

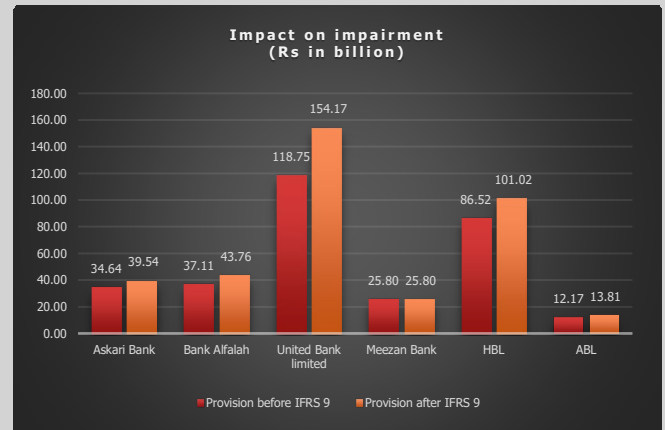
IFRS 9 pre-implementation impact study on impairment of financial assets on large banks in Pakistan as at December 31, 2022

The International Accounting Standards Board (IASB) issued IFRS 9 'Financial Instruments' in 2014, with an effective date for accounting periods beginning on or after January 1, 2018. The State Bank of Pakistan (SBP) has intermittently postponed the implementation of IFRS 9 for banks in Pakistan through various circulars. According to BPRD Circular No. 3 of 2022, IFRS 9 became effective on banks in Pakistan for period starting on or after January 1, 2023, specifically for banks with an asset base exceeding Rs. 500 billion as of December 31, 2021. In the same circular, SBP finalized and issued the IFRS 9 Application Instructions to ensure a smooth and consistent application of the standard across banks. However, through BPRD Circular No. 07 of 2023 dated April 13, 2023, SBP further delayed the implementation of IFRS 9, postponing it to commence from January 1, 2024 for all banks in Pakistan.

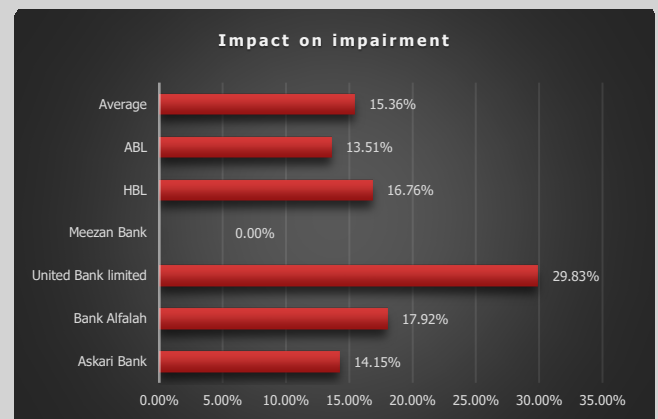
During 2022, the banks in Pakistan conducted an impact assessment of IFRS 9, taking into consideration SBP's instructions regarding its application. Various banks in Pakistan disclosed the financial impacts on impairment and equity resulting from the expected implementation of IFRS 9 in their published financial statements for the year ended December 31, 2022. This document encompasses the impact study of IFRS 9 impairment as disclosed by Askari Bank, Bank Alfalah, United Bank Limited, Meezan Bank, Habib Bank Limited (HBL), and Allied Bank Limited (ABL) in their financial statements for the year ended December 31, 2022.

The average increase in impairment is 15.36% compared to impairment under prudential regulations. United Bank showed the highest increase in impairment at 29.83%, whereas Meezan Bank reported no change in current impairment. Graph 1 compares current impairment with IFRS 9 impairment, while Graph 2 illustrates the increase in impairment due to IFRS 9 assessment compared to existing impairment.

Graph 1: Comparison of existing impairment (provision) with IFRS 9 impairment



Graph 2: Increase in impairment due to IFRS 9 assessment compared with existing impairment



By: Abdullah Khan

Abdullah Khan is student of chartered accountancy and doing his articles from ProConsult | Shafiq Umar Daraz & Co.

Endorsed by: Abdul Basit, Partner and Chief Operating Officer at ProConsult International.