The Impact of Applied of IFRS (9) Standard on the Financial Performance of Jordanian Commercial Banks in Light of the Corona Pandemic

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Abstract. This research aimed to clarify the impact of the application of IFRS 9 standard on the financial performance of Jordanian Commercial Banks (JCB) under the Corona pandemic, to achieve the goal of this research Descriptive analytical method was used the Population consisted Of all Jordanian commercial banks, While the research sample consisted of the following commercial banks (Housing Bank, Arab Bank, Jordan Bank, Jordan Kuwaiti Baank, union Bank and Cairo Amman Bank) during the period of 2018 till the end of the third quarter of 2021 where the owners' equity was used to select the research simple and SPSS was used to analyze the research data.

The financial performance was measured through financial indicators (profitability, financial strength, liquidity, financial risks), and the independent financial variable was measured through the provision for declining credit facilities and government accounts. One of the most prominent results of the research in the level of significance ($\alpha \leq 0.05$) and the trademark (9) IFRS on the financial performance of JCB in light of the Corona pandemic. In addition, the atmosphere of the exemplary research in postgraduate studies and benefit from the application of the IFRS (9) criterion as much as possible, in addition to following up on updates and amendments on a regular basis.

Keywords: IFRS (9) standard · Financial performance · Allowance for declining credit facilities · Debit current accounts

1 Introduction

Banks in the world today have become a major part of affecting the economy, and an essential part of financial transactions. Therefore, attention must be paid to all aspects related to them, including the application of the IFRS (9); the importance of applying the standard comes from its impact on deposits and loans, as it enhances depositors' confidence in banks. Because it provides more guarantees and greater protection than the previous one, and this in turn enables banks to provide liquidity and meet their

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obligations. As for loans, it will lead to the promotion of a sound research of the credit-worthiness of customers, which represents a protection for banks from any risks related to borrowers not fulfilling their financial obligations [1].

Also, the application of this standard will have important effects on banks with regard to calculating allowance for declining credit facilities, and debit current accounts. It also contributes to introducing broader and more comprehensive concepts in risk management; this, in turn, requires the existence of a sound governance structure and procedures for banks to ensure the proper application of the concepts contained in IFRS (9) [2].

With the emergence of COVID-19 at the end of 2019, the human cost of the epidemic was catastrophic, and the attempts of governments to contain the spread of the virus were so ruthless that global economic activity was on the verge of stopping. The consequences of the COVID-19 pandemic are significant; this created great uncertainty regarding the economic consequences of the crisis, and as COVID-19 continued to spread around the world, countries faced a general economic slowdown, high levels of unemployment, and a decline in consumer confidence.

Based on the foregoing, it became clear to us the importance of applying IFRS (9) criterion in calculating losses before they occur; and that is through the correct application of IFRS (9) standard and knowing the impact of this on the financial performance of JCB in light of the Corona pandemic.

2 The Research Problem

Performance evaluation is of great importance for any economic or financial organization, especially in the current period in which the world is witnessing the Corona pandemic, and because of the pandemic and closure, many organizations have gone bankrupt, and therefore it is necessary to research the impact of the standard on financial performance; As during the pandemic, it witnessed an expansion in banking transactions.

On this basis, the problem of the research lies in identifying the impact of the application of IFRS 9 standard on the financial performance of JCB in light of the Corona pandemic, and knowing the impact of allowance for declining credit facilities and debit current accounts on the financial performance of banks.

3 The Importance of Research

The importance of research emerges from the challenges of complying with the requirements of the IFRS (9), which needs an in-depth research in order for the standard to achieve the desired benefit from it during the Corona pandemic. As the standard requires calculating provisions for debts based on expectations of default or non-payment on the part of the borrower.

4 Objectives of Research

This research seeks to achieve the following objectives:

1. Identifying the impact of debit current accounts on the financial performance of JCB in light of the Corona pandemic.
2. Identifying the impact of allowance for declining credit facilities on the financial performance of JCB in light of the Corona pandemic.
3. Coming up with results and recommendations that contribute to the effectiveness of applying the IFRS (9) standard on the financial performance of JCB in light of the Corona pandemic.

5 Research Hypotheses

The research hypotheses can be formulated as follows:

HO1 the main premise:
There is no statistically significant effect at the level of significance ($\alpha \leq 0.05$) for the application of the IFRS (9) criterion on the financial performance of JCB in light of the Corona pandemic.

The following sub-hypotheses are derived from this hypothesis:

HO1–1: First sub-hypothesis:
There is no statistically significant effect at a significant level ($\alpha \leq 0.05$) of the allowance for declining credit facilities on the financial performance of JCB in light of the Corona pandemic.
HO1–2: Second Sub-Hypothesis:
There is no statistically significant effect at the level of significance (($\alpha \leq 0.05$) for debit current accounts on the financial performance of JCB in light of the Corona pandemic.

6 Limitations Research

1. Comparing the published financial statements of Jordanian commercial since the mandatory application of IFRS (9) from 1/1/2018 to the end of 2021.
2. The period of the research represent years of 2018 and 2019 before the Corona pandemic and years of 2020 and 2021 after the Corona pandemic.

7 Theoretical Framework

International Standard No. IFRS (9) (Financial Instruments) is an international standard for financial reporting, and the purpose of this international standard is to enhance financial integrity in the banking system, as it contains major and important topics, namely: classification and measurement of financial instruments, expected credit losses and hedge accounting.

Standard IFRS (9) entered into effect for commercial banks on January 1, 2018, replacing the previous International Financial Reporting Standard for Financial Instruments, International Accounting Standard IFRS (39) [3].

It aims to replace Standard No. (9) IFRS in place of Standard No. (39) IAS for Financial Reporting; to increase allowance for credit losses (impairment) and reduce after-tax profits in banks, IFRS (9) has particularly important implications for commercial banks; they often hold financial assets; this reduces the expected loss model from the cyclical fluctuations of financial regulations, thus improving financial stability.

Standard IFRS (9) includes all organizations that have financial instruments, and aims to classify the financial instruments in line with the business model used by economic organizations. The International Standard on Financial Instruments is divided into three main sections: recognition and measurement, expected credit losses, and hedge accounting [4].

From the point of view of researchers, the IFRS (9) criterion is very important because it is an important way to classify financial assets, and it is very important for measuring and calculating allowance for credit facilities and debit current accounts. Especially for commercial banks; they often hold financial assets; this reduces the expected loss model from the cyclical fluctuations of financial regulations, thus improving financial stability [5].

The development strategy for the standard was a preliminary plan that can be changed according to the priorities of the Council it deems appropriate, through feedback and consultations with the rest of the parties concerned or interested in this project. It included the following themes: recognition and measurement, expected credit losses, and hedge accounting [6, 7] and [8].

On December 22, 2010, the Central Bank of Jordan(CBJ) issued a circular to licensed banks in Jordan; regarding the early implementation of the first phase of the International Financial Reporting Standard (9). IFRS On May 18, 2016, the CBJ issued another circular regarding the implementation of international financial reporting. The CBJ asked banks to research the impact of the application of the standard on their financial statements, and the application of the standard was confirmed as of 1/1/2018.

On June 6, 2018, the CBJ issued instructions No. (13/2018) regarding the application of the IFRS (9), which included the scope of application, governance requirements, classification and measurement of assets, financial liabilities and their derivatives, trading and hedging accounting. The instructions also included the expected credit loss in terms of the scope and general framework for applying the standard and measuring credit risk [9].

7.1 Current Accounts

The concept of current account: It is a contract between two parties (the bank and the customer) where the customer deposits his money or securities (checks) in a special account (the current account) that he can withdraw or add to at any time he wants and within a pre-agreed mechanism (cash, checks, etc.). Or an automated debit card)" [10], and it can be defined as the normal current accounts whose balance must always be in credit, meaning that the customer cannot withdraw more than his deposit [11].

7.2 Allowance for Declining Credit Facilities

Credit results in receivables on the balance sheet of the bank that has paid off customer obligations, and the receivable is recorded as a current asset. One of the main risks of selling goods on credit is not ensuring that all payments are collected; to take into account this possibility, banks create allowance for declining credit facilities [10].

7.3 Financial Performance

Financial performance is "a fundamental and important concept, as the importance of knowing financial performance comes through assistance in understanding the financial statements, as well as assistance in conducting analysis and comparison processes, and following up and knowing the economic and financial conditions surrounding the bank" [12].

Financial performance is "one of the issues that determine the degree of development and organization of economic organizations, through which the material pillars of society are formed, which secure a breakthrough towards civilization and social well-being, which is built primarily on the basis of material accumulations achieved by countries, which is directly reflected in the development of national income in them" [13].

7.4 The Most Important Measures of Financial Performance

In view of the multiplicity of standards used to show the financial capacity of companies, competitiveness and ability to fulfill their obligations, and also due to the multiplicity of types of companies, including commercial, industrial, agricultural, and service, as well as to the diversity in the sizes of these companies. A clear vision of it including these measurements:

1. Profitability indicators: which includes (the ratio of total profit before tax to total assets, the ratio of total profit after tax to total assets, the rate of return on assets, the rate of return on equity) [14] and [15].
2. Financial strength indicators: which includes (the capital adequacy ratio, the ratio of non-performing debts to the total debts of operating banks [16] and [17].
3. Liquidity indicators: which includes (the ratio of current assets to total assets, the ratio of loans to deposits, the ratio of deposits to assets, the ratio of financial leverage) [18].

8 Method and Procedures

Secondary sources were relied on through books, periodicals, magazines, and published and unpublished theses related to the subject of the research. As well as relying on published bank reports for the years 2018–2021.

8.1 Population and Sample of the Research

The research population consists of all (13) Jordanian commercial banks listed on the Amman Stock Exchange. Where the sample study included the data of the (6) Jordanian commercial banks, namely (Housing, Arab, Jordan, Jordanian Kuwaiti, Al-Etihad and Cairo Amman). Where the basis of property rights was adopted as it is on 1/1/2021 to select the research sample.

8.2 Research Variables

The dependent variable in (the financial performance of commercial banks): through a set of financial ratios that work on evaluating the performance of commercial banks as follows:

- Profitability indicators: which includes (the ratio of the total profit before tax to the total assets, the ratio of the total profit after tax to the total assets, the rate of return on assets, the rate of return on equity).
- Financial strength indicators: which includes (the capital adequacy ratio, the ratio of non-performing debts to the total debts of operating banks).
- Liquidity indicators: which includes (the ratio of current assets to total assets, the ratio of loans to deposits, the ratio of deposits to assets, the ratio of financial leverage).

As for the independent variable (the application of IFRS 9 standard)), it aims to classify financial assets in line with the business model used by banks, as it will be measured through: allowance for declining of credit facilities and debit current accounts.

8.3 The Statistical Methods Used

1. Descriptive analysis: which aims to describe the data of the research sample through the measures of central tendency represented (arithmetic mean, standard deviation, and the lowest and highest value), as this will aim to clarify the measures of central tendency for the data of the research sample.
2. Analysis of financial ratios: this aims to clarify the importance of each ratio in the banks of the research sample.

8.4 Descriptive Analysis

Through the descriptive analysis of the research sample, it was found that the Corona pandemic had negatively affected each of the debit current accounts, the ratio of profit before tax to assets, the ratio of profit after tax to assets, the ratio of capital adequacy, the ratio of current assets to total assets, the ratio of loans to deposits, the ratio of credit risks, and the ratio of risks Investment, as all these indicators decreased during the pandemic period, which was represented by the research in the years 2020 and 2021.

The statistical analysis also indicates that the Corona pandemic has positively affected both the allowance for declining credit facilities, the return on assets, the return on equity, the ratio of non-performing debt to total debt and the ratio of deposits to assets, as all these indicators increased during the pandemic period, which was represented by the research in the year 2020 and 2021.

8.5 Financial Ratio Analysis

The analysis of the financial ratios for the results of the allowance for declining credit facilities for the research sample indicates that the highest value of the allowance for declining credit facilities in the Bank of Jordan in the year 2020 was also the lowest value in Cairo Amman Bank in 2019. The value of the debit current accounts in the Housing Bank in 2019 was also the lowest value in the Arab Bank in 2020.

The tax in the Jordan Kuwait Bank in 2019 as it was the lowest value in the Arab Bank in 2021, the analysis of the financial ratios of the results of the profit after tax ratio to the assets of the research sample also indicates that the analysis of the financial ratios of the results of the profit before tax ratio to assets for the research sample indicates that the highest value to profit before tax to assets for sample study. The highest value of profit after tax was in the Bank of Jordan in 2018, and the lowest value was in the Housing Bank in 2021.

The analysis of the financial ratios of the results of the return on assets for the research sample indicates that the highest value of the return on assets in the Housing Bank in 2019 and 2020 was also the lowest value in the Union Bank in 2019. The analysis of the financial ratios of the results of the return on equity ratio for the research sample indicates that the highest return on equity in Bank Al Etihad in the year 2020 and the lowest value in Bank Al Etihad in 2019.

Also, the analysis of the financial ratios of the results of the capital adequacy ratio for the research sample indicates that the highest value of capital adequacy in the Arab Bank in the year 2019 was also the lowest value in the Bank of Jordan in 2018 and 2019. The analysis of the financial ratios of the results of the non-performing debt ratio indicates the total debts of the sample researching.

The highest value of non-performing debts to total debts was in the Bank of Jordan in 2018, and the lowest value was in the Jordan Kuwait Bank in 2018.

The analysis of the financial ratios of the results of the ratio of current assets to total assets of the research sample indicates that the highest value of current assets to total assets in the Bank of Jordan Kuwait in the year 2020 as it was the lowest value in the Housing Bank in 2018, and also the analysis of financial ratios indicates the results of the ratio of loans to deposits For the research sample, the highest value of loans to deposits in the Bank of Jordan was in 2019 and the lowest value was in the Bank of Jordan in 2021. The analysis of the financial ratios of the results of the ratio of deposits to assets for the research sample indicates that the highest value of deposits to assets in the Bank of Jordan in the year 2021 It was also the lowest value in the Housing Bank in 2019.

9 Testing Hypotheses

The hypotheses of the research were tested through the SPSS program in order to achieve the objectives of the research and answer its assumptions, and the results were as follows:

With regard to the hypotheses of the research, they were tested through the multiple regression model, as the Table 1 indicates the results of the test sub-hypotheses.

Table 1. Table the results of the test sub-hypotheses

The dependent variable: the financial performance of commercial banks			
The independent variable	B	T	Sig.
Constant parameter	0.355	2.734	0.012***
Allowance for declining credit facilities	0.155	14.862	0.000***
Debit current accounts	0.18	12.922	0.000***
R^2	74.96%		
Sig.	0.000***		

From the Table 1 the results of the multiple regression analysis indicated that the value of the coefficient of determination is ($R^2 = 74.96\%$), which means that (74.96%) of the change in the financial performance of commercial banks is due to the application of the IFRS (9) criterion with its two parts (the allowance for declining credit facilities and debit current accounts). Accordingly, the first main null hypothesis will be rejected and the alternative hypothesis will be accepted, which states "there is a statistically significant effect at the significance level ($\alpha \leq 0.05$) for the application of the IFRS (9) criterion on the financial performance of JCB in light of the Corona pandemic.

As the Table 1 indicates that the value of (T = 14,862) with the allowance for declining credit facilities, and with a significant significance of less than 5%, which means rejecting the null hypothesis and accepting the alternative hypothesis which states: "There is a statistically significant effect at the significance level ($\alpha \leq 0.05$) for allowance for declining credit facilities on the financial performance of JCB in light of the Corona pandemic.

As the Table 1 indicates that the value of (T = 12.922) of debit current accounts, with a significant significance of less than 5%, which means rejecting the null hypothesis and accepting the alternative hypothesis which states "there is a statistically significant effect at the significance level ($\alpha \leq 0.05$) for the debit current accounts On the financial performance of JCB in light of the Corona pandemic.

To ascertain if there is a difference in the financial performance of JCB that is affected by the Corona pandemic, so the paired sample T-test was conducted for the independent variables: allowance for declining credit facilities and debit current accounts for the period before the Corona pandemic for the years 2018 and 2019 and for the period after the Corona pandemic for the years 2020 and 2021 as shown in the tables below, Table 2 and Table 3.

Table 2. Paired sample T-test/allowance for declining credit facilities

		Paired differences			t	df	Sig. (2-tailed)
		Mean	95% confidence interval of the difference				
			Lower	Upper			
Pair1	Credit facilities - Corona	39689798	−2641156	82020753	2.94	23	.045

From the Table 2 the results of the paired sample T- test analysis indicated that the value of the t-statistic value was 2.94, which is statistically significant at a significant level of less than 5%, and this indicates the presence of a difference in the pre- and post- the Corona pandemic for the first independent variable, which is allowance for declining credit facilities.

Table 3. Paired sample T-test/debit current accounts

		Paired differences			t	df	Sig. (2-tailed)
		Mean	95% confidence interval of the difference				
			Lower	Upper			
Pair1	Debit current accounts – Corona	157152457	104692541	209612373	6.19	23	.000

From the Table 3 the results of the paired sample T- test analysis indicated that the value of the t-statistic value was 6.19, which is statistically significant at a significant level of less than 1%, and this indicates the presence of a difference in the pre- and post- the Corona pandemic for the second independent variable, which is debit current accounts.

10 Results of Research

1. There is a statistically significant effect at a significant level ($\alpha \leq 0.05$) for the application of the IFRS (9) criterion on the financial performance of JCB in light of the Corona pandemic.
2. There is a statistically significant effect at a significant level ($\alpha \leq 0.05$) of the allowance for declining credit facilities on the financial performance of JCB in light of the Corona pandemic.
3. There is a statistically significant effect at a significant level ($\alpha \leq 0.05$) of debit current accounts on the financial performance of JCB in light of the Corona pandemic.

11 Recommendations of Research

1. The research recommends conducting more studies related to the application of the (9) IFRS criterion on the financial performance of JCB in light of the Corona pandemic for subsequent years to show the impact for the coming years.
2. The research recommends taking advantage of the application of IFRS (9) standard as much as possible, in addition to following up on updates and amendments to the standard on a regular basis.
3. The research recommends making full use of the application of the IFRS (9) standard on the financial performance of JCB in light of the Corona pandemic, and using other financial ratios that were not used in this research.

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