn, the International Accounting Standards Board presented a new model of the credit loss measurement that includes the proactive expectations of the anticipation of the credit losses instead of just the historic losses, superseding the old strategy (Alhazmi et al., 2025). The IFRS9 (Financial instruments, recognition and measurement) standard uses a provisioning method that is based on expected losses, which approximates credit losses that are yet to be incurred through the combination of past experiences, current situations in the world as well as future expectations. This is quite a deviation compared to IAS 39, which had considered credit losses when a real loss occurred (Omar, 2020).

Under IFRS9, how to compute discounted amounts is further explained and how this affects the Tier 1 capital of the banks especially on the common equity and the mandatory disclosure nature. The provisions are necessary in banks that adopt selective arrangements in reducing the adverse impact of expected credit loss accounting on regulatory capital (Ntaikou et al., 2018). Nonetheless, the banks face numerous problems in adopting IFRS9, which comprise insufficient knowledge in the application of the standard, making financial reports, and assessing financial risks. The other issues are inadequate infrastructure, which may take the form of accounting information systems, statistical tools, specialised software, and troubles in valuing non-current assets, regulatory limitations, and challenges in uncertainty in the economic environment.

The IFRS9 has played an important role in setting out the mechanisms of disclosing credit losses, hedge accounting, and risk management practices in the banks. It promotes better presentation of the financial statements and gives a clear reporting of the impact of the hedging activities to risk management of institutions using the financial

instruments (Neamah, 2024). The standard is supposed to simplify the process of recognizing, classifying, measuring and reporting financial assets and liabilities and providing useful and credible information to the users of the financial statements. That enables the stakeholders to determine the timing, the size, and uncertainty of cash inflows in the future and makes the grounds of measurement, amortisation, and anticipated impairment of financial assets. IFRS9 is applied to the traded financial instruments valued at fair value or the cost of amortisation and presents a new classification scheme depending on the business model of the entity and the contractual cash flows of the assets. The standard also allows carrying on with the treatment of derivatives as a hedge (Fatlawi, 2022).

The implementation of the IFRS9 requires banks to perform in-depth analyses to estimate the expected losses on each account separately and this raises administrative and operational costs. Proper categorization and reporting of risk contribute to the predictive ability of possible losses and lead to the reduction of the risks. The standard also brings in processes that enhance transparency and accountability, thus creating a more friendly atmosphere in which the banking processes operate (Efunniyi et al., 2024). Therefore, the implementation of IFRS9 requires banks to report on credit risk assessment processes, as well as measure the quality of disclosure improvement by giving information on how they would have addressed the expected credit losses and the potential financial effect of these risks.

Expected Credit Loss Measurement Models

There are numerous models that can be used to estimate expected credit losses, most of them are based on determining the probability of default of a particular entity, the balance of the entity at default and the loss that is expected in the event of default. The following formula is used in the calculation of expected credit losses by these models:

Expected Credit Losses = Probability of Default (PD) - Balance at Default - Loss at Default

Probability of Default (PD): It entails the analysis of historical data to a given financial product and the economic indicators and future data projection of this instrument. Various economic variables are factored in order to compute the likelihood of default which is in percentage. An increase in PD is associated with an increase in credit risk.

Balance at Default (EAD): The balance at default is determined as a numerical value rather than a percentage, representing the outstanding amount at the time of default.

Loss Given Default (LGD): The loss at default is expressed as a percentage and is influenced by the value of collateral. If collateral exceeds the loan amount, no provision

is required to cover potential credit losses (Morshed, 2024).

Following this structure, which is the basis of most studies and the implementation of the IFRS9 requirements in banking institutions, the institutions would be required to introduce processes that diminish the judgment of data preparers and standardize the disclosure practices. A qualified and trained staff to measure and assess anticipated credit losses and corresponding provisions is thus important. This staff is able to build extensive databases on behalf of banks, discover risks, decide PD and add pertinent data to such models by using credit rating details and financial market surveillance information (Abubakr et al., 2024 & Ahmed et al., 2018). These measures allow banks to track risks in individual units, evaluate credit spreads between institutions and evaluate how much the bank assets can be assigned to each share. What is left in the books of account is the remaining value of assets that can be used to meet creditors in default. Researchers suggest that expected credit losses should be calculated by developing provisions that are based on the studies of the losses experienced by the international banks. This should be performed by determining the magnitude and type of loss of each activity, calculating the PD of each activity, assessing balances and losses thereof, and combining all probabilities to come up with a provision that is aligned to those of the IFRS9.

Governance Procedures Under the Implementation of IFRS9

The IFRS 9 presents new accounting procedures on credit losses and hedge accounting that provide adjustments on the current hedge accounting procedures. The standard expands the hedge accounting to give increased transparency as to the risk management activities, with focus on the fit between the IFRS 9 framework and the Basel III Accord on banking regulation, especially on the management of the expected credit losses (Naikou, 2020). This means that the banks have to increase their governance processes, which facilitates the better quality of financial information, as it can be more accurate and transparent valuation of assets and liabilities (Benetti et al., 2024). Better governance by IFRS 9 also helps in reducing financial risks by enhancing the process of maintenance of reserves and allocation of financial resources hence boosting the ability of banks to address any form of risks. The standard requires institutions to establish sound financial risk management practices in compliance with the international reporting standards, which will add to the levels of confidence of the financial markets and draw investors to the financial markets through enhancing accountability and classification of risks. The adoption of the IFRS9 requires the inclusion of correct financial statements, which reduces accountability in financial institutions and makes the process of assessing financial risks more effective (Ntaikou et al., 2018). Banks must evaluate the risk of their assets, liabilities, and financial transactions and implement control mechanisms such that exposure to the same is restricted. It is therefore imperative that the governance mechanisms must be aligned

with the requirements of the standard in order to have a good implementation and adherence.

The Impact of Implementing IFRS9 on Improving Corporate Governance Procedures

The implementation of IFRS9 has a significant influence on enhancing financial risk management procedures (Suleiman & Ben Saada, 2024), with the following key aspects:

- a. Estimating the financial reserves needed to meet the possible risks, which enhances the quality of the financial information and increases financial risk management.
- b. Improving capital by boosting the commercial banks financial capacity that can be done by attracting more deposits and raising the magnitude of loans provided that will ultimately lead to better customer service.
- c. Enhancing the management of risks and losses by adopting effective strategies that would lead to the attainment of the best risk-adjusted returns with the least risk of incurring a loss.
- d. Enhancing cost effectiveness by minimizing administrative and operational costs, expanding management of financial resources and financial obligations and optimizing collection and risks management (Cai et al., 2024).
- e. Has been able to clearly define its roles and responsibilities, adopting international standards of corporate governance and more openness of financial reporting and improved relationship with shareholders and customers.

The general aim of governance is to improve the performance of banks, and this is directly indicated by increasing the financial performance, geographical coverage of banking services, and customer base. To accomplish these goals, the executive management must make a powerful commitment to provide the resources required, in addition to the backing of the concerned regulatory and official authorities in the country. There is also the need to improve financial performance and this requires the application of coordinated and integrated measures that include investment in information technology, training of the staff and development of the professionals (Talero & Gaudette, 1995). To determine how the IFRS9 implementation has affected the quality of disclosure and corporate governance in the sampled banks, the researchers measured expected credit losses of each bank, explored the method of disclosure of probability of default and loss given default, and analyzed the governance steps of the banks. These practices were then compared with IFRS9 disclosure requirements to illustrate how the compliance with the standard enhances the quality of disclosure and the quality of governance.

Impact of IFRS9 on Bank Value and Governance

The adoption of IFRS9 has forced the Board of Directors to provide evaluation, measurement and disclosure policies. These policies have impacted the operations of the Board and its reporting requirements by availing the required information to address information requirements of the users. They allow determining the credit risks to which the bank is exposed, the evaluation of actions that have been taken to help reduce these risks, the comparison of the credit spreads across banks, and the value of the assets of the bank as compared to the shareholders. The residual asset value is the number of resources there will be in case of default to meet creditors, and the disclosure of the same will help to improve the market value of the bank. (Al-Sabaawe et al., 2024)

The reputation of a bank is said to be a critical determinant on the rise in market value. Open disclosure of the governance practice also enhances confidence in the market as it proves the credibility of the information and soundness of the executive management practices. This further gives the stakeholders the right information to make informed decisions in time, attracts new investors and creates the capital required to invest in both the ongoing and new projects hence raising the overall capital base of the bank (Johri, 2024). The provisions required by IFRS9 also assist banks in managing the possible challenges and losses to build the basis to plan the strategy in the future and expand by investing in the activities that are less risky. The IFRS9 governance procedures can help the executive management to figure out the risks involved in each individual activity. Disclosure practices and improvement of governance mechanisms have a direct impact on the value of the bank due to the quality and reliability of information that is disclosed, which plays a significant role in influencing the decision to invest by the customers. Pragmatic implications of this effect can be seen in terms of statistical analysis of financial data, which is the case in an empirical part of the study.

RESEARCH METHODOLOGY

In the practical part of this research, the authors studied how IFRS9 affects the quality of disclosure and corporate governance in a sample of the banks. In this analysis, a detailed comparison of the real disclosure practices and governance mechanisms prior to the advent of IFRS9 and after its introduction has been made. The impact of IFRS9 on the value of the banks was also considered in the study considering both the quality of disclosure and the governance frameworks was improved. Also, the risk exposure and financial stability of every bank in accordance with the new standard was estimated by determining the risk of default in each bank. In the next step, the paper discussed the predictors of IFRS9 adoption in the sampled banks. A five-point Likert scale was employed in constructing a survey questionnaire with the scale of 1 (strongly disagree) to 5 (strongly agree). The instrument was designed to measure various factors that influence IFRS adoption and those factors are perceived benefits (PB), PEI, legal requirements (LR), GP and IFRS adoption (IA). Each factor contained a couple of

items: as an example, PB contains PB1, PB2 and PB3 that measure the perceived benefits of IFRS adoption, while PEI contains PEI1 to PEI4 that measure the perceived ease of implementing the standard. Measures of legal requirements were LR1-LR5 that demonstrated the regulatory framework and requirements related to the adoption of IFRS. The GP1 to GP4 captured government policy, which emphasizes the government support and enforcement in easing the adoption of IFRS among the sampled banks. Finally, the aspect of IFRS adoption, which is addressed by IA1 to IA5, indicated the expected effects on financial reporting, comparability, transparency, investor confidence and access to financial resources. Formulation of the questionnaire and the use of items were based on a previous research ([Kausar & Park, 2024](#); [Tlemsani et al., 2024](#); [Zahid & Simga-Mugan, 2024](#)).

FINDINGS

Impact of IFRS9 on Disclosure Quality and Governance in Banks

Comparison and Analysis of the Reality of Disclosure in the Sample Research Banks

To compare and analyse the actual disclosure practices of the sampled Gulf banks prior to and after the implementation of the IFRS9, the researchers analysed the financial statements of the respective banks in the years 2017 and 2018. [Table 1](#) provides the impacts of adoption of IFRS9 on financial instruments classification, credit provision, and its effects on the key financial indicators, such as profits, net distributed profits, total income, customer deposits, loans, and expected credit risk.

Table 1: Disclosure in the Research Sample Banks for the Years 2017-2018 (Thousands of Dollars)

Statement	Iraqi Gulf		Saudi Development		National Bank of Kuwait		Commercial Bank of Qatar	
	2017	2018	2017	2018	2017	2018	2017	2018
Year	2017	2018	2017	2018	2017	2018	2017	2018
Credit Provisions	7,885	7,910	203,763	236,306	87424535	98654353	1,216,866	1,378,359
Expected Credit Losses (From Investments and Facilities)	8,522	6,395	145,424	204,228	86670280	86222	1,640,206	1,844,278
Expected Credit Provisions	2,689	14,454	50,463	74,276	45009841	51023465	538,179	252,278
Expected Credit Loss Provisions Ratio	5.2%	6.7%	4.8%	5.6%	3.2%	4.2%	4.7%	5.2%
Expected Credit Loss Provisions Ratio	4.8%	5.8%	4.4%	4.8%	3.8%	5.1%	3.8%	4.6%
Expected Credit Loss Provisions Ratio	5.3%	6.2%	4.2%	4.6%	4.1%	4.7%	3.4%	4.9%
Expected Credit Loss Proportion	2.38%	6.90%	0.89%	1.28%	13.94%	13.53%	6.96%	3.52%
Probability of Default	223,364	27,621	24,048	24,335	22009857	23660035	22,101,387	20,436,652

Deposits	1,408	336	213,633	176,342	183879	19503961	25,372,071	24,096,813
Loans	0	5,051	0	1,135	730501	333863	3,411	1,238
Dividends	506,986	486	30,986	32,815	33241885	35507577	39,414,978	38,412,500
Assets	252,101	252,101	4,050,000	4,050,000	1889213	1992541	1,152,210	1,152,210
Capital	21,807	13,964	10,406,421	912,507	1119372	1210550	1,004,747	998,849
Operating Income	4,933	497	543	684	618715	697534	171,938	476,549
Bank Profitability	342,731	408,545	30,097,012	31,844,129	25354791	25874976	37,437,378	36,148,987
Financial Assets	237,332	221,734	25,490,137	27,064,871	28353731	30535569	33,430,374	32,759,577
Liabilities	229,521	199,018	24,412,762	26,040,548	27225848	29244961	29,708,821	28,983,655
Financial Liabilities	113,445	103,781	53,257,500	109,350,000	3211662	3785828	29,381,363	30,303,132
Market Value	7,885	7,910	203,763	236,306	87424535	98654353	1,216,866	1,378,359

Source: Prepared by the researchers based on published data from the research sample banks.

As shown in [Table 1](#), By 2018, all Gulf banks were already fully implementing the IFRS9 standard in accordance with the financial market requirements and prepared their financial statements based on it, except Gulf commercial bank, as Iraqi banks had delays in implementing the standard. However, in 2019, these banks have been reporting to the Central Bank of Iraq the use of IFRS9 in their financial statements to the concerned committees before they could be included in the final reports. However, the following consequences of the COVID-19 pandemic led to the delay in the completion of such calculations. [Table 2](#) offers the statistical study of the effects of the IFRS9 application on the expected credit losses models, including the probability of default, credit losses, and market value in the application of the standard. This has been done separately in each of the banks and then the figures obtained were summed and averaged across the number of banks in each variable as shown in [Table 2](#).

Table 2: Summary of the Test Model for the Research Sample Banks

Financial Ratio	Paired Samples t-Test T for Equality Means	
	Sig. T Statistics	Sig. T Statistics
Probability of Default		
Balance at Default	0.0704	0.098
Loss Given Default	0.33	7.251
Expected Credit Losses	0.059	0.452
Probability of Default	0.0014	0.321

Source: Prepared by the researchers based on the outputs of the SPSS program for the research sample banks.

Analysis of [Tables 1](#) and [2](#) indicates that the reports of Gulf banks are generally comprehensive, representing the stability high in these markets. The financial statements shall give comprehensive data on the percentages of credit losses, probability of default, anticipated credit loss provisions, percentage of anticipated credit loss

provisions and percentages of loan losses provisions. Analysis of these tables shows the degree of the improvement of the reporting practices of the banks. These results confirm the hypothesis of the research, which states that the process of IFRS9 implementation leads to statistically significant improvements in the quality of disclosure among the sampled banks.

Comparison and Analysis of Governance Procedures in the Research Sample Banks

To compare and analyse the governance procedures in the sampled Gulf banks prior and after the implementation process of the IFRS9, the researchers reviewed reports submitted by the banks to the year 2017 and 2018. The analysis was dedicated to assessing the impact of the IFRS9 on various areas of governance, such as board of directors composition, board size, board committees structure, remuneration and related policies disclosure, risk management practices, developing a compliance and transparency culture, disclosure of governance practices, classification and financial instruments, loan provision calculation, credit risk reporting, disclosure of related party in the financial statements, the board of directors report, financial statements, related parties disclosure in annual report, risk management practices, and self-assessment of the board. The impact of the IFRS9 on these governance mechanisms is demonstrated by comparison of the financial reports prior to the implementation of the standard and after the implementation as summarised in [Table 3](#).

[Table 3](#) analysis reveals the apparent impact of the introduction of IFRS9 on the governance processes and the improvements that are made due to the adoption of the standard. Positive impacts are noted on such areas as improvement of the governance practices, the number of independent board members, the risk management, the board self-assessment, the advancement of compliance and transparency culture, calculating the loan provisions, preparing the board of directors report, disclosure of governance activities, reporting on the credit risk, related-party disclosures, and other governance mechanisms.

Table 3: Comparison and Analysis of Governance Procedures in the Research Sample Banks for the Years 2017 and 2018

Governance Axis	2017	2018
Board of Directors Composition	Formation Based on Central Bank Requirements	No Major Changes with the Update of Some Subcommittees
Number of Independent Members	One or Two Members	Increase or (Strengthen the Role of) the Number of Independent Members
Board of Directors Committees	Standing Committees (Audit, Risk, Governance)	Focus on a Greater Role for the Risk Committee

Disclosure of Remuneration and Related Policies	Limited and Consolidated	Significant Increase in Disclosure of the Remuneration Policy
Culture of Compliance and Transparency	Summary Annual Reports (Traditional)	Enhancement of the Annual Reports in Terms of Governance Content
Disclosure of Governance Practices	Summary Report on these Practices	A Detailed Report on Governance and Self-Assessment in a Separate Chapter in the Financial Statements
Classification of Financial Instruments	Available for Sale, Held to Maturity, Conventional Classification	On an Amortized Cost Basis
Calculating Loan Provisions	Based on Realized Losses	Based on Expected Credit Losses (ECL)
Disclosure of Credit Risk	Limited Disclosure of Total Risk	Detailed Risk Stage Breakdown
Presentation of Provisions in the Statements	Single Item Conventional	Detailed Presentation by Type of Provisions and Risk Stage
Impact of the Standard on Profits	Stable Earnings (Less Precise)	Decrease in Profits
Financial Disclosure	General Provisions Only	Includes Disclosure of Expected Credit Losses
Board of Directors Report	Limited Analysis (Traditional Report)	More Comprehensive Strategic Analysis Including a Review of Financial Performance
Financial Statements	No Details on Policy Changes	Detailed with New Clarifications Related to Classification and Measurement
Disclosure of Related Parties	Limited	Partial Breakdown of Transactions + Disclosure of Remuneration
Disclosure in the Annual Report	Limited and General	Relatively Expanded Governance Chapter within the Report
Risk Management	Limited Conventional	Enhancement of the Framework to Align with IFRS 9 and Credit Management Requirements
Board Self-Assessment	Not Applicable	Initiation of an Internal Evaluation of the Board's Performance

Source: Prepared by the researchers based on the reports of the sample banks.

Table 4 includes the statistical analysis of the impact of the adoption of IFRS9 on improving the governance in the sampled banks. Under the application of the standard, elements that have been included in the analysis include financial disclosure, material disclosure, improvement of reporting quality, compliance with standards, and risk reporting. It used the statistical T-test model to evaluate the effect of IFRS9 on improvement of the governance process in the sampled banks. Table 3 and Table 4 analysis have shown that there is a significant change in the governance mechanisms and practices at these institutions since the adoption of the standard.

Table 4: Summary of the Test Model to Demonstrate the Impact of IFRS9 on Improving Governance Procedures for the Sample Banks

Financial Ratio	Paired Samples t-Test for Equality Means	
	Sig. T Statistics	Sig. T Statistics
Financial Disclosure		
Material Disclosure	0.0473	3.281
Improving Reporting Quality	0.0327	4.091
Compliance with Standards	0.0076	2.479
Risk Reporting	0.0102	5.387
Financial Disclosure	0.0347	3.920

Source: Prepared by the researchers based on the outputs of the SPSS program for the research sample banks.

Impact of IFRS9 on Bank Value and Governance

The research analyzed the financial report of Gulf banks in 2017 and 2018 in order to determine the impact of IFRS9, where most banks experienced an increase in the market value with the exception of Gulf commercial bank. Statistic analyses showed significant changes in the process of governance, which proved the hypothesis that IFRS9 had a positive impact on the governance practice (Tables 1 and 5). Table 5 shows the outcome of the T-test that showed the improvement of the quality of disclosure processes and governance processes and their respective effects on the value of sampled banks. Analysis of Table 5 indicates that IFRS9 implementation has positively influenced the quality of disclosure, and which, in its turn, leads to the increase of the value of the sampled banks. Improvement in the disclosure provisions such as the loan loss provision ratio, the non- performing loan ratio, the loan- to-total-assets ratio, and the reserve ratio of deposits and standard loans to total assets are used to attract both the existing and new investors. This augurs investor confidence and the share value rises as a result and offers the bank the chances to invest in new ventures, thus enhancing revenue. Such results confirm the hypothesis of the research, which states that statistically significant differences in the value of banks can be observed due to improvement of the quality of disclosures and the quality of procedures of disclosure and governance before and after the implementation of IFRS9.

Table 5: Paired Samples t-Test Results for Equality of Means: Financial Ratios and Disclosure Indicators Under IAS 39 vs IFRS 9

Financial Ratio Details	Paired Samples t-Test for Equality Means	
	Sig. T Statistics	Sig. T Statistics
Provision for Loan Losses Ratio - International Financial Reporting Standard (IAS 39) International Financial Reporting Standard (IFRS 9)	0.027	2.352
Non-Performing Loan Ratio - International Financial Reporting Standard (IAS 39) International Financial Reporting Standard (IFRS 9)	0.016	2.569

Loan-to-Total Assets Ratio - International Financial Reporting Standard (IAS 39)	0.477	0.686
International Financial Reporting Standard (IFRS 9)		
Reserves for Regular Deposits and Loans to Total Assets	0.007	0.021
Financial Disclosure	0.001	0.026
Organization and Format	0.011	0.066
Standards Compliance	0.088	0.166
Credit Provisions	0.010	0.201
Board of Directors' Report	0.077	0.131
Risk Management	0.003	0.090
Related Party Disclosure	0.001	0.070
Non-Financial Data	0.033	0.132
Report Presentation	0.002	0.006
Audited Financial Statements	0.004	0.019
Revenues and Profits	0.006-	-0.054
Transparency in Costs and Risks	0.009	0.084
Regulatory Compliance	0.002	0.008
Social Responsibility and Sustainability	0.053	0.187
Website Annual Reports	0.007	0.041
Market Value	0.003	0.028

Source: Prepared by the researchers based on the outputs of the SPSS program for the research sample banks.

Measuring the Probability of Default for the Research Sample Banks

The assessment of probability of default is done at a given time whereby the debt instruments which may include loans and other financial liabilities are identified and the debt instruments are matched to the financial assets in the period of review. Analysis of [Table 1](#) indicates an increase in the probability of default for the Iraqi Gulf Bank and the Saudi Al-Namaa Bank, this is due to the increase in financial assets and liabilities, despite the increase in expected credit provisions of most banks, excepting the Qatari National Bank. Where the expected credit provisions declined, the likelihood of defaulting was not less than a decline in the value of the financial assets and liabilities of the bank. The impact of the introduction of IFRS9 on the expected credit losses can also be proved with the help of a T-test, as presented in [Table 6](#), which details the calculation of expected credit losses and their impact on market value.

Table 6: Summary of the Test Model

Financial Ratio	Paired Samples t-Test for Equality Means	
	Sig. T Statistics	Sig. T Statistics
Probability of Default	0.0704	0.098
Balance at Default	0.330	7.251
Loss Given Default	0.059	0.452
Expected Credit Losses	0.0014	0.321
Financial Disclosure	0.0473	3.281
Material Disclosure	0.0327	4.091

Governance	0.0076	2.479
Standards	0.0102	5.387
Risk	0.0347	3.920
Market Value	0.0201	0.003 -

Source: Researchers from SPSS Output.

Table 6 demonstrates that IFRS9 implementation has led to a reduction in expected credit losses, having a probability of default decreased by 0.0704, the balance at default decreased by 0.33, and the losses at default decreased by 0.059, which leads to a total decrease in expected credit losses of 0.0014. It is interesting to note that the balance at default is the biggest in the credit loss calculations and this is an indication that the sampled banks are undertaking actions to reduce default risks. On the other hand, the least accrual is the loss at default, which is consistent with the IFRS9 requirements. It means that the banks have put in place measures that would reduce the likelihood of default, and the revelation of such data will improve the quality of financial statement reporting. These results indicate the effects of the adoption of IFRS9 by the sampled banks and these outcomes support the hypothesis of the study which suggests that the IFRS9 adoption positively impacts on the quality of disclosure and governance, and hence has an impact on the value of the sampled banks.

Analysis and Discussion-Factors Affecting IFRS-9 Implementation

Before commencing the empirical investigation, the study addressed several preliminary questions, as summarised in Table 7. The awareness of the respondents regarding IFRS9 (Financial Instruments) was the focus of the first question. Of the 238 participants, 222 (nearly 93%) said they were aware of the standard, and only 17 respondents (nearly 7 %) expressed lack of awareness. This shows that most of the respondents are well versed with IFRS9 and this means that majority of the professionals in the sample have an idea about its presence and applicability in financial reporting. This observation is also supported by the distribution of the knowledge levels. None of the respondents indicated that they did not know anything about IFRS9. Fifteen respondents had basic knowledge, 45 had an intermediate knowledge and 19 had an advanced knowledge. This distribution indicates that a great percentage of the respondents have a moderate level of knowledge of IFRS9 giving assurance on the validity of the future responses about its use and application. On the issue of institutional adoption, 217 out of 250 respondents (91) affirmed that their organisations use IFRS9 either in financial reporting or risk management as it is being done in other parts of the world. The sample consists of the representatives of different professional positions, the most significant one being risk controllers (69 respondents) and managers (58 respondents), and it demonstrates the topicality of the standard to risk assessment and strategic decision-making.

The fifth question covered the education background of the participants in accounting or finance. Most respondents 102 had a master's degree then 54 and 62 had a bachelor's degree and incomplete higher education respectively. There were only 15 respondents with technical or vocational qualifications and a meagre five do not have any form of formal training in accounting or finance. This distribution shows that most of the participants have a high level of academic background, which increases the validity of their answers to questions about the IFRS9 practices and understanding. [Figure 1](#) provides a graphical representation of the data presented in [Table 7](#).

Table 7: Preliminary Queries on Awareness and Application of IFRS 9 among Respondents

Sr. No	Question	Response Options	Responses
1	Are you aware of the existence of International Financial Reporting Standard 9 (IFRS9: Financial Instruments)?	() Yes	222
		() No	17
2	What is your level of knowledge of IFRS9?	() I do not know the standard	0
		() Basic	15
		() Intermediate	45
		() Advanced	19
3	Does your bank or financial institution apply IFRS9 in its financial reporting or risk management practices?	() Yes	217
		() No	22
4	Position/Function of Respondent	() Analyst	24
		() Accountant	16
		() Manager	58
		() Risk Controller	69
		() Director	39
		() Partner / Executive	32
5	Accounting or Finance Education	() Technical / Vocational	15
		() Incomplete Higher Education	62
		() Bachelor's Degree	54
		() Master's Degree	102
		() Not trained in accounting or finance	5

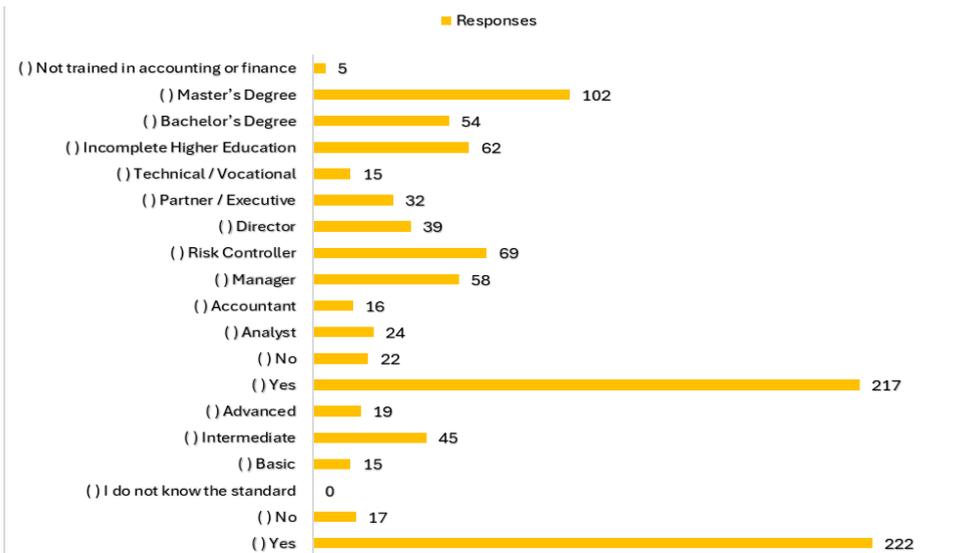


Figure 1: Graphical Presentation of Preliminary Queries on Awareness and Application of IFRS9 among Respondents

Table 8 presents the reliability and convergent validity of the model encompassing the key variables. The results indicate that both Cronbach's alpha and composite reliability values exceed 0.70. Specifically, the alpha values for GP, IA, LR, PEB, and PEI are 0.78, 0.915, 0.759, 0.843, and 0.909, respectively. Regarding composite reliability, as measured by rho_{and} rho_c, the highest values are observed for IA, while LR exhibits the lowest value at 0.76. In addition, the average variance extracted (AVE) for all variables is above 0.50, confirming the presence of convergent validity for these constructs.

Table 8: Reliability and Validity

	Cronbach's Alpha	Composite Reliability (rho _a)	Composite Reliability (rho _c)	Average Variance Extracted (AVE)
GP	0.787	0.808	0.859	0.605
IA	0.915	0.916	0.937	0.747
LR	0.759	0.767	0.862	0.675
PEB	0.843	0.857	0.904	0.759
PEI	0.909	0.995	0.933	0.776

Thus, any variables are thought to be appropriate to be included in further empirical research. **Figure 2** will show the model output obtained in Smart PLS in terms of items loadings. Each variable has loadings exceeding 0.70 which shows that they contribute significantly to the reliability of the various constructs. This validates the fact that every item makes a significant contribution to the internal consistency and reliability of the respective constructs.

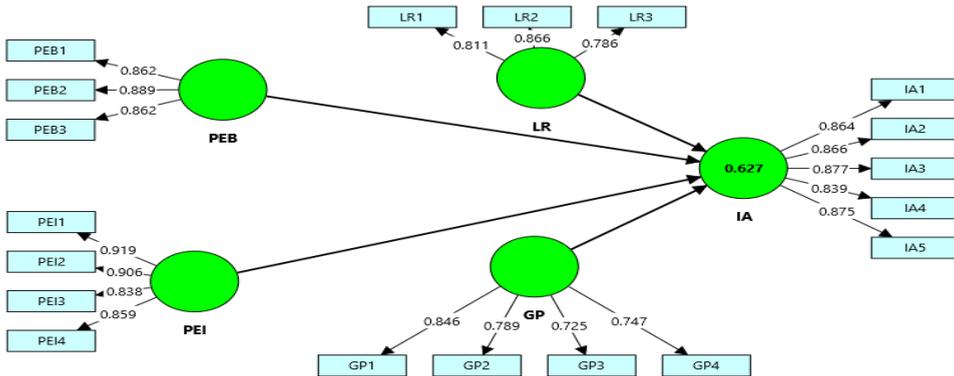


Figure 2: Factor Loadings

The discriminant validity of the model was assessed using the HTMT ratio, as presented in Table 9. For this measure, the correlation between variables should be below 0.85. The HTMT ratios indicate that GP has correlations of 0.80, 0.55, 0.043, and 0.27 with the other variables. Similarly, IA shows correlations of 0.450, 0.101, and 0.191 with the remaining constructs. LR exhibits correlations of 0.037 and 0.240 with PEB and PEI, respectively, while the HTMT ratio between PEB and PEI is 0.052. Since all observed values are well below the 0.85 threshold, discriminant validity for the model is confirmed.

Table 9: Discriminant Validity by Using the HTMT

	GP	IA	LR	PEB	PEI
GP					
IA	0.802				
LR	0.558	0.450			
PEB	0.043	0.101	0.037		
PEI	0.279	0.191	0.240	0.052	

Moreover, Table 10 presents the VIF scores for the latent variables. The results indicate that the VIF values between GP and IA, LR and IA, PEB and IA, and PEI and IA are 1.246, 1.226, 1.003, and 1.079, respectively.

Table 10: VIF of the Latent Constructs

Variables	VIF
GP -> IA	1.246
LR -> IA	1.226
PEB -> IA	1.003
PEI -> IA	1.079

The path analysis results are presented in Table 11, to demonstrate how the chosen independent variables were impacting IA. The analysis reveals that GP yields a

coefficient of 0.760 on IA, which implies that all other things being held constant, the one percent increase in government policy will result in the 0.76 percent increase of IFRS adoption among sampled banks. The standard deviation of this coefficient is 0.036 with a t-value of 20.975 and a p-value of 0.000. Since the p-value is less than 1, it is possible to conclude that GP has statistically significant and positive impact on IA. Some of the mechanisms used to explain this relationship include strong regulatory enforcement and strategic policy which influences financial institutions to adhere to international reporting practices, government-led training programs and technical support that influence institutional preparedness and staff competence, and awareness campaigns which make IFRS implementation smoother. Also, policy incentives and compliance provisions help to establish an enabling environment that favors proactive and consistent adoption of IFRS and where there is a logical and firm relationship between GP and IA.

The second path in Table 11 examines the impact of PEI on IA. The coefficient is 0.620, which is a little less than the one of GP-IA, yet it represents a significant effect. The standard deviation will be 0.044, and the t-value will be 14.091, which is very significant at the 1 percent level. It shows that PEI has a positive and significant effect of adoption of IFRS. The impact of PEI works in the following ways: the less complex and easier to use the IFRS is perceived to be by the financial institutions, the more likely these institutions will embrace the standard and the more they will be embraced by banks. Furthermore, the simplified reporting practices, access to technical advice, and its compatibility with the current accounting systems help to diminish perceived implementation demands among the main financial individuals, and, hence, positively influence them and increase their determination to use IFRS. Consequently, the link between PEI and IA is both meaningful and justified. The third path addresses the impact of PB on IA. The results indicate a statistically significant positive association (beta = 0.131, standard deviation = 0.021, t-value = 6.238, p-value = 0.000), implicating that the perceived higher benefits of IFRS translate to more use by the sampled banks. This observation highlights the importance of PB as a source of motivation that encourages effective adoption of IFRS practices in banking institutions. Conversely, the analysis did not show any significant impact of LR on the adoption of IFRS since the coefficient was not statistically significant to imply that LR is not a significant factor that influences IA among the sampled banks.

Table 11: Path Analysis Output

Paths	Original Sample (O)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
GP -> IA	0.76	0.036	20.975	0.000
PEI -> IA	0.62	0.044	14.091	0.000
PEB -> IA	0.131	0.021	6.238	0.000
LR -> IA	-0.003	0.039	0.085	0.932

Note: GP: Governmental Policy, IA: Adoption of IFRS, PEI: Perceived Ease of Implementation, PEB: Perceived Benefits, LR: Legal Requirements.

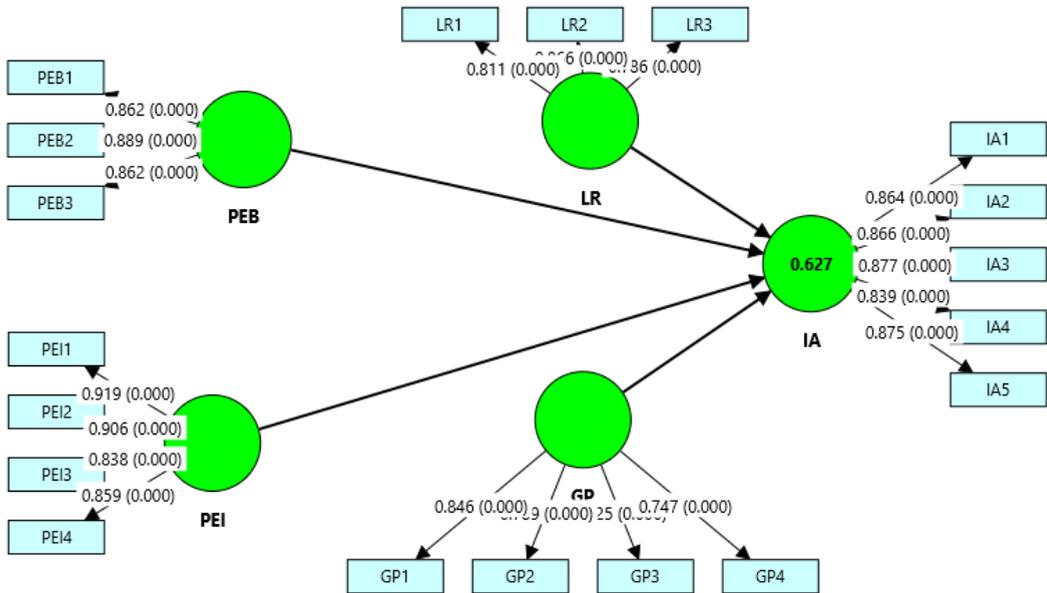


Figure 3: Explanatory Power of the Model

CONCLUSION AND SUGGESTIONS

The research aims at investigating the trends in the adoption of IFRS using rigorous empirical research. The path analysis outcomes have revealed that GP has the strongest positive impact on IA among the variables taken into consideration which demonstrates the crucial role of institutional support in the process of the switch to the international accounting standards. PEI also shows that it has a considerable impact on IA indicating that practical feasibility and ease of implementation are crucial factors to be considered by firms when making adoption. PB demonstrates a statistically significant but comparatively lesser effect, which is that, though companies may realise the benefits of IFRS, the effects are not enough to lead to mass adoption without favourable policy environments and operational readiness. Conversely, LR shows no substantial influence, which suggests that the compulsory compliance interventions are not sufficient, and that such aspects as sound policy support and operational preparedness play a vital role in a successful implementation of IFRS. These findings have implications to the banking institutions. The government should take the initiative of ensuring that regulatory authority and other bodies work towards ensuring that there are strict and clear government policies that would facilitate the use of the international financial reporting standards. These policies can take the form of tax breaks, regulatory harmonisation and state support of IFRS as a best practice. Also, training programmes, technical advice, and fortification of digital infrastructure can increase the perceived ease of implementation of the IFRS9 to the sampled banks. Therefore, policymakers and top management must adopt the concept of encouraging the adoption by a number

of banking institutions, and adequate resources and strategic efforts must be established that can ensure that the implementation of IFRS is successful.

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