ISSN No:-2456-2165

# The Effect of the Adoption of International Financial Reporting Standards (IFRS) on the Performance of Commercial Banks in Zambia

**Oscar Kaonga**

A research report submitted to the ZCAS University in partial fulfilment of the requirement for the award of

**MBA-Finance Degree**

ZCAS UNIVERSITY
**March 2022**

# ABSTRACT

**In Accordance With The Accountants Act 2008 All Public Listed Firms In Zambia Were Mandated To Publish Their Financial Reports In Accordance With IFRS (International Financial Reporting Standards) In The Year 2010 When Zambia Institute Of Chartered Accountants (ZICA) Established A Reporting Framework Where All Public Interest Entities, Listed Companies And Government Owned Companies Are Required To Use Full IFRS. By The Year 2016 Almost All Commercial Banks Operating In Zambia Had Migrated To IFRS. As A Result Of This, There Have Been Controversies As To The Consequence Of This Convergence From The Zambian Financial Reporting Standards [Zambian Generally Acceptable Accounting Principles (ZGAAP)] To International Financial Reporting Standards (IFRS) On Firm's Financial Performance And Position. This Study Aims To Investigate The Impact Of IFRS On The Performance Of Commercial Banks Operating In Zambia. A Descriptive Financial Ratio Analysis Is Used To Assess And Make Comparison On The Performance Of Three Sampled Banks Covering A Period Of Four Years (2014 – 2017). The Study Was Carried By Comparing The Ratios That Were Calculated From IFRS Compliant Financial Statements And Zambian GAAP Compliant Financial Statements. Commercial Bank's Performance Was Measured In Relation To Liquidity, Profitability, Leverage, And Asset Quality. An Independent T-Test Was Used In Testing Whether There Is A Statistically Significant Difference Between The Ratios. The Result Of This Analysis Revealed A Statistically Significant Difference Due To The IFRS Adoption.**


***Keywords**: IFRS, Zambian Financial Reporting Standards, Performance, Financial Ratios, Pre-Adoption, Post Adoption*

ISSN No:-2456-2165

## ACKNOWLEDGEMENTS

My sincere gratitude goes to the almighty God for being with me during the period I have been working on my studies. My special thanks go to Dr. Serah B. Mbewe for providing me with professional guidance and encouragement during this study.

Let me also thank my dear wife Vivien Syamunyangwa Kaonga for her spiritual, financial and moral support during the whole period of my study. Many thanks also go to my Brother Oliver Kaonga for his most valuable advice and contributions without which my study would not be complete.

Lastly, my Children Oscar Kaonga Jr. and Taonga Kaonga as well as all my relatives and friends are highly acknowledged for their sacrifice in enduring my absence during the period I was concentrating on this study.

ISSN No:-2456-2165

## DECLARATION

I, Oscar Kaonga, hereby declare that this dissertation is a preparation of my original research work and that it has never been previously produced or presented at this University or any other institution for a similar purpose. Further, the work of other people and institutions has been duly acknowledged.
**Signed……………………………………..…… Date……………………………………**

## DEDICATION

This Dissertation is a special dedication to my mother Rose Chellah Mughogho Kaonga and my father Jeans Mughogho Kaonga who have always believed in me and inspire me to always aim for excellence in whatever I do. Their unwavering support from my initial stages in life has pushed me to work hard and enabled me to come this far.

ISSN No:-2456-2165

# APPROVAL

This document by Oscar Kaonga is approved as fulfilling the requirements for the award of the MBA FINANCE Degree of Zcas University.
Examiner 1…………………………………………..Signature: …………… Date…………..;.
Examiner 2………………………………………….. Signature: ……………Date…………….
Examiner 3…………………………………………....Signature: …………...Date ……………
Chairperson Board of Examiners…………………………………………..Signature………..…..Date……………
Supervisor………………………………………….Signature………………Date…………..

ISSN No:-2456-2165

**TABLE OF CONTENT**

**CONTENTS**

ISSN No:-2456-2165

ISSN No:-2456-2165

**LIST OF ACCRONYMS**

| | |
|---|---|
| IFRS | International Financial Reporting Standards |
| ZGAAP | Zambian Generally Accepted Accounting Standards |
| ZICA | Zambia Institute of Chartered Accountants |
| IFRS | International Financial Reporting Standards |
| ROA | Return on Asset |
| ROE | Return on Equity |
| NPL | Non - Performing Loan |
| CBN | Central Bank of Nigeria |
| PWC | Price Waterhouse Coopers |
| NSE | Nigerian Stock Exchange |
| IASB | International Accounting Standards Board |
| IASC | International Accounting Standards Committee |

# CHAPTER ONE
# INTRODUCTION

*1.0 STUDY BACKGROUND*

Globalization has potential to have a great effect on any country's economy worldwide. As such globalization remains a great challenge for every country. International Financial Reporting Standards (IFRS) have been adopted by many countries so far and many more still have intentions of adopting them worldwide. In 2005, the European Union started the process of adopting IFRS and ensured that all companies that are listed in the European Union region adopt IFRS in their Financial reporting (Odia; 2015).

The merging of groups of professionals in Accounting of major Nations in the world to form International Accounting Standard Committee (IASC) in 1973 resulted in the development of globally accepted standard of accounting. These countries which include the Japan, Germany, France, United States of America, Ireland Australia, Mexico and Canada, aimed at developing standards to replace the different local standards which various countries were using in the past in order to harmonize the differences in financial reports brought about by diversities in business structures, legal systems, tax systems and other factors affecting the different business environments.

International Standards Committee was officially recognized into the International Accounting Standards Board (IASB) in 2001. It is the IASB which was charged with the responsibility of formulating Accounting standards and their associated interpretations which are now jointly called IFRS (International Financial Reporting Standards). (Garba, 2016). Zambia has adopted IFRS Standards for all or some companies through the Zambia Institute of Chartered Accountants (ZICA), an institution that has been charged with the responsibility of upholding accountancy profession through regulation of accountancy education and practice. Through an Annual General Meeting resolution, ZICA adopted the use of IFRS for Zambia in April 2004. However, IFRS adoption was made compulsory for all listed companies in Zambia in the year 2010 through the Accounts Act of 2008 and listed companies were given up to the end of the year 2015 to fully converge to IFRS. (ZICA, 2015).

According to the Banking and Financial Services Act 2017 Section 88(2), banks have a responsibility of preparing are required to prepare their annual financial statements according to IFRS as stipulated by ZICA and rules issued by the banks in accordance with this act.

Meanwhile, before IFRS was adopted in Zambia, the Generally Accepted Accounting Principles (GAAP) was the Zambian National Accounting Standards. With reference to a paper published by PWC (2006) adoption of IFRS will affect the banking sector's long term financial planning, credit evaluation, performance measurement, debt contracts as well as product offering. There is also a belief that Zambian banks that are implementing IFRS enjoy more advantages than others as they conduct business with international investors and multinational businesses worldwide. It was found that most companies that started using IFRS experienced an increase in their rating mainly due to their data consistency. (Adam, 2019).

On the other hand, those opposing the embracing of IFRS argue many developing countries such as Zambia have unpredictable political and economic environments accompanied by weak institutions which usually undermines the successful adoption and implementation of IFRS. (ZICA, 2015).

Moreover, Aksu (2017) in their study, stressed that many countries faced a number of challenges in implementing IFRS among them; difficulties in application, complicated nature of IFRS, improper interpretation as well as possible knowledge shortfall. This research therefore will concentrate on comparing the performance of Zambian Commercial banks before and after adoption of IFRS. In order to measure how Commercial banks have performed before and after IFRS adoption, the Key performance indicators that will be used are profitability, liquidity, asset quality and leverage of selected commercial banks in Lusaka Zambia. These ratios will be computed from secondary data from the selected banks' annual reports prepared according to IFRS Zambian GAAP for two years before and two years after adoption.

*1.1 RESEARCH PROBLEM*

Over the past years, Zambian commercial banks have been observed to display operational inefficiencies, undercapitalization, weak disclosures in their financial statements as well as weak corporate governance practices which consequently hamper their performance and lead to difficulty in detecting problems. Mwape (2010). The Standard and quality of financial reporting in the banking sector in many countries does not seem to match the standard of financial reporting in banks found in developed countries. (Garba, 2016). In an effort to improve this in Zambia, the Zambian banking industry has undergone numerous reforms. For instance, in the previous years, different reforms aimed at improving performance of the banking sector have been employed.

Besides the convergence to IFRS by the end of 2015, the Bank of Zambia directed all banks on the required format of annual financial statements in line with IFRS one, presentation of financial statements. As a result, most of the commercial banks in Zambia started preparing their financial statements according to IFRS before the end of 2015. Price Water Coopers (2016). Meanwhile, it was noted that banks experienced challenges in appreciating the value IFRS added to their business. A paper by Price Water Coopers (2006), disclosed that initially, even bigger businesses were hesitant to adopt IFRS in the country.

In accordance with Adam (2014), converging from Local Accounting Standards to IFRS will increase transparency, comparability, accountability and integrity in financial reporting. Beke (2011) also stressed that a uniform standard of accounting worldwide will lead to improvement in liquidity as well as a reduction in the cost of capital and transaction costs for those investing in business.

From all this, it is obvious that to operate successfully in this global economy, and to get to the desired maximum benefits of international listing, no nation can operate alone in its financial reporting (Garba, 2016). It is therefore very important to conduct a research to compare the performance of Commercial Banks operating in Zambia before the adoption and after the adoption of IFRS and investigate how convergence to this global financial reporting standard has affected the performance of the banking sector. This research focuses on the effects of initial adoption of IFRS on commercial banks' performance in Zambia especially IFRS 1, Presentation of financial statements which guides how financial statements are supposed to be presented in IFRS.

*1.2 JUSTIFICATION FOR THE RESEARCH*

It was important to undertake this study because its results may reveal the effect that IFRS has on Commercial banks' performance in Zambia. Its results may also justify why accountants practicing in Zambia have to learn and familiarize themselves with the requirements of IFRS as well as why Organisations have to ensure that their financial accounting and reporting is done in line with IFRS in all countries that have adopted this framework. Moreover, this study might highlight the reasons why other African countries that have not yet adopted this framework may need to do so. Furthermore, the results could be of use to various Universities and Colleges were Accountancy training is offered to justify why Accountancy students have to learn the detailed requirements of IFRS and professional framework.

*1.3 RESEARCH AIM*

This research aimed at investigating the effects of IFRS on the main indicators of financial performance that is: Liquidity, Profitability, Leverage and Asset Quality ratios of Zambian Commercial banks.

*1.4 RESEARCH OBJECTIVES*

- How does IFRS affect the Liquidity, leverage, Profitability and Asset quality of Zambian Commercial Banks?
- To investigate whether there is any significant difference in Commercial Banks' Performance in their pre and post adoption and implementation of IFRS.
- To identify some benefits and challenges that come with adopting IFRS.
- To examine whether IFRS adoption plays any role in improving commercial banks financial performance.

*1.5 RESEARCH QUESTIONS*

- Does any significant difference exist in the Commercial banks' performance before and after adopting IFRS?
- What benefits and challenges are there in implementing IFRS in Zambia?

*1.6 RESEARCH HYPOTHESIS*

H0: There is a no statistical significant difference between the mean values shown under Zambian GAAP and those under IFRS.
H1: There is a statistical significant difference between the mean values shown under Zambian GAAP and those under IFRS.

*1.7 RESEARCH CONTRIBUTIONS*

The findings of this study will greatly encourage corporate entities to adopt full IFRS as they prepare their financial reports. It provides prof for potential unintended results of implementing IFRS by banks. Obviously the findings of this study are relevant to the current debates relating to IFRS adoption, financial analysts, regulators of banks, as well as those charged with the responsibility of setting standards.

Moreover, this study will motivate Accounting students as well as practicing Accountants to appreciate and incorporate IFRS in their financial reports. Moreover, this study will highlight the reasons why other African countries that have not yet adopted this framework may need to do so and hence contribute to making Africa and Zambia in particular, a part of the global market.

*1.8 RESEARCH DESIGN*

The investigation in the effects of IFRS on performance of Commercial banks was explored through the use of a mixed method research paradigm. Mixed method involves the use of both qualitative and quantitative data. This research therefore uses a combination of both qualitative and quantitative.

This research aimed at investigating the effects of IFRS on banks performance by testing information that is already in existence. It therefore used the deductive approach to research. Deductive research approach involves testing theories that are already in existence in order to draw conclusions. It starts with formulating a hypothesis from an existing theory, collecting data to test that hypothesis and then analyzing the results to see if that data reject or support the hypothesis.

The data used in this research was collected for a period of six months from July 2022 to December, 2022. Secondary data was obtained from online publications, literature reviews, Journals and news articles. Financial statements information of the sampled commercial banks for the period 2014 to 2017 was sourced from the official websites of the banks within the same four months' period.

*1.9 SCOPE OF THE STUDY*

The study will limit to the effect of IFRS adoption on the performance of Commercial banks in Zambia. Three commercial banks namely Indo Zambia Bank; Standard Chartered Bank and Cavmont Bank will be involved in this study.

*1.10 RESEARCH APPROACH AND METHOD*

There are two different ways of measuring performance. These are the Econometrics approach and the Accounting approach using accounting ratios. (Adam, 2014). This study made use of the Accounting approach premised on descriptive financial ratio analysis in measuring, analyzing and comparing commercial banks' performance in Zambia.

*1.11 TECHNIQUES OF DATA COLLECTION AND ANALYSIS*

This study is covering a period of four years out of which two years are before full IFRS adoption (2014 and 2015) and the other two years are after full IFRS adoption (2016 and 2017) in three Zambian banks. This is so since by the year 2016 many banks in Zambia had already started using IFRS.

The data was extracted from the financial statements of the sampled banks and descriptive statistics was used to analyse the data. The source of data are the official websites of the three sampled commercial banks out of the eighteen existing commercial banks in Zambia. These banks are Standard Charted bank, Cavmont Bank and Indo Zambia bank.

The choice of the three banks was due to the fact that many banks started using IFRS earlier before it was made mandatory (period between 2009 and 2013). As a result of this, these were not appropriate for the study. Considering that data availability is very important for sound analysis of pre and post adoption of IFRS, these three banks were picked. These three banks started preparing their full IFRS financial statement by 2016 and their financial data is available.

*1.12 CHAPTER SUMMARY*

This chapter has looked at the overall outline of this study starting by introducing the research, the research problem and then looking at research objectives, research questions, hypothesis, design, approach as well as data collection and analysis techniques. The next Chapter, Chapter two looks at literature review related to the research, identifies the gaps in the research as well as the theoretical and conceptual approach of the study.

ISSN No:-2456-2165

# CHAPTER TWO
# LITERATURE REVIEW

### *2.0 INTRODUCTION*

Literature related to this study is reviewed in this chapter. A lot of propositions and arguments have been made with regards to the adoption of a globally acceptable and uniform standard of accounting. There are a lot of issues that have been brought up in relation to adoption of IFRS by several researchers. In Zambia, initially financial statements were prepared as required by the Zambian Generally Accepted Accounting Principles (GAAP) which were issued by the Zambia Institute of Chartered Accountants (ZICA). That was the case until 2005 when ZICA adopted International Accounting Standards (IAS). All entities were required to adopt International Accounting Standards by 2010 and later extended to 2014. (ZICA: 2015).

### *2.1 DIFFERENCES BETWEEN ZAMBIAN GAAP AND IFRS*

ZICA is the body charged with the responsibility of issuing local Accounting standards in the country. It ensures that preparation and publishing of financial statements is done according to the prescribed format. Meanwhile, the International accounting standards board issues IFRS and provides guidance on treatment and reporting of various accounting transactions in the financial statements.

Much as these two standards are meant to direct the presentation and preparation of financial statements, they differ significantly in their application and guidelines. For instance, under Zambian GAAP it is allowed to value inventory using both First in First out (FIFO) method as well as Last in First out (LIFO) method meanwhile it is prohibited to use LIFO under IFRS. Here IFRS argues that LIFO approach would allow old information in the statement of financial position since the most recently acquired inventory would be expensed out while very old inventory remains making the figure presented in the statement of financial position to be stale.

Zambian GAAP and IFRS differs in the way they measure intangible assets too. While IFRS assumes that some categories of intangible assets do not have a life that is definite and goes beyond ten years, Zambian GAAP assumes that all intangible assets have a definite life of not more than ten years. As such GAAP measures intangible assets basing only on cost while IFRS recommends that measurement of intangible assets must be at which ever amount is lower between the cost and the re valued amount. (Ailemen and Akande 2012). In accordance with Agrawal (2008), GAAP in a lot of countries is rule based and recognises using of judgment to choose future forecasts, valuations and accounting policies.

*Table 2.1: The Key Distinctions between Zambian GAAP and IFRS*

| FEATURE | IFRS | ZAMBIAN GAAP |
|---|---|---|
| Financial Statement presentation | Comprises of:<br>• Statement of financial position<br>• Statement of cash flows<br>• Statement of comprehensive income<br>• Etc. | Comprises of:<br>• Balance sheet<br>• Income statement<br>• Cash flows statements<br>• Etc. |
| Adoption for first time | IFRS requirement on transition is what is addressed. | Not applicable to GAAP |
| Financial Guarantee | Recognised at Fair value | Disclosed as a contingent liability. |
| Property, plant and equipment | The basis of measurement is the cost with detailed guidance. | The basis of measurement is the cost. |
| Employees' benefits | The undiscounted amount of short term employees' benefit is recognized | Disclosure is on pension and general expenses. |
| Management of risk | Disclosure is focused on credit risk, foreign exchange risk etc. | Does not focus on disclosing credit and foreign exchange risk. |
| Leases | Fair value and amortised cost are used to value leases | Leases are divided into finance and operating leases and valued at cost |
| Related Parties | Provides guidance on identification of transactions and other related parties. | Disclosure is limited |
| Financial Guarantee | Recognized at fair value. | Disclosed as a contingent liability. |

Source: Price coopers water, (2011)

### *2.2 BENEFITS OF IMPLEMENTING IFRS IN ZAMBIA*

Bala (2013), writes, information imbalance between users and of accounting information and companies was not effectively reduced by Zambian GAAP. As a result IFRS adoption would make it possible for companies to disclose more financial information than before. Mwape (2010) orated that since many Zambian businesses have invested in foreign companies, it is important for Zambia to adopt IFRS as this had a capacity to lead to better decision making on how economical capital flows.

There are a lot of researchers that have reported on the benefits of IFRS. Okoye and Adedirani (2013) reports that opportunities for big financial transformation will be opened and economies will be centralized as a result of countries adopting IFRS. In their study, Okopala (2012) alleged that IFRS shall stimulate economic growth in developing countries by promoting foreign direct investment in these countries. Taiwo and Adejare (2014) stressed that adoption of this international standard shall develop the standard of accounting records in the country and improve financial performance of companies.

The adoption of IFRS in Zambian commercial banks particularly, will help multinational banks to harmonise their financial reporting. Management are supposed to match financial statements from different branches located in different countries since multinational banks operate in many different countries with different GAAP. However, banks will now be able to match their financial statements and compare performance with other banks easily with the coming of the IFRS. Bala (2013).

*2.3 CHALLENGES OF IMPLEMENTING IFRS IN ZAMBIA*

The distinctions that exist between IFRS and ZGAAP continue to significantly impact on commercial banks' reported earnings and their financial performance. Consequently, huge adoption costs are incurred by banks and other firms besides the burden and general complexity of IFRS. Leuz (2013) stresses that, since countries are not the same in their enforcement and institutional mechanism, financial reporting will not be simplified by simply adopting IFRS alone. Terzungwe (2012) argued that, the fact that there are many options in terms of accounting policy in IFRS, inconsistent with individual countries' legislation of banks and other institutions' acts might be a resulting challenge.

Tanko (2012) in their study showed that the implementation of IFRS accounting policies did not lead to improvement in the quality of accounting. Bala (2013) also suggested for countries that have got no active stock markets, IFRS will be found unnecessary if it is so focused on benefiting the investors only. For example, companies in Zambia faced serious challenges in applying IFRS as there was no active market where market prices could be directed as required by IFRS accounting. Mwape (2014).

*2.4 ROLE OF IFRS ADOPTION IN IMPROVING COMMERCIAL BANKS' FINANCIAL PERFORMANCE*

*2.4.0 CORPORATE GOVERNANCE:*

There is a number of researchers who have studied the relationship between performance of banks and adoption of IFRS but none have looked at the contribution of IFRS in impacting performance of banks negatively in Zambia and other developing countries. It is for this reason that this research compares the performance of banks before and after adoption of IFRS. As he studied the impact of IFRS on corporate governance, Argarawal (2018), explained that management will meet with several challenges with regards to declaring dividends, dealing with volatility, key performance indicators as well as investor's expectations.

*2.4.1 FINANCIAL REPORTING*

On the role of IFRS in improving financial performance, Verriest etal (2013) stresses that improved financial statements will only be possible if strict sanctions and inducements are introduced at country level to encourage application of this international standard. From this review, it is evident that IFRS adoption is needed for financial reporting to be enhanced. Godwin etal (2009) writes, as a result of IFRS adoption, many banks have witnessed reduced managerial forecast errors. This is supported by Ocansey and Enahoro (2014) that financial performance will greatly improve in financial institutions as long as adoption of full IFRS is effected. Obviously, if all stakeholders such as regulatory bodies, government institutions, board of directors and all stakeholders can effectively play their role in IFRS adoption, enhanced information quality in all firms will be the end product.

*2.4.2 FINANCIAL PERFORMANCE*

The effect of IFRS adoption how commercial banks are performing in terms of accounting ratios is one important issue that must be addresses. Here, Suh (2012) argued that postal adoption of IFRS caused the cost of capital to go up. However, countries such as United Kingdom, Belgium and Denmark did not record any cost of capital increase following IFRS adoption.

Gkougkousi and Merten (2010) studied how equity and liquidity of sampled banks was affected by IFRS adoption, their results indicated that the liquidity of banks increased while the cost of capital of the same banks went done on the contrary to other studies. Li (2010) noted a significant reduction in cost of capital following adoption of IFRS in China. Cormier (2013) revealed market liquidity was impacted positively by the change from local to this international accounting standard.

*2.5 THEORETICAL FRAME WORK*

Arrow's (1971) research in the area of Social Choice theory as well as general equilibrium is the base where the theoretical framework of this study is grounded. Social choice theory is the study of decision procedures and processes. It is all about how individuals and organisations make decisions. The central questions considered in this theory include: How can individuals select a winning outcome from two or more choices? How can they arrive at collective preferences on issues affecting them? Social theorists study these types of questions by developing models which are general and then prove them. Smith (2012). This theory is used in this research to study the outcome of the decision to adopt IFRS in Zambia which in this case is the effect of IFRS adoption on Commercial banks' performance.

Moreover, Arrow's concept of social choice theory stressed through application of the theory of rational behaviour, entities make valuable judgments. Smith (2012). Adoption of IFRS provides investors in commercial banks and other business a chance to compare standardized financial reports among companies in order for them to select the most optimum outcome or best company in a market sector.

From previous studies, application of Arrow's theory provides guidance and hence makes it easier to understand the results of mandatory adoption as well as implementation of IFRS on the Zambian commercial banks. It will provide insight into the challenges and benefits on mandating IFRS as found by Bushman and Landsman (2010) as well as Verriest et al (2013). Financial reporting in financial institutions has changed with the coming of IFRS. Leuz (2013) identified four reasons for this as; exorbitant costs associated with fraud related activities, presence of external information in financial reports, insufficient private sanctions as well as savings on costs on the market. Smith (2010). Therefore, much as it comes with some challenges, IFRS improves comparability and market risks associated with a given company whom reports under IFRS.

The Social choice theory concepts stated above provide much of the theoretical basis for the study. It has been believed for years that IFRS would lead to improved financial reporting system and improve business performance once fully adopted. It would also reduce corporate scandals and fraudulent reporting practices. Moreover, Implementers of IFRS believe that new and universal financial reporting standard could improve financial performance through improvement of consumer confidence, market liquidities as well as providing valuable financial information useful in rational investors to apply Arrow's social choice theory and general analysis.

*2.6 CONCEPTUAL FRAME WORK*

When carrying out this kind of research, the rationale behind this process demands that a conceptual framework be developed, the reason for this is to obtain theoretical appreciation from the underlying theory and translate that into practice that is meaningful. To be relevant, the framework used should have a clear and practical result. As indicated in 2.5 above, the theoretical basis for this research is grounded on Arrow's social choice theory and therefore a number of variables have been used to come up with the conceptual frame work for the research. In this study, the conceptual framework is made up of variables with the independent variable utilised to give explanation of a dependent variable.

The independent variable which is IFRS adoption in Zambia is stable and not affected by the other factors (dependent variables) that are being measured by the study which are the accounting ratios representing banks' performance in Zambia. The dependent variables (Liquidity, profitability, leverage and asset quality ratios) depend on independent variables which in this case is adoption of IFRS. The dependent variables are envisioned to change in line with changes in the independent variables. The dependent variable is also the outcome of the research or experiment.

The conceptual framework model in figure 2.1 below is illustrating that for financial performance to move up or down, there has to be independent variables in place which in this case is the adoption of IFRS.

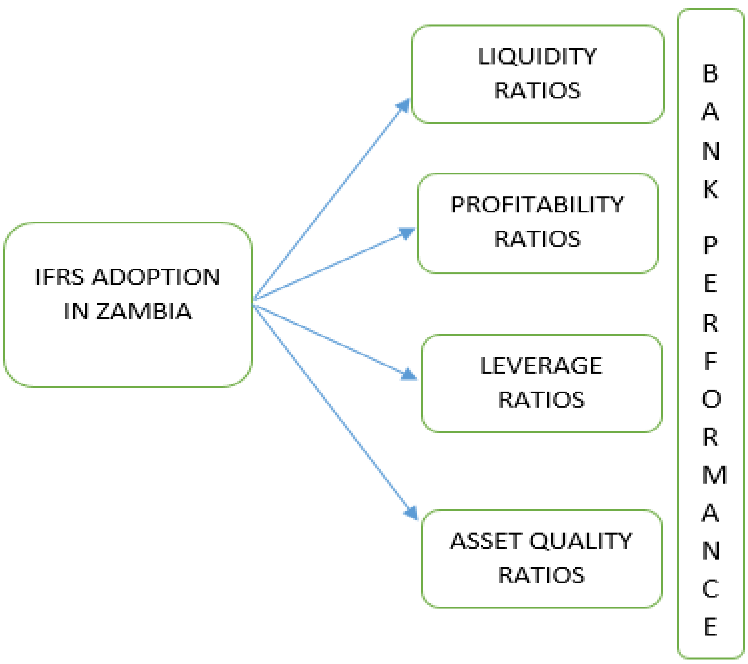


Fig 2.1 Conceptual framework model
*Source: Researcher's own design*

*2.7 GAPS IN THE LITERATURE*

As evident above, none have studied empirically the effects of IFRS adoption on Commercial banks in Zambia. Empirical studies done in the past on IFRS adoption have concentrated on examining other sectors in other countries, investigations in the financial sector have not been exhausted previously. (For example Li, 2017; Barth et al., 2018; and Cormier (2013)). Secondly, there is some literature on banking that have analysed the effects of the shift from local to international accounting standards on bank regulations. (Bushman and Landsman (2010); and Leuz (2013), in regulations in internal controls, Gkougkousi and Merten (2010) in rules of accounting and Ocansey and Enahoro (2014) on the behaviour of commercial banks in accounting. Whereas these researches examined effects of IFRS on governance of organisations in other countries, this study concentrates on the effect of IFRS adoption on performance of commercial banks in Zambia. Specifically, it investigates how adoption of IFRS has affected the performance of Zambian Commercial banks.

*2.8 CHAPTER SUMMARY*

This chapter has gone through literature related to the research under the headings; differences between Zambian GAAP and IFRS, challenges and benefits of IFRS as well as the role of IFRS in improving bank's performance. The theoretical and conceptual framework of the research has also been brought out. It ends with the identification of the major gaps in literature. The next chapter, chapter looks at the research methodology employed in this study.

# CHAPTER THREE
# RESEARCH METHODOLOGY

### *3.0 INTRODUCTION*

This chapter introduces the various research methods employed. It introduces the approach to research, approach justification, sample size, data collection as well as data analysis. A description of sampling methods and techniques is also provided.

### *3.1 RESEARCH APPROACH*

Performance is measured using two different ways: The econometric techniques and the Accounting approach which makes use of accounting ratios (Adam: 2014). This research utilised the accounting method with descriptive financial ratios as the basis in measuring, comparing and analyzing the performance of commercial banks in Zambia both before and after IFRS adoption.

### *3.2 RESEARCH PARADIGM*

The investigation in the effects of IFRS on Commercial banks' performance was explored using a mixed method research paradigm. Mixed method is a method of research that falls under the Pragmatism research philosophy and which involves the use of both qualitative and quantitative data. The Pragmatism research philosophy is a research philosophy which accepts concepts only if they support action. Wilson (2010). Studies with pragmatism research philosophy can integrate the use of multiple research methods such as quantitative, qualitative and action research methods to find required answers to research questions. This research therefore uses a combination of both qualitative and quantitative methods and it accepts concepts only if they are proved to support a particular action.

### *3.3 DEDUCTIVE/ INDUCTIVE APPROACH TO RESEARCH*

This research aimed at investigating the effects of IFRS on banks performance by testing information that is already in existence. It therefore used the deductive approach to research. Deductive research approach involves testing theories that are already in existence in order to draw conclusions. The first step under this approach is to formulate a hypothesis from a theory that is already in existence, then collect the data for testing that hypothesis before moving to results analysis to see if that data support or reject the hypothesis. Kombo and Tromp (2016).

### *3.4 TIME HORIZON*

This research used data that was gathered over a duration of six months from July 2022 to December, 2022. Secondary data was obtained from online publications, literature reviews, Journals and news articles. Financial information was collected from annual statements of the sampled commercial banks for the period 2014 to 2017 was sourced from the official websites of the banks within the same four months' period.

### *3.5 RESEARCH STRATEGY*

This research focuses on an in depth investigation of a small number of cases (Three commercial banks), it is therefore a case study. Information will be sought from the official documents of the institutions for analysis. The study combines qualitative and quantitative data to enable a multi-faceted and composite investigation of the problem.

### *3.6 STRATEGY JUSTIFICATION*

This method of analysis was selected because it was found that there are only eighteen commercial banks operating in Zambia today and out of these only six qualified to be used for this study since the rest started adopting IFRS at different times before it become mandatory in the country. Out of the six the researcher selected three Commercial banks due to time and limited information from the others.

Moreover, previous researches on adoption of IFRS indicate that the similar method of analysis was used by most researchers in various countries. For instance, Blachette etal. (2011) calculated and analysed accounting ratios from financial statements in Canada using the same approach. Pazarkis et al (2014) also investigated adoption of IFRS in Greece in which they matched ratios for three years before adoption and three years after adoption.

Abdul et al (2014) also examined accounting ratios of one organization calculated from Nigerian GAAP and also from its statements prepared in line with IFRS requirements. The economic effects of adopting IFRS was were equally examined by Lantto and Sahastron (2010) by calculating ratios from 9 companies in their sample.

### *3.7 SAMPLING FRAMEWORK AND SIZE OF SAMPLE*

The current study covers a period of fours, (2014 to 2017), two years (2014 and 2015) before full adoption and two years (2016 and 2017) after IFRS adoption in three commercial banks. This was due to the fact that by the year 2016, most of the commercial banks in the country had adopted IFRS.

ISSN No:-2456-2165

This study utilised a non-probability sampling design which is a design of sampling in which the process of selecting the sample does not give an equal opportunity of being selected to all the members of the population. (Mugera: 2013). In this design the sample selection is mainly on the basis of the purposive personal judgment of the researcher or their accessibility. Non probability sampling techniques are viable when the researcher is carrying out an initial exploratory study or when a researcher seeks an in-depth study of a small population. Schutt (2016).

Non probability sampling techniques include quota, snowball, purposive as well as convenient sampling. This study adopted purposive sampling techniques. Purposive sampling is also called selective, subjective or judgmental sampling and it is a sampling technique where selection of elements that are examined is up to the judgment of the researcher. Bryman (2018).

Therefore, the sampling procedure used to come up with the target commercial banks to be part of this study was purposive sampling. In accordance with Kombo and Tromp (2016), purposive sampling targets only those believed to be relevant to the study. Johnson and Christenerisen (2010) also stress that, in purposive sampling, it is the researcher who specifies the features of the population of interest and thereafter locates the entities of those features. It was therefore purposive in that the researcher in this study targeted only those banks that fully adopted IFRS after it was made mandatory. As such, these were the only ones relevant for the analysis of the effects of pre and post adoption of IFRS in Zambia.

*3.8 DATA COLLECTION*

Secondary data was obtained from online publications, literature reviews, news articles and journals. Meanwhile financial statements data was obtained from the financial statements of the three banks that were sampled and descriptive statistics was utilised to analyse this data. These financial statements were obtained from the banks' official websites. These banks are Standard Chartered bank, Indo Zambia bank plc and Cavmont bank plc.

The criteria used to select these three banks was based on the fact that other banks started using IFRS earlier before it was made compulsory in Zambia. These were therefore not relevant for the before and after IFRS adoption analysis of performance. As the availability of data is so cardinal in any effective analysis, only these three banks were selected as they were found to have all adopted IFRS at the same time and their data was readily available.

*3.9 DATA PROCESSING AND ANALYSIS*

Financial ratio analysis techniques were used to examine the effects of adopting IFRS on the performance of commercial banks. Before and after IFRS adoption analysis of four categories of financial ratios of banks was applied and comparisons were made for the period before IFRS adoption (2014 – 2015) and after adoption (2016 – 2017).

Two years before adoption and two years after IFRS adoption was tested. To test the statistical differences. An independent t-test was used to test for the presence of any statistical differences between the Zambian GAAP and IFRS.

*3.10 SPECIFICATION OF METHOD MODEL AND DATA ANALYSIS TOOL*

In order to obtain answers to those research questions put forward and to attain the objectives predetermined, this study made use of Panel Data Analysis (PDA) tool including pooled ordinary least square estimation.

*3.1.0 THE VARIABLES*

The variables selected are four main profitability ratios, four liquidity ratios, one asset quality ratio and three leverage ratios.

- *Profitability Performance*

Profitability performance is the commonest measure of commercial banks' performance. According to Mensah and Sebe (2014). It tests how a company uses its resources for operating activities to generate revenue. Besides it gives a reliable sign to how effective a bank is operating. Return on assets, Asset turnover, net profit margin ratios and return on equity are used to assess profitability.

- *Liquidity performance*

This indicates the financial health of a firm. Ratios that are utilised to assess liquidity are Quick, Cash and Current ratio. These were picked as they are usually used by businesses to measure financial weakness, strength as well as their capability to fulfil obligations as they become due.

*A. Leverage Performance*

Leverage ratios are utilised by lenders to measure the ability to fulfil their financial obligations. It gives a clue about the solvency of a firm in the long run. Businesses that with high leverage are more sensitive to decline in business than those that have low leverage due to the big amounts of debt compared with their net assets. Lucic (2014). Ratios used to measure leverage includes Equity ratio, debt ratio and debt to equity ratio.

*B. Asset quality Performance*

This is a very important performance measure used in measuring the asset portfolio of banks. This is so since advances and loans make high percentages of a Bank's earnings. Mensah (2014). As such it is very important for this research to investigate the changes in the quality of assets as it affects liquidity, profitability and overall survival of a commercial banks directly. Meanwhile to measure asset quality, Non performing Loan ration is used.

*3.1.1 RELIABILITY AND VALIDITY OF RESEARCH FINDINGS*

The research involved three Commercial banks; Indo Zambia bank, Standard Chartered bank and Cavmont bank plc. Their managements were requested to take part in the research by providing information requested for by the researcher.

The method which was used to check the consistence of data which was collected was methodological triangulation. Methodological triangulation involves using more than one method of research in one particular study at the stage of data collection. Taylor et al (2007). Methodological triangulation has subtypes of triangulation namely, within-method triangulation and between method triangulation. Within-method involves the use of a combination of varieties of the same method. For example, a researcher can do unstructured interviews and semi structured interview guides to collect data. Between methods triangulation, involves the use of different methods in combination. Dezin (1970). For instance using interviews and observations in a study.

The preferred one in this research was the between method triangulation. In this study, some interviews with banks' management were utilised to reinforce observations and secondary sources of data. This was in order to make a more valid contribution to knowledge development, enhancing diversity, and enriching the understanding surrounding the study's objectives and goals. Macnee and McCabe (2008).

*3.1.2 RESEARCH FINDINGS' GENERALISABILITY*

The results of the study are not limited to the three commercial banks involved in the research but they are broadly applicable to many financial institutions across the country that have adopted IFRS. Commercial banks in developing countries all over Africa are also affected since they are operating in a business environment similar to the one prevailing in Zambia at the time of this research.

*3.1.3 ETHICAL AND ACCESS ISSUES*

Since the study involved financial information which is quit sensitive, permission to use the data in this research was sought from the banks involved and it was only after a go ahead was given that the researcher proceeded with the research. The researcher was also concerned with the rights and privileges of the all the participating commercial banks. Therefore, the researcher solicited selected banks' participation and respected the decision of those who declined to take part in the research. The researcher also included details of the rationale for the research in order to assure the respondents that nothing detrimental would follow from the study. This was to help reduce uncertainty and questions on why they were picked to participate in the study.

For the interview with management, the respondents were assured that the information was also treated confidentially. They were informed that they were at liberty to quit the study any time if they felt uncomfortable. Anonymity was guaranteed by virtue of the respondents not giving their names or phone numbers to the researcher.

*3.1.4 CHAPTER SUMMARY*

In this chapter methods used in the research have been explained and the chapter has outlined the details of the research approach, strategy, sampling frame, as well as time horizon. Data collection methods, processing and analysis has been explained in detail. It ends by discussing the reliability, validity, generalization and ethical consideration utilised. Next chapter, will concentrate on the findings of the study as well as analyzing the results.

# CHAPTER FOUR
# FINDINGS AND ANALYSIS

### *4.0 INTRODUCTION*

This chapter, presents the results of this research. This research made utilised ratio analysis in measuring, comparing as well as analysing the banks' performance in Zambia under Zambian GAAP and IFRS standards. A comparison was made between two years pre and two years post adoption of IFRS. Panel data analysis including pooled Ordinary least square estimation, fixed effect estimation, and random effect estimation was employed.

### *4.1 PROFILE OF RESPONDENTS*

Three Commercial banks namely Cavmont bank plc, Standard Chartered bank and Indo Zambia bank participated in this study.

The criteria used to select these three banks was based on the fact that other banks started using IFRS earlier before it was made compulsory in Zambia between. These were therefore not relevant for the before and after IFRS adoption analysis of performance. As the availability of data is so cardinal in any effective analysis, only these three banks were selected as they were found to have all adopted IFRS at the same time and their data was readily available.

*Table 4.1: Profile of the sampled banks for the year 2016*

| **S/n** | **Name of bank** | **Profit before tax (ZMW'000)** | **Total Assets (ZMW' 000)** | **Year of establishment** | **Year of full IFRS adoption** |
|---|---|---|---|---|---|
| 1 | Standard Chartered Bank | 562,588 | 8,210,948 | 1906 | 2016 |
| 2 | Cavmont Bank plc. | 1,298 | 946,843 | 2004 | 2016 |
| 3 | Indo Zambia Bank | 249,289 | 2,948,846 | 1984 | 2016 |

*Source: Individual Bank's financial statements and official website (2016).*

### *4.2 ASSESSMENT OF FINDINGS AND ANALYSIS FOR EACH INSTRUMENTS*

This section analyses the liquidity, profitability, leverage and asset quality of the three commercial banks using figures from the statements of financial position and from the statements of comprehensive income. Below are values for the three sampled banks for two years pre adoption (2014 and 2015) and two years post adoption (2016 and 2017) period of IFRS.

The mean of financial ratios and test for equality using t-tests at 5% significance level before and after IFRS adoption are compared. As analysed below, the hypothesis tested is:

H0: There is a no statistical significant difference between the mean values shown under Zambian GAAP and those under IFRS.

H1: There is a statistical significant difference between the mean values shown under Zambian GAAP and those under IFRS.

### *4.2.0 LIQUIDITY RATIO*

A reduction in liquidity ratio computed under IFRS is shown by the result of this analysis as indicated by the table below with the years after adoption (2016 and 2017) scoring lower in all the three liquidity ratios tested. Meanwhile, according to statistics, there is no statistically significant difference between liquidity ratios computed under ZGAAP and those under IFRS.

| **LIQUIDITY PERFORMANCE** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Mean - Pre IFRS** | | | **Mean - Post IFRS** | | | | |
| | 2014 | 2015 | (2 years average) | 2016 | 2017 | (2 years average) | | p- value |
| Current ratio | 0.99 | 0.9 | 1.44 | 0.93 | 0.92 | 1.39 | | 0.9 |
| Quick ratio | 0.99 | 0.9 | 1.44 | 0.93 | 0.91 | 1.385 | | 0.9 |
| Cash ratio | 0.32 | 0.3 | 0.47 | 0.17 | 0.15 | 0.245 | | 0.03 |
| | | | | | | | | |

Fig 4.0 Liquidity ratios under Pre IFRS and Post IFRS

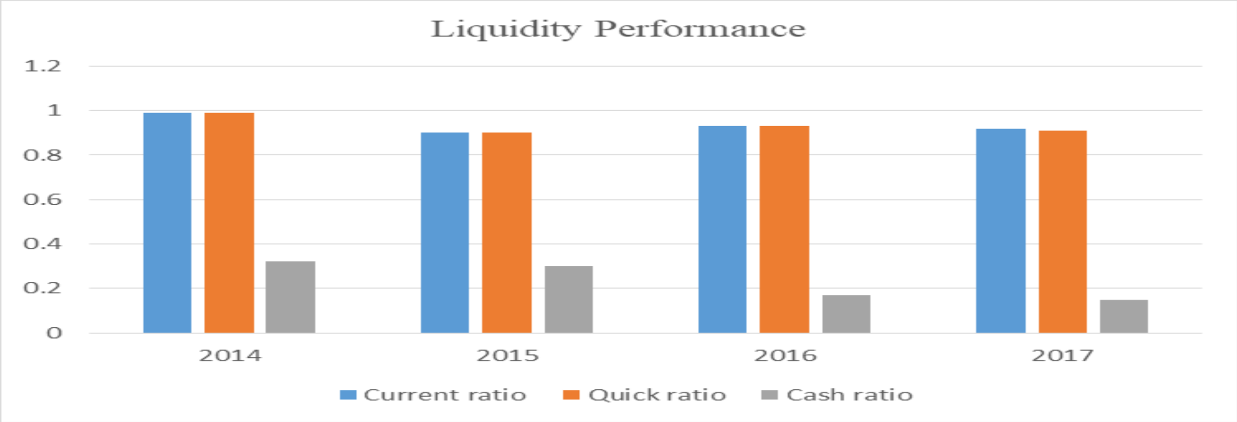


Fig 4.1 Chart showing Liquidity performance from 2014 -2017

It is observed that the only significant difference at 5% is between the cash ratios which is 0.04 according to the results of the analysis. This observation is consistent with what Latto and Sahlstom (2009) found in their study in Finland. They observed that liquidity under IFRS is lower compared to local GAAP in that country.

*4.2.1 PROFITABILITY RATIO*

The profitability ratios increase under IFRS compared to Zambian GAAP as indicated in the analysis below. Consistence is seen with past researchers who found that Profitability ratios went up under IFRS as compared to local GAAP (Marchal et al.:2009 and Latto et al: 2017).

| | | PROFITABILITY PERFORMANCE | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| | 2014 | 2015 | Mean Pre-IFRS (2 year verage) | 2016 | 2017 | Mean post-IFRS (2 years average) | p value( 2 tail) |
| ROA | 0.023 | 0.006 | 0.014 | 0.013 | 0.02 | 0.017 | 0.748 |
| ROE | 0.14 | 0.007 | 0.067 | 0.114 | 0.024 | 0.069 | 0.964 |
| Asset turnover | 0.023 | 0.006 | 0.014 | 0.013 | 0.02 | 0.017 | 0.752 |
| Net profit margin | 0.28 | 0.066 | 0.173 | 0.495 | 0.404 | 0.449 | 0.153 |

Fig 4.2: Comparison of profitability ratio's computed under IFRS and ZGAAP

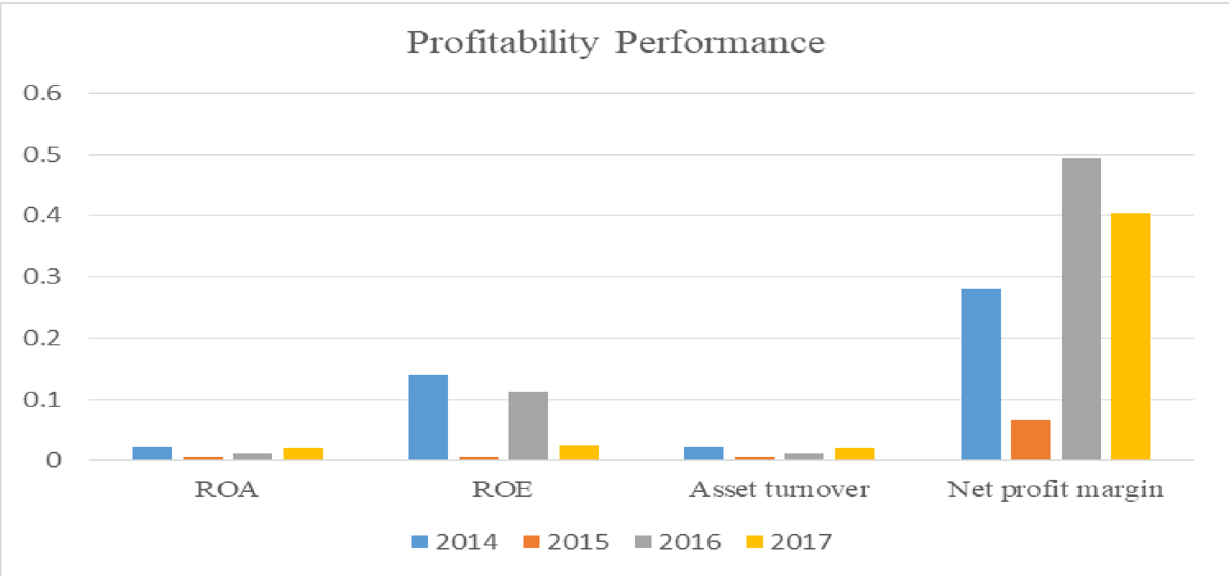


Fig 4.3 Chart showing profitability performance from 2014-2017

*4.2.2 LEVERAGE RATIO*

Based on the p values, the results of this ratio indicate that the financial ratios do not show any statistical difference at 5% level of significance. Table 4.4 below also shows a reduction in the debt ration under IFRS but an increase in the debt to equity ratio. Other studies done in the past also show that leverage ratio increased under IFRS (Marchal et al.:2009 and Latto et al: 2017).

| LEVERAGE PERFORMANCE | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | Mean Pre-IFRS (2 year average) | 2016 | 2017 | Mean post-IFRS (2years average) | p value( 2 tail) |
| | | | | | | | |
| Debt ratio | 0.85 | 0.87 | 0.86 | 0.89 | 0.74 | 0.82 | 0.49 |
| Equity ratio | 0.17 | 0.13 | 0.15 | 0.11 | 0.28 | 0.20 | 0.47 |
| Debt to equity ratio | 5.14 | 6.88 | 6.01 | 7.75 | 6.78 | 7.27 | 0.22 |

Fig 4.4: Comparing Leverage ratio's computed under IFRS and ZGAAP

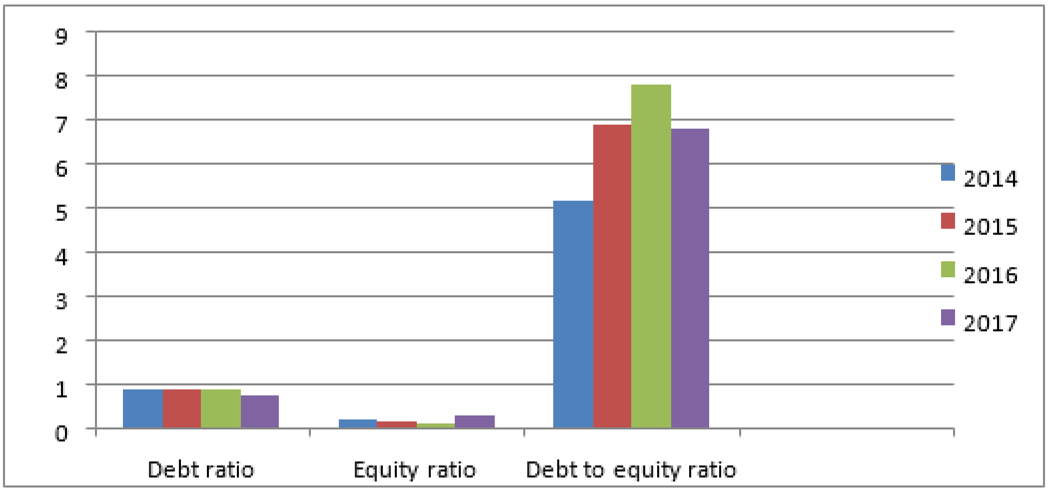


Fig 4.5: Chart showing leverage performance from 2014 -2017.

*4.2.3 ASSET CREDIT QUALITY*

The results of this analysis indicate that the year 2015 recorded a significant improvement the credit quality of banks. There was a significant drop in the mean NPL ratio from 0.6 I 2014 to 0.06 in 2015. This downward trend in NPL ratios resulted in decline of cost of risk declining for most banks in the subsequent years (2016 and 2017). From the three banks sampled, only Cavmont bank's asset quality went down significantly as its NPL went up from 5% in the year 2016 to 25 % in 2017 which was significantly much higher than the prudential limit set by the Bank of Zambia of 5%.

Here the p-value indicate that the Null hypothesis at 5% level of significance cannot be rejected since 0.0908 is greater than 0.05. Statistically, this means that there is significant difference between mean values of NPL ratio computed under Zambian GAAP and those computed under IFRS. The p-value reveals that we fail to reject the null hypothesis at 5% level of significance (0.0908 is greater than 0.05). The post adoption period indicates a reduction in the NPL ratios which indicates that there is an improvement in the asset quality of banks.

| ASSET QUALITY PERFORMANCE | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| | 2014 | 2015 | Mean Pre-IFRS (2 year average) | 2016 | 2017 | Mean post-IFRS (2years average) | p value( 2 tail) |
| NPL ratio | 0.163 | 0.060 | 0.112 | 0.049 | 0.054 | 0.051 | 0.091 |
| | | | | | | | |

Fig 4.6: Comparison of NPL ratios computed under IFRS and ZGAAP

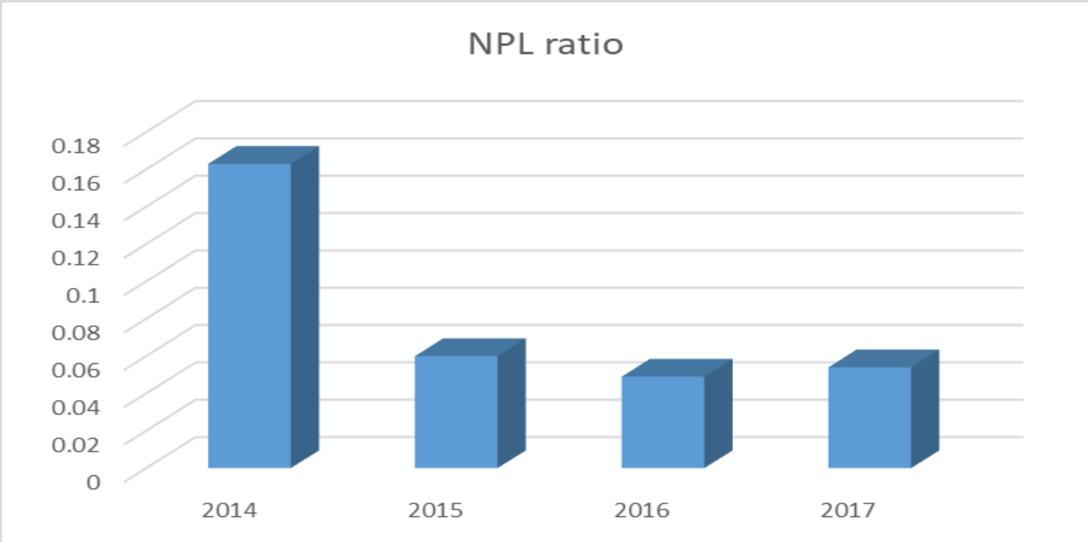


Fig 4.7: Chart showing NPL performance from 2014 -2017

Analysis results showed a decrease in liquidity ratios and an increase in asset quality, leverage as well as profitability ratios. The increase in profitability ratios could be due to the fact that the banks' operating income increase under IFRS while operating expenses reduce compared to GAAP.

The analysis also reviewed some differences between the ratios and accounting figures under the two standards. An explanation for some of these differences could be because of some adjustments that are differences were observed between the accounting figures and the ratios. Such differences may be because of some adjustments that are peculiar to IFRS. For instance, cash ratio calculation which involves getting the value of both cash and cash equivalents, Under ZGAAP the maturity date is ignored but IFRS includes all treasury bills within a maturity period of within 90 days.

According to this research, the reduction in NPL ratios during the post adoption period of IFRS is mainly due to other intervening factors and not significantly due to IFRS adoption. This is evident as the result of our analysis reveals a statistically significant difference between the NPL ratios computed under ZGAAP and IFRS.

*4..2.4 ASSESMENT OF EFFECT OF IFRS ON PERFORMANCE*

In testing the hypothesis, the Return on Assets (ROA) ratio representing banks performance was further analysed to appreciate how they are affected by IFRS adoption. The results of Panel data analysis on these are discussed below:

The linear forms below indicate the model adopted for this study:

$$ROA_{it} = \alpha_0 + \alpha_1 LR_{it} + \alpha_2 CR_{it} + \alpha_3 IR_{it} + \alpha_4 IFRSA_{it} + \mu_i + \varepsilon_{it}$$

Here: ROA – Return On Asset, LR – Liquidity ratio, CR – Asset quality ratio, IR – Leverage ratio, IFRSA – International Financial Reporting Standards.
[Dummy:1- Adoption era, 0 – Non adoption era]
t-time series variable from 1,2,3,4,5, 6,……………………10
i-cross sectional variable from 1,2,3,4,5, 6………………...10
$\alpha_0, \alpha_1, \alpha_2, \alpha_3$ are the parameter estimates that corresponds to the explanatory variable. Meanwhile the constant $\mu_i$ represents the cross sectional unit effect and $\varepsilon_{it}$ represents the idiosyncratic error term.

***Series: ROA LR IR CR IFRSA***

| Variable | Coefficients | Standard error | T-Test values | Probability |
|---|---|---|---|---|
| Leverage ratio | .000598 | .0066264 | 0.20 | 0.924 |
| Liquidity ratio | .0783039 | .0173898 | 4.81 | 0.000 |
| Asset quality ratio | .0866741 | .0035696 | 12.44 | 0.000 |
| IFRSA | .9067885 | .655643 | 6.82 | 0.412 |

Fig 4.8: Pooled Ordinary Least Square (OLS) Estimation Parameter **Estimates**

R-square: 0.9115 Adjusted R-square: 0.9061
*Source: Author's calculation*

ISSN No:-2456-2165

From figure 4.8, it was observed that IFRS apply positive effect on performance of commercial banks examined in terms of Return on Assets. Accounting ratios too have proved to have positive impact on the performance of commercial banks measured in terms of Return on assets with Liquidity and Asset quality ratios reporting significant effect as indicated by t-test values of 4.81 and 12.44 for Liquidity and Asset quality ratios respectively. This is an indication that any impact of IFRS on these Accounting ratios is also felt on financial performance of a commercial bank.

Moreover, coefficient estimates in figure 4.8 above also indicate that adoption of IFRS exert positive impact on performance of banks represented by Return on assets as shown by high β value of 0.9067885 and P-value of 0.412. Coefficient estimates and probability figures obtained above also support that Accounting ratios such as liquidity ratio, leverage ratio and asset quality ratio apply significant influence on bank's performance as indicated by coefficient estimates and probability values of 0.000598[P=0.924], 0.0783039 [P=0.000] and 0.0866741[P=0.000] and for leverage, liquidity and asset quality ratios respectively.

Markedly too is the R-square of 0.9115 which means that approximately 91% of the systematic changes in the performance of Commercial banks in Zambia measured in terms of Return on assets is as a result of IFRS adoption and other variables namely; leverage, liquidity and Asset quality ratios which are also affected by IFRS as found in this research. The study therefore concludes that the effect of IFRS adoption on performance of commercial banks in Zambia is positive and significant.

### *4.3 CHAPTER SUMMARY*

This chapter has compared and analysed bank performance under IFRS and GAAP standards by calculating liquidity, profitability, leverage and asset quality ratios. Analysis of the findings using the statistical software has reviewed that there is an increase in profitability and leverage ratios while some decrease has been detected in liquidity and profitability ratios. Overall bank performance is positively influenced by adoption of IFRS by Commercial banks. The next chapter, concludes and gives recommendations of the research.

# CHAPTER FIVE
# CONCLUSIONS AND RECOMMENDATIONS

*5.0 INTRODUCTION*

This chapter presents the conclusion and then goes on to recommendations of the study based on the findings and discussion on the effect of IFRS on performance of Commercial banks in Zambia.

*5.1 CONCLUSION*

The focus of this study has been on examining the effect of adopting IFRS on the performance of commercial banks comparing the period before adoption and after adoption. The research objectives have been to investigate whether there is any significant difference in Commercial banks' performance in their pre and post adoption and implementation of IFRS, to identify some benefits and challenges that come with adopting IFRS as well as to examine whether IFRS adoption plays any role in improving commercial banks financial performance.

Based on the findings of the study, it can be concluded that adoption of IFRS has notable influence on performance of commercial banks in Zambia. Financial ratios such as liquidity and Asset credit quality ratios have equally been proved to have significant influence on the performance of commercial banks in Zambia. Therefore, the conclusion of this study is that adoption of IFRS has significant positive influence on the performance of Commercial banks although there were no significant differences observed in a few ratios compared before and after adoption. This is in line with Abdul **-** Bake et al (2014) who conducted a similar study on Nigerian companies.

Adoption of IFRS has been found to be beneficial to commercial banks in Zambia as it brings about an increase in the centralization of the economies of scale and also opening up of opportunities for a larger finance transformation for banks. Besides promoting foreign direct investment, adoption of IFRS in Zambian commercial banks particularly, has been found to help multinational banks harmonise their financial reporting. In addition, transparency in the financial statements as well as comparability of accounts for stakeholders has been enhanced by the adoption of IFRS in banks. More improved accounting quality, more disclosure and more explanation of items in accounts is provided by IFRS compared to GAAP as evident from the many noticeable differences in financial statement presentation. Meanwhile its use of fair values which bring about changes in the reported earnings of banks has been discovered to be one major challenge of IFRS.

*5.2 RECOMMENDATIONS*

Commercial banks should endeavor to make use of this chance brought about by adoption of IFRS to improve their business procedures and processes. Since the law requires them to adopt IFRS, they should take part in building capacity in this line by organizing seminars and conferences for members and staff on IFRS so that they implement them effectively and benefit from the positive effect on their performance as found in this research. This will enable maximum appreciation of all benefits that come with IFRS adoption as explained in this study.

Commercial banks must strive to implement fully the international financial reporting standards so that they maximize its positive effects on their performance. They must also acknowledge the accounting ratios because as they are impacted by IFRS they in turn affect overall financial performance of banks as found in this study hence their effect must never be undermined.

*5.3 LIMITATIONS OF THE STUDY*

- The fact that there are currently 18 commercial banks operating in Zambia, the findings could have been more generalized if the sample size was increased beyond the three banks that were considered. However, it was difficult to increase the sample size for this study looking at the fact that many banks adopted IFRS at different times even before it became mandatory. This made these banks irrelevant for this research.

- It could also have been better to sample those banks that adopted IFRS earlier individually however due to limited time this could not be down as it would need too much work on the part of the researcher.

- This research is the only one conducted on effects of IFRS in Zambia, as such there was limited literature done in the country to do with this topic. The researcher mainly made references from studies done outside the country. I

- It was very difficult and in some cases impossible to conduct interviews with the management of these banks because the research was being conducted during the Covid 19 outbreak worldwide. As a result, movements were limited and many offices remained closed and people preferred to work in isolation and many managers were working from home.

*5.4 SUGGESTIONS FOR FUTURE RESEARCH*

This study makes a contribution to the body of knowledge on adoption of IFRS and indicates the effects on banks' performance after adoption. The study's recommendation for future studies is to spread the analysis to all banks in Zambia and to compare the performance for more years. Future researchers can extend their study to other sectors too.

**REFERENCES**


[1]. Abdul B., Utman C., and Sani M. (2014), *Measuring performance using financial ratios: Comparison of GAAP and IFRS* 13 (1).
[2]. Adam M (2014), *Examining bank performance using ratios:* European centre for Training research and development; United Kingdom.

[3]. Agrawal N. (2008), *IFRS and its impact on Governance;* www.livemint.com
[4]. Ahmed A. (2011), *Challenges of implementing IFRS;* IFRS international conference, Nigeria.
[5]. Ailemen A and Akande I (2012), *Benefits and obstacles of IFRS in Nigeria*, Research Journal of Accounting and financial. 2 (10).
[6]. Aksu M (2006), *Disclosure and Transparency in Istanbul stock exchange*, www.ssrn.com/abstract.
[7]. Bala M. (2013), *IFRS adoption and its effects on financial reports of Nigerian Businesses;* The Macrothem Review 2(7).
[8]. Ball R. (2006), *Pros and Cons of adopting International accounting standards for investors;* Business and accounting research, Forum for international Accounting policy 6-28.
[9]. Barth M., Lang M and Landsman W. (2018), *International accounting quality and standards*. Journal of accounting research 45.
[10]. Berke J. (2011), *IFRS' support towards business administration*; Journal of Business and management research. 26-38.
[11]. Bryman A. (2018), *Research methods in social research*, Oxford University, New York.
[12]. Bushman R. and Landsman R. (2010), *Advantages and Disadvantages of financial reporting regulation;* Business and Accounting research. 41(5).
[13]. Chen Y. and Rezae Z. (2012), *Functions of corporate governance in IFRS implementation in China;* Journal of Information and Accounting 20(2).
[14]. Cormier D. (2013), *Corporate Governance and IFRS;* Canadian evidence.
[15]. Denzine N. (1970), *A source book for sociological methods;* New Branswik; Transaction publishers.
[16]. Dimitrios B., Nikolas D, and Constatinos P. (2013), *Impact of IFRS on Athens stock exchange listed companies' ratios;* International Journal of Social and Business Research 4(6).
[17]. Dritas S. and Petracos G (2014), *First time adoption of IFRS empirical study in Greece -Historical financial information,* International research for business. 7(9).
[18]. Firoz M, Hansari A. and Akhata K. (2011), *Impact of IFRS on Banking industry in India;* Journal of management and Research. 7(2).
[19]. Garba S. (2016), *Bank performance and IFRS in Nigeria*, http//www.academia.edu.com
[20]. Gkuogkous X. and Merten G. (2010), Mandatory IFRS adoption and its impact on the Financial sector. http://ssr.com/abstract.
[21]. Godwin J. Karma A. and Heanry R. (2009), *Prediction of impact of IFRS and Corporate governance,* Abacus 44.
[22]. Kombo D. and Tromp D.I (2006), *Thesis and proposal writing; an introduction*, Nairobi.
[23]. Lantto A. and Salshrom P. (2009), *Impact of adoption of IFRS on Financial ratios;* Finance and accounting.
[24]. Leuz C. (2010), *Corporate reporting regulation different approaches; Why and how jurisdictions differ*, Business and accounting Research, 41(2).
[25]. Leuz C. (2013), *New approach to gloabal reporting Convergence*, Global player segment. www.iasplus.com.
[26]. Li S. (2010), *Can mandatory adoption of IFRS reduce cost of capital in the European union;* Accounting review, (85).
[27]. Lucic L. (2014), *Financial ratios in the function of Business risk*.
[28]. Macne L. C and MacCabe S. (2008), *Nursing research; Evidence based on practice;* Lipincot Williams and Wilkins.
[29]. Marshal S., Boukari M. and Caysials J. (2009), *Impact of IFRS on Corporate governance in France*, 162.
[30]. Mensah C. and Sebe G. (2014), *Financial performance critical analysis - Agriculture development bank of Ghana,* European Centre for Research and Training, United Kingdom. 3 (1).
[31]. Mugera (2013), *Non Probability sampling techniques*, University of Nairobi.
[32]. Mwape K. A (2010), *Lessons learnt from IFRS implementation; Regulator's perspective,* Bank of Zambia, July 2010.
[33]. Ocansey E. and Ehanaro J. (2014), *Comparative study of IFRS implementation in Nigeria and Ghana,* European scientific Journal. 10 (13).
[34]. Odia J. and Ogiedu K (2015), *Issues, lessons and challenges of IFRS adoption for Nigeria and other adopters*, Mediterranean journal of social sciences. 4 (2).
[35]. Okoye P. and Akebor C. (2014) *The adoption of IFRS and Financial reporting framework in Nigeria*, International Journal of Economic development and business. 2(1).
[36]. Okpala K. (2012), *Adoption of IFRS and its effects on financial statements – Perceived implication on Nigeria's foreign direct investment*, Australian Journal of management and Business Research. (2).
[37]. Pazarskis M., Alexandra A. and Notopolos P (2014), *Effects of IFRS adoption in Greece- IT sector evidence*, Mibes.
[38]. Pricewater Coopers (2016), *Complex issues banks face in IFRS implementation*, http//www.pwc.com.
[39]. Schutt R. (2016), *Investigating the social world – The practice and process of Research*, CA Sage publication.
[40]. Smith C. W. (2012) *International finance and investment, Module 6;* Unpublished manuscript, University of Walden.

[41]. Suh J. (2012), *Effects of IFRS on Future prospects nad Korean banks,* Working paper; www.bruegel.org.
[42]. Taiwo F. and Adejare A. (2014) *IFRS adoption effects on Nigerian accounting practices,* Archives of Business Research 3(3).
[43]. Tanko M. (2012), *Impact of IFRS on Nigerian banks performance,* Journal of Economic sciences and Administration. 4(2).
[44]. Taylor B., Kemode S. and Robert K. (2007), *Nursing and Health care research – Evidence for practicing,* Thomson Melbourn.
[45]. Terzungwe N. (2012) *Nigeria's Challenges of Converging to IFRS,* international journal of Business and information technology. 3(2).
[46]. Veriest A., Garemynck A and Thornton D. (2013), *Impact of governance on the choices made on adoption of IFRS:* European Accounting Review. 21(2).
[47]. Zambia Institute of Chartered Accountants (ZICA) (2015) *P1 Advanced Financial Reporting Manual;* Bpp Learning Media.

ISSN No:-2456-2165

## APPENDIX A: DESCRIPTIVE STATISTICS

| Ratio Title | Ratio Name | Standard Chartered Bank | Indo Zambia bank | Cavmont Bank plc |
|---|---|---|---|---|
| LIQUIDITY RATIOS | Current Ratio | 1.09 | 0.81 | 0.84 |
| | | 1.02 | 0.73 | 0.91 |
| | | 1.11 | 0.94 | 0.75 |
| | | 1.36 | 0.99 | 0.59 |
| | Quick Ratio | 1.09 | 0.81 | 0.84 |
| | | 1.02 | 0.73 | 0.91 |
| | | 1.11 | 0.94 | 0.75 |
| | | 1.36 | 0.99 | 0.59 |
| | Working Capital | 23550 | -225649 | -34704686 |
| | | 7422 | -385735 | -25261080 |
| | | 58166 | -97093 | -81212892 |
| | | 722000 | -11771 | -145689580 |
| | Cash Ratio | 0.41 | 0.28 | 0.31 |
| | | 0.37 | 0.19 | 0.45 |
| | | 0.14 | 0.32 | 0.02 |
| | | 0.14 | 0.12 | 0.05 |
| PROFITABILITY RATIO | ROA | 2.10% | 0.15% | 4.07% |
| | | 0.75% | -0.99% | 0.65% |
| | | 0.81% | 2.45% | 1.56% |
| | | 11.04% | 2.10% | -5.59% |
| | ROE | 10.07% | 1.15% | 28.12% |
| | | 5.60% | -9.63% | 5.47% |
| | | 8.26% | 21.50% | 12.01% |
| | | 11.58% | 17.91% | -80.04% |
| | Asset Turnover | 0.02 | 0.002 | 0.04 |
| | | 0.01 | -0.010 | 0.01 |
| | | 0.01 | 0.025 | 0.02 |
| | | 0.11 | 0.021 | -0.06 |
| | Net Profit Margin Ratio | 19.23% | 1.90% | 0.25 |
| | | 8.66% | -16.28% | 6.71% |
| | | 10.05% | 38.97% | 16.36% |
| | | 91.08% | 26.26% | -55.38% |
| LEVERAGE RATIO | Debt Ratio | 0.79 | 0.87 | 0.86 |
| | | 0.86 | 0.90 | 0.88 |
| | | 0.90 | 0.89 | 0.87 |
| | | 0.05 | 0.88 | 0.93 |
| | Equity Ratio | 0.21 | 0.13 | 0.14 |
| | | 0.14 | 0.10 | 0.12 |
| | | 0.10 | 0.11 | 0.13 |
| | | 0.95 | 0.12 | 0.07 |
| | Debt to Equity Ratio | 3.80 | 6.63 | 5.91 |
| | | 6.30 | 8.73 | 7.40 |
| | | 9.13 | 7.77 | 6.69 |
| | | 0.05 | 7.54 | 13.31 |

ISSN No:-2456-2165

## APPENDIX B: ASSET QUALITY MEASURED BY (NPL) RATIOS OF SAMPLED BANKS

| | **Zambian GAAP** | | **IFRS** | |
|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** |
| Standard Chartered Bank | 7.60% | 6.22% | 5.13% | 4.4% |
| Indo Zambia Bank | 5.7% | 3.0% | 1.9% | 1.2% |
| Cavmont bank plc | 15% | 6% | 5% | 25.5% |