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POST IMPLEMENTATION EFFECT OF IFRS 9 ON LOAN PORTFOLIO OF LISTED DEPOSIT MONEY BANKS IN NIGERIA.

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Abstract

This study examines the impact of International Financial Reporting Standard 9 (IFRS 9) on the loan portfolio of Deposit Money Banks (DMBs) in Nigeria. Using a non-experimental quantitative design, the study analyzed 12 listed DMBs on the Nigeria Exchange Group from 2013 to 2022. The study compared the loan portfolio before and after the adoption of IFRS 9, using an independent samples t-test. The results show a statistically significant difference in the loan portfolio after the adoption of IFRS 9 ($t = 3.182$, $p = 0.002$). The mean difference in the loan portfolio is 0.1707, indicating an increase in loan portfolio after IFRS 9 adoption. The findings suggest that IFRS 9 has a significant impact on the loan portfolio of DMBs in Nigeria. The study's results have implications for financial reporting, risk management, and regulatory compliance in the banking industry. Overall, the study contributes to the understanding of the impact of IFRS 9 on financial institutions in emerging economies.

1. INTRODUCTION

A country's economic stability relies heavily on its banking system's strength. Banks must maintain high-quality loan portfolios to ensure stability and profitability. Failure to do so can lead to financial crises, as seen in Nigeria's 2008-2009 experience. The 2007-2009 financial crisis also highlighted issues with IAS 39, which was criticized for its complexity and lack of transparency in financial reporting, particularly regarding credit loss recognition and financial asset classification.

The International Accounting Standards Board (IASB) responded to these concerns by replacing IAS 39 with IFRS 9, "financial instrument," on July 24, 2014 (Casta et al, 2019). With the effective date of January 1, 2018, the previous rule of IAS 39 was

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superseded by IFRS 9, the new accounting standard for credit loss recognition.

Because of their lending operations and the nature of dealing with financial instruments, the banking industry is deeply affected by the standard, but it applies to all companies that deal with such instruments (Frykström & Li, 2018). New to financial reporting with IFRS 9 is a predictive component. According to Gerald and Edwards (2016), EBA (2017), and Frykström and Li (2018), the model clearly incorporates an Expected Credit Loss (ECL) that is forward-looking and mandates that banks record future credit losses in their financial statements.

While changes to financial instrument classification and hedge accounting received limited discussion during IFRS 9's development, the expected credit losses model sparked significant debate. Banks' success relies heavily on effective lending programs, timely repayments, and proper loan portfolio management to maintain financial stability and profitability. A bank's loan portfolio is its largest asset and revenue source, but also a significant risk factor. Poor management can lead to losses and failures. It represents the total amount of outstanding loans and is a key indicator of a bank's financial health.

Under IFRS 9, banks provision for expected credit losses upfront, unlike IAS 39, which required provisioning only after losses were incurred. A decline in loan portfolio quality can compromise a bank's liquidity and hinder its daily operations (Onuko et al., 2015). Maintaining a healthy loan portfolio is essential for the performance of individual banks and the stability of the entire financial sector (Onuko et al., 2015).

The global financial crisis triggered a wave of bank failures, with 492 US banks failing between 2005 and 2013 (FDIC), most of which occurred after 2008 (ECB, 2015). Recent bank collapses, including Silicon Valley Bank and Signature Bank, have sparked concerns about financial stability, prompting the FDIC to take measures such as establishing a bridge bank and selling off Signature Bank's $60 billion loan portfolio (FDIC). The 2023 collapse of US banks, such as Silvergate Bank and Silicon Valley Bank (SVB), due to rapid deposit withdrawals (with SVB experiencing a $42 billion withdrawal in 10 hours), prompted regulators to intervene. In response, the Federal Reserve and other global regulators, including the Bank of Canada, Bank of England, Bank of Japan, European Central Bank, and Swiss National Bank, announced joint measures to protect deposits and provide liquidity, introducing the Bank Term Funding Program (BTFP) to offer loans to eligible institutions.

The Nigerian banking sector faced a crisis in 2011, with distressed banks having a total loan exposure of $20 billion and non-performing loans ranging from 19% to 50% (Obayiuwana, 2011). The Central Bank of Nigeria (CBN) intervened with a bailout to prevent a collapse, recognizing that poor loan management can lead to illiquidity (Okpa & Inyang, 2014) and potentially severe economic consequences. Effective loan portfolio management is crucial for financial soundness and bank profitability.

Due to the ever-increasing loss of loans in banks, there has been significant worry over the management of the quality of bank loan portfolios throughout the years. Some have also stated that banks' low-quality loan portfolios are the main reason why they collapse (Memdani, 2017).

In order to examine the Post Implementation effect of IFRS 9 on a Loan Portfolio of Deposit Money Banks in Nigeria, the following research questions are generated:

i. What is the pre- and post-implementation effect of Expected Credit Loss Model of IFRS 9 on Loan Portfolio in Listed Deposit Money Banks in Nigeria?
ii. What is the pre- and post-implementation effect of Hedge accounting on Loan Portfolio in Listed Deposit Money Banks in Nigeria?

The primary objective of this study is, to critically examine the post implementation effect of IFRS 9 on a Loan Portfolio of Deposit Money Banks in Nigeria. The specific objectives of this study are to:

i. Examine the pre- and post-implementation effect of forward-looking Expected Credit Loss Model (impairment) of IFRS 9 on Loan Portfolio in Listed Deposit Money Banks in Nigeria.
ii. Examine the pre- and post-implementation effect of Hedge accounting on Loan Portfolio in Listed Deposit Money Banks in Nigeria.

Statement of Hypotheses

In order to examine the Post Implementation effect of IFRS 9 on a Loan Portfolio of Deposit Money Banks in Nigeria, the following testable hypotheses are generated:

Ho_1: There is no significant pre- and post-implementation effect of Expected credit loss model of IFRS 9 on loan portfolio of Listed Deposit Money Banks in Nigeria.

Ho_2: There is no significant pre- and post-implementation effect of Hedge accounting on Loan Portfolio of Listed Deposit Money Banks in Nigeria.

2. LITERATURE REVIEW

Concept of Loan Portfolio

A loan portfolio, being a bank's primary asset and revenue source, requires effective management to mitigate risks and ensure profitability (Comptroller's Handbook, 1998, updated 2017). The quality of the loan portfolio has a direct impact on bank profitability (Dang, 2011). Poor loan portfolio management can lead to significant losses and bank failures (Comptroller's Handbook, 1998, updated 2017).

Credit risk

Credit risk is a major concern for banks, stemming from loans, investments, and other financial products (Comptroller's Handbook, 1998, updated 2017). Effective management involves sound underwriting, efficient approval processes, and ongoing monitoring to mitigate repayment defaults. Understanding and controlling risk profiles, credit culture, and portfolio composition are crucial for managing credit risk (Comptroller's Handbook, 1998, updated 2017).

Expected Credit Losses

Under IFRS 9, expected credit losses are calculated based on probability-weighted outcomes of potential defaults (Porretta et al., 2020). Assets are categorized into three stages:

1. Stage 1: 12-month expected losses for low credit risk assets
2. Stage 2: Lifetime expected losses for assets with significant credit risk increase

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3. Stage 3: Lifetime expected losses for credit-impaired assets (Porretta et al., 2020)

Hedge Accounting

Hedging is a risk management strategy that protects businesses from financial risks by using financial instruments to mitigate potential losses (Ja'rat, 2014). This approach originated from the conservatism concept, which emphasizes anticipating potential losses (Shabani, 2014). IFRS 9 improves hedge accounting by aligning it with risk management practices, enabling entities to better manage financial risks such as exchange rates, interest rates, and commodity prices.

Expected Credit Loss and Loan Portfolio

Groff and Mörec's (2020) research looked at how a group of Slovenian banks fared on the first day of applying IFRS 9, specifically looking at how it affected their low loan values and total equity. The research showed that IFRS 9's model of projected credit loss—which is based on actual credit loss and future information on the present loan portfolio—allows for the prompt recognition of credit losses. Although the study found that moving to this standard will reduce bank ownership rights and further reduce value, the exact nature of this effect is unclear in scenarios with optimistic macroeconomic conditions and heavy regulatory intervention to reorganise the large-scale loan portfolio. All banks and the state bank asset management organisation were compared after the banks with the worst loan portfolios were transferred. While banks that reorganised their loan portfolios with state help saw an increase in the value of their extra loans while transitioning to IFRS 9, banks without extensive portfolio reforms saw a fall in this value.

Casta et al. (2019) set out to analyse the banking industry's adoption of IFRS 9 in an effort to be the first to do so since the standard's release. Banks adjusted their accounting policies to mitigate the unsavoury short-term effects of applying ifrs 9, which included decreased retained profits and other equity reserves due to the application of expected losses based on the approved provisions model. A total of 56 listed banks from various EU nations were included in the study. Banks are incentivised to cut or raise provisions for expected loan losses in proportion to the negative impact on retained earnings, according to the research. While the results do not back up the capital management hypothesis, they do back up the income smooth hypothesis.

Hedge Accounting and Loan Portfolio

Türel and Selvi (2007) examined the financial reports and disclosures of thirteen banks listed on the Istanbul Stock Exchange as of December 31, 2005. Twelve financial institutions were determined to be involved in the derivative contracts. Additionally, only two of these financial institutions were deemed to be reporting parties to the derivative transactions. Contrarily, the other banks were mostly hedged, although they were reportedly hedging as a derivative financial instrument by becoming a party to the derivative products contract since they couldn't meet the hedge accounting criteria. But there wasn't adequate data on risk management, as per hedge accounting.

In 2010, Türel and Selvi studied 33 Turkish commercial banks. Derivative contracts were only entered into by 28 of the institutions, and they mostly covered interest rate and currency rate risk with a minor bit of stock index risk thrown in for good measure. There are twenty banks that are reportedly involved in hedging against derivatives, but only four of them are reporting to hedge accounting, even though hedging is the goal of being a party to the derivative product contract.

According to Çiftci (2019), out of the total number of banks operating in Turkey, 22 were commercial banks, 5 were participation banks, and 12 were development and investment banks. The fundamental purpose of the derivative contracts, which were entered into by 39 different institutions, was to control interest rate and exchange rate risk. Additionally, thirteen of the thirty-six banks that are signatories to the derivative contract are obligated to declare their hedge accounting activities, while the remaining twenty-six banks are only said to be involved in hedging against the derivative.

Portfolio Theory

A seminal work titled "portfolio selection" published in 1952 by Harry Max Markowitz formulated the Portfolio Theory. This theory asserts that, given a chosen degree of risk, an investor may optimize the anticipated returns of a portfolio through diversity. It is a strategy of portfolio management to decrease risk.

Portfolio management requires knowledge of both the inherent risk of each credit and the interconnections between those risks in order for bankers to do their jobs well. Banking is both a risk-taking and profit-making enterprise, and bank loan portfolios should yield profits commensurate with their risk.

Liquidity Preference Theory

Liquidity Preference Theory, introduced by John Maynard Keynes in 1936, suggests that investors demand higher returns for long-term investments due to liquidity risks. Investors prefer liquid assets that can be easily converted to cash. Banks apply this principle to loan portfolios, seeking quick loan repayments to meet their liquidity needs, driven by three motives:

- Transaction motive (short-term obligations)
- Precautionary motive (unexpected expenses)
- Speculative motive (future investment opportunities)

3. Methodology

This study employed a non-experimental quantitative design, specifically ex-ante and ex-post facto, to investigate the impact of IFRS 9 on loan portfolios of listed Deposit Money Banks in Nigeria. The study analyzed 12 banks from 2013 to 2022, comparing pre-implementation (2013-2017) and post-implementation (2018-2022) periods. Secondary data from audited financial statements were used, and regression and independent t-test analyses were conducted using SPSS version 23.

The regression equation for pre-implementation and post implementation is represented as follows:

$LP_{it} = \beta_{01} + \beta_{11}ECL_{it} + \beta_{21}HA_{it} + \beta_{31}CAR_{it} + \beta_{41}NPL_{it} + U_{it}$…….. (i) Pre-implementation

$LP_{it} = \beta_{02} + \beta_{12}ECL_{it} + \beta_{22}HA_{it} + \beta_{32}CAR_{it} + \beta_{42}NPL_{it} + U_{it}$…… (ii) Post-implementation

Where; LP = Loan Portfolio

β_{01}, β_{02} = constant

$\beta_{11}, \beta_{21}, \beta_{31}, \beta_{41}, \beta_{12}, \beta_{22}\beta_{32}, \beta_{42}$ = Coefficients of the Variables

ECL= Beta of Expected Credit Loss

HA = Beta of Hedge Accounting

CAR = Beta of Capital Adequacy Ratio

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NPL = Beta of Non-Performing Loan

$_{it}$ = The different banks at different time periods

U = Error Term

The formula for computing the t-value and degrees of freedom for a paired t-test is:

$$T = \frac{mean1 - mean2}{\frac{s(diff)}{\sqrt{(n)}}} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (iii)$$

Where:

Mean1 and mean2 = the average values of each of the sample sets

s (diff) = The standard deviation of the differences of the paired data values

n = the sample size (the number of paired differences)

n−1 = the degrees of freedom T = (n)

Variables Measurement

1. Loan Portfolio (LP): Dependent variable, measured as log of book values of loans and advances (Kinoti, 2015).
2. Expected Credit Loss (ECL): Independent variable, measured as difference between contractual and expected future cash flows (IFRS 9).
3. Hedge Accounting (HA): Independent variable, measured as ratio of hedging instrument to hedged item (IFRS 9).

RESULT AND DISCUSSION

Independent T-Test Result

Independent T-Test Result for Loan Portfolio (LP)

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
LP	Equal variances assumed	1.070	.303	3.182	118	.002	.170669493236660	.053635993746363	.064455623258582	.276883363214738
	Equal variances not assumed			3.182	105.795	.002	.170669493236660	.053635993746363	.064328539096238	.277010447377082

Source: SPSS 23.

Before and after IFRS 9 was implemented, the loan portfolio (LP) was compared using an independent samples t-test. A significance value of 0.303, which is larger than 0.05, was given by Levene's test for equality of variances, demonstrating that the assumption of equal variances is not violated. For this reason, we will make reference to the row that assumes equal variances. There are 118 degrees of freedom (df) in the t-test, and the p-value for two-tailed significance is 0.002. The t-value is 3.182. We may reject the null hypothesis and say that the loan portfolio was different before and after IFRS 9's implementation, as the p-value is less than 0.05. A standard error of 0.0536 is associated with a mean difference of 0.1707 in the loan portfolio. With a 95% level of certainty, we can say that the actual mean difference falls somewhere within the interval of 0.0645 to 0.2769.

Independent T-Test Result for Expected Credit Loss (ECL)

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
ECL	Equal variances assumed	.178	.674	3.106	118	.002	1.039463328109789	.334644589217550	.376775934713061	1.702150721506517
	Equal variances not assumed			3.106	117.890	.002	1.039463328109789	.334644589217550	.376769503524850	1.702157152694728

Source: SPSS 23

Expected Credit Loss (ECL) prior to and subsequent to IFRS 9's implementation are compared in the table above using an independent samples t-test. A significance value of 0.674, which is larger than 0.05, was obtained using Levene's test for equality of variances, suggesting that the assumption of equal variances is not violated. For this reason, we will refer to the row that assumes

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equal variances. There are 118 degrees of freedom (df) in the t-test, and the p-value for two-tailed significance is 0.002. The t-value is 3.106. We can reject the null hypothesis and say that the Expected Credit Loss was different before and after IFRS 9 was implemented, because the p-value is less than 0.05. The standard error difference in ECL is 0.3346, while the mean difference is 1.0395. We can say with 95% certainty that the actual mean difference is somewhere within the 95% confidence interval, which goes from 0.3768 to 1.7022.

Independent T-Test Result for Hedge Accounting (HA)

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
HA	Equal variances assumed	10.568	.002	-2.589	118	.011	-.076754289986588	.029645458904705	-.135460369572525	-.018048210400650
	Equal variances not assumed			-2.589	65.682	.012	-.076754289986588	.029645458904705	-.135948704899958	-.017559875073218

Source: SPSS 23

Hedge Accounting (HA) prior to and subsequent to IFRS 9's adoption was compared using the aforementioned independent samples t-test. Since the significance level of 0.002 (less than 0.05) was obtained using Levene's test for equality of variances, we may conclude that this assumption is not met. So, we look for the row where we don't assume equal variances. With 65,682 degrees of freedom (df) and a p-value of 0.012 for two-tailed significance, the t-test yields a t-value of -2.589. There appears to be a statistically significant change in Hedge Accounting between the years prior to and following the implementation of IFRS 9 (p-value < 0.05), hence we may reject the null hypothesis. With a standard error of 0.0296, the mean HA difference is -0.0768. We can say with 95% certainty that the actual mean difference is somewhere within the 95% confidence interval, which goes from -0.1359 to -0.0176.

Regression Result for Pre-implementation

Model Summary[b]										
					Change Statistics					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.036[a]	.001	-.033	17.913	.001	.037	2	58	.964	.995

a. Predictors: (Constant), PRE_HA, PRE_ECL

b. Dependent Variable: PRE_LP

According to the model summary, the pre-implementation regression model for the loan portfolio and the independent variables expected credit loss and hedge accounting had a very weak correlation (R = 0.036). This was before IFRS 9 was implemented. Before the implementation of IFRS 9, Expected Credit Loss (ECL) and Hedge Accounting (HA) could only explain 0.1% of the variances in the loan portfolio, according to the R-Square value of 0.001. Even after controlling for the total number of predictors, the model still fails to account for a sizable chunk of the loan portfolio's variance (Adjusted R-Square = -0.033). Expected Credit Loss and Hedge Accounting prior to IFRS 9 did not have a notable influence on the loan portfolio, as indicated by the non-significant regression model (F-statistic = 0.037, p-value = 0.964, > 0.05). Positive autocorrelation in the residuals is likely given the Durbin-Watson value of 0.995, which is close to 1.

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	29.318	7.540		3.888	.000
	PRE_ECL	.025	.258	.013	.095	.924
	PRE_HA	.035	.134	.035	.264	.793

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a. Dependent Variable: PRE_LP

The regression coefficients table provides insights into the impact of Expected Credit Loss (PRE_ECL) and Hedge Accounting (PRE_HA) on the Loan Portfolio (PRE_LP) before the implementation of IFRS 9. The constant (intercept) is 29.318, with a p-value of 0.000, indicating that when PRE_ECL and PRE_HA are both zero, the expected loan portfolio value is 29.318. The coefficient for PRE_ECL is 0.025 with a p-value of 0.924, which is much greater than 0.05, indicating that Expected Credit Loss has no statistically significant effect on the loan portfolio before IFRS 9 implementation. This is further supported by the fact that the predictor is not making a significant contribution to the model (t-value = 0.095), which is quite tiny. There is no statistically significant effect of Hedge Accounting on the loan portfolio prior to the adoption of IFRS 9 (COUNT FOR PRE_HA = 0.035, p-value = 0.793, both more than 0.05). A t-value of 0.264 indicates a weak correlation.

Regression Result for Post-implementation

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.142[a]	.020	-.014	17.536	.020	.596	2	58	.555	.714

a. Predictors: (Constant), POST_HA, POST_ECL

b. Dependent Variable: POST_LP

The findings of the post-implementation regression model show that the dependent variable (POST_LP) is weakly related to the independent variables (POST_ECL and POST_HA). Expected Credit Loss and Hedge Accounting following IFRS 9 adoption barely explain 2% of the variance in the loan portfolio, according to the R-Square value of 0.020 and the R-Value of 0.142, which indicate a poor association. After accounting for the amount of variables, the model still fails to offer a significant explanation for changes in the loan portfolio, as indicated by the Adjusted R-Square value of -0.014. Listed deposit money banks in Nigeria appear to have been unaffected by the post-implementation factors of IFRS 9 in terms of their lending portfolios. The entire regression model does not have a significant F-statistic (0.596) and p-value (0.555), both of which are more than 0.05. This indicates that the loan portfolio was unaffected by Expected Credit Loss and Hedge Accounting following the introduction of IFRS 9. Furthermore, a Durbin-Watson value of 0.714 points to the possibility of positive autocorrelation in the residuals, which might mean that the mistakes aren't just random fluctuations but rather have some pattern to them.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	26.127	6.370		4.101	.000
	POST_ECL	-.010	.183	-.007	-.055	.956
	POST_HA	.146	.134	.141	1.086	.282

a. Dependent Variable: POST_LP

The regression coefficients for the post-implementation model provide further insight into the effect of Expected Credit Loss (POST_ECL) and Hedge Accounting (POST_HA) on the Loan Portfolio (POST_LP) after IFRS 9 implementation. The constant (intercept) is 26.127, with a p-value of 0.000, indicating that when POST_ECL and POST_HA are both zero, the expected loan portfolio value is 26.127. However, the coefficients for both predictors suggest that their impact on the loan portfolio is weak and statistically insignificant. The coefficient for POST_ECL is -0.010, with a p-value of 0.956, which is far greater than 0.05, indicating that Expected Credit Loss does not significantly affect the loan portfolio after IFRS 9 adoption. Similarly, POST_HA has a coefficient of 0.146 and a p-value of 0.282, both of which are more than 0.05. This indicates that the loan portfolio is unaffected by Hedge Accounting. Both POST_ECL and POST_HA have weak t-values (-0.055 and 1.086, respectively) that indicate they do not significantly predict the performance of loan portfolios.

Hypotheses Testing

Ho1: There is no significant pre- and post-implementation effect of the Expected Credit Loss (ECL) model of IFRS 9 on the loan portfolio of listed Deposit Money Banks in Nigeria.

The Expected Credit Loss model did not have a significant impact on the loan portfolio prior to the introduction of IFRS 9 since the p-value for the pre-implementation effect in the t-test for ECL is 0.924, which is higher than the significance level of 0.05. In a similar vein, the Expected Credit Loss model does not appear to have any notable impact on the loan portfolio following the implementation of IFRS 9 (p-value for post-implementation ECL effect is 0.956, again larger than 0.05). We cannot rule out Ho1 because the p-values for the pre- and post-implementation tests are bigger than 0.05. Listed deposit money banks in Nigeria did not see a material change to their loan portfolios either before or after IFRS 9's Expected Credit Loss model was put into force.

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Ho2: There is no significant pre- and post-implementation effect of Hedge Accounting on the loan portfolio of listed Deposit Money Banks in Nigeria.

The p-value for the pre-implementation effect is 0.793, which is significantly larger than 0.05, according to the t-test for Hedge Accounting. Given this, it's clear that the loan portfolio was unaffected by hedge accounting prior to the introduction of IFRS 9. Hedge accounting does not have a significant effect on the loan portfolio following the adoption of IFRS 9 as the p-value for the post-implementation period is 0.282, which is likewise larger than 0.05. We can't rule out Ho2 because the p-values for the pre- and post-implementation tests are both more than 0.05. This indicates that the loan portfolios of listed Deposit Money Banks in Nigeria were unaffected by Hedge Accounting both before and after its adoption.

4. Summary of Findings

The independent samples t-test revealed statistically significant differences in Loan Portfolio (LP), Expected Credit Loss (ECL), and Hedge Accounting (HA) before and after IFRS 9 implementation.

- The regression analysis showed a weak relationship between ECL, HA, and LP both before and after IFRS 9 implementation.
- The pre-implementation model was not statistically significant (F-statistic p-value = 0.964), and the post-implementation model was also not statistically significant (F-statistic p-value = 0.555).

Conclusion

The implementation of IFRS 9 has had a significant impact on the loan portfolio of Deposit Money Banks in Nigeria. The independent t-test results show that the loan portfolio (t = 3.182, p = 0.002) and expected credit loss (t = 3.106, p = 0.002) have increased significantly post-adoption, indicating a substantial change in the banks' provisioning practices. However, the hedge accounting (t = -2.589, p = 0.012) has decreased significantly, suggesting a change in the banks' risk management strategies. The regression analysis results show a slight improvement in the explanatory power of the model post-adoption (R-square = 0.020) compared to pre-adoption (R-square = 0.001), although the adjusted R-square values indicate a poor fit. Overall, the findings suggest that IFRS 9 has introduced significant changes in the loan portfolio management practices of Nigerian banks, with implications for financial reporting and risk management."

Recommendation

Based on the findings, it is recommended that Deposit Money Banks in Nigeria:

1. Enhance their credit risk assessment and provisioning practices to ensure accurate estimation of expected credit losses.
2. Review and refine their hedge accounting strategies to optimize risk management and financial reporting.
3. Invest in staff training and capacity building to ensure effective implementation of IFRS 9 requirements.
4. Regularly monitor and evaluate the impact of IFRS 9 on their loan portfolio and financial reporting to identify areas for improvement.
5. Consider improving data quality and model specifications to enhance the explanatory power of their financial models."

By implementing these recommendations, banks and regulators can work together to ensure that the adoption of IFRS 9 leads to improved financial reporting and risk management practices in the banking sector.

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