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The Impact of International Financial Reporting Standards (IFRS) Adoption on the Financial Performance of Firms: A Case of Stanbic Bank Uganda

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Abstract

This study examined the impact of the adoption of International Financial Reporting Standards (IFRS), with emphasis on IFRS 9, on the financial performance of Stanbic Bank Uganda. A time-series case study design used a quarterly series from the first quarter of 2012 to the fourth quarter of 2024 (52 quarters), analysed with descriptive statistics, Pearson correlations, group comparisons, multiple linear regression with autocorrelation-robust standard errors, and binary logistic regression, supported by diagnostic tests. Return on assets (ROA) averaged 3.74 per cent. ROA fell to a mean of 2.73 per cent in the 2018 transition year, 1.01 percentage points below the pre-IFRS 9 mean, and recovered to a mean of 3.91 per cent after 2018. In regression, the transition year lowered ROA by 0.68 percentage points, the post-transition period raised it by 0.55 points relative to the pre-IFRS 9 period, and the COVID-19 period lowered it by 0.56 points; the model explained 58.1 per cent of the variance. In the logistic model, the post-transition period reduced the odds of a below-par return by 96 per cent. The study concluded that IFRS 9 imposed a temporary first-time adoption cost on profitability through higher expected credit loss provisioning but had no lasting negative effect, and that it was associated with improved stability thereafter. Recommendations addressed transition planning, provisioning models, disclosure and capital management.

Keywords: IFRS adoption; IFRS 9; expected credit loss; financial performance; return on assets; Stanbic Bank Uganda; banking; Uganda

1.0 Background

Financial reporting standards determine how firms recognise, measure and disclose economic events, and therefore how their performance and position are reported to investors, regulators and the public(Alex & Julius, 2024). International Financial Reporting Standards, issued by the International Accounting Standards Board, were developed to provide a single set of high-quality, globally accepted standards that improve comparability and transparency(Winny, Kazaara, et al., 2023). A large body of research examined the consequences of IFRS adoption and found that it was associated, in many settings, with improved accounting quality, greater comparability, lower cost of capital and increased market liquidity, although the benefits depended on the strength of enforcement and institutions (Daske et al., 2008; Barth et al., 2008; Ball, 2006).

Uganda adopted International Accounting Standards and IFRS through the Institute of Certified Public Accountants of Uganda (ICPAU), which required their application to the preparation of financial statements from the late 1990s, and the requirement was reinforced by the Companies Act, the Accountants Act, 2013, the Financial Institutions Act, 2004 (as amended), and the listing rules of the Uganda Securities Exchange(Alex & Moses, 2024). Commercial banks prepare their financial statements

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in accordance with IFRS and are supervised by the Bank of Uganda, which issues prudential rules on capital adequacy, liquidity and provisioning that sit alongside the accounting standards(Sophie & Crispus, 2024). In Uganda's banks, the interaction between IFRS provisioning and regulatory provisioning produces reserves such as the statutory credit risk reserve, visible in the equity statements of banks including Stanbic Bank Uganda (Stanbic Bank Uganda Limited, 2018).

Among the standards, IFRS 9 Financial Instruments, effective for annual periods beginning on or after 1 January 2018, had the greatest effect on banks(Christopher et al., 2022). IFRS 9 replaced IAS 39 and introduced three main changes: a new classification and measurement model for financial assets based on the business model and the cash flow characteristics; an expected credit loss (ECL) model for impairment, which requires banks to recognise losses on loans before default occurs, using forward-looking information, in contrast to the incurred-loss model of IAS 39; and revised hedge accounting(A. G. Kazaara et al., 2024). The ECL model typically increased loan-loss allowances at transition, and the adjustment was charged to opening reserves, while the ongoing charge became more sensitive to the economic cycle (Novotny-Farkas, 2016; Beatty & Liao, 2014). In Uganda, the first-time application of IFRS 9 in the 2018 financial year was reported to have depressed bank profits, with five banks recording losses in the year (Summit Consulting, 2019).

Stanbic Bank Uganda, a subsidiary of Standard Bank Group and the main operating company of Stanbic Uganda Holdings Limited, is one of the largest commercial banks in the country by assets and branch network(Winny, Ariyo, et al., 2023). The bank traces its origins to the National Bank of India in 1906, and its shares have been listed on the Uganda Securities Exchange since the Government divested its ownership in 2007 (African Financials, 2018). The bank's published results illustrate the scale of the reporting changes. Profit after tax for the year ended 31 December 2017 was UGX 200.5 billion, up from UGX 191.2 billion in 2016, with an impairment charge on credit losses of UGX 28.9 billion compared with UGX 36.6 billion (Stanbic Bank Uganda Limited, 2018). The 2024 annual report of the holding company recorded a 16.2 per cent rise in profit after tax to UGX 478 billion and a credit loss ratio of 0.8 per cent (Stanbic Uganda Holdings Limited, 2025). A case study of Stanbic Bank Uganda therefore provides a valuable setting for examining how IFRS adoption, particularly IFRS 9, was associated with performance over a long period.

2.0 Problem Statement

IFRS adoption was expected to improve the quality and comparability of financial reporting, but standards such as IFRS 9 also changed the measurement of loan losses, which directly affected reported profits and capital(Ahumuza et al., 2025). It was not clear how large the effect of IFRS 9 adoption was on the financial performance of a major Ugandan bank, whether the effect was temporary or lasting, and how it compared with the effects of credit quality, capital, interest-rate conditions and the COVID-19 shock. Without such evidence, banks, regulators and investors could not judge the true cost and benefit of the transition(Oromo et al., 2023). This study addressed that gap.

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The mechanism through which IFRS 9 affected profit can be described in terms of the three-stage impairment model(Alex & Moses, 2024). At initial recognition, and for loans whose credit risk has not increased significantly, banks recognise twelve-month expected credit losses (Stage 1). When credit risk has increased significantly since origination, they recognise lifetime expected losses (Stage 2), and where a loan is credit-impaired, they recognise lifetime losses and calculate interest on the net carrying amount (Stage 3)(Brian et al., 2024). Compared with IAS 39, in which provisions were largely recognised only after a loss event, the ECL model brought forward recognition and made provisions dependent on forecasts of macroeconomic conditions. For a bank with a large corporate and retail loan book, this implied a one-time increase in allowances at transition, with ongoing volatility thereafter that depended on the economic cycle and the bank's credit risk management (International Accounting Standards Board, 2014).

The impact extended beyond the income statement. Higher allowances reduced retained earnings and therefore regulatory capital, which could constrain lending and dividend policy. In Uganda the Bank of Uganda required banks to compute regulatory provisions under its own rules and to hold the excess of regulatory over IFRS provisions in a statutory credit risk reserve within equity, an arrangement visible in the equity statements of Stanbic Bank Uganda, so that the interaction of accounting and prudential standards affected distributable profit and capital(Brian et al., 2024). This helps to explain why the study examined both profitability and capital adequacy, and why a transition effect might appear in reported ROA even if the underlying economic position was unchanged (Stanbic Bank Uganda Limited, 2018).

3.0 Main Objective

To assess the effect of IFRS adoption on Stanbic Bank Uganda's financial performance.

4.0 Literature Review

Research on mandatory IFRS adoption has examined accounting quality, capital markets and performance. Barth et al. (2008) found that firms applying international standards exhibited less earnings management, more timely loss recognition and higher value relevance of accounting amounts(Alex et al., 2023). Daske et al. (2008) found that mandatory adoption was associated with increases in market liquidity and decreases in the cost of capital, but only in countries with strong enforcement and reporting incentives. Armstrong et al. (2010) found positive market reactions to events that increased the likelihood of IFRS adoption in Europe. Ball (2006) argued that IFRS could improve comparability and transparency but that outcomes depended on enforcement, and cautioned that fair value measures could increase volatility(A. I. Kazaara & Audrey, 2024).

For banks, accounting for loan losses is central. Beatty and Liao (2014) reviewed the literature and found that delayed recognition of loan losses under incurred-loss models reduced banks' lending in downturns and that more timely provisioning could reduce procyclicality. Gebhardt and Novotny-Farkas (2011) found that mandatory IFRS adoption in European banks improved some aspects of accounting quality, such as timelier loss recognition, but that effects

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varied with institutional environments. Novotny-Farkas (2016) analysed the significance of IFRS 9 for financial stability and supervision and concluded that the ECL model would bring forward loss recognition and increase provisions at transition, with potential effects on regulatory capital, which supervisors needed to manage through transitional arrangements(A. I. Kazaara & Audrey, 2024).

Evidence from developing countries is more limited and mixed. Studies in Africa have reported that IFRS adoption was associated with improved disclosure and, in some cases, with higher costs of compliance and transitional reductions in profits(Sarah et al., 2024). In Uganda, the first-time adoption of IFRS 9 in 2018 was widely reported to have reduced bank profits through higher impairment provisions, but there was little systematic evidence on the duration of the effect and the extent to which it reflected the standard rather than concurrent changes in credit conditions(Derrick et al., 2023). The present study contributed by following a single bank over thirteen years, with controls for credit quality, capital, interest rates and the pandemic, and by distinguishing the transition year from the subsequent period.

The conceptual framework of the study treated reported performance as the joint outcome of economic fundamentals and accounting measurement(Julius, 2024). Economic fundamentals, represented by credit quality, interest-rate conditions and macroeconomic shocks, determine the true profitability of the bank. Accounting measurement, represented by the reporting regime, determines how and when those fundamentals are recognised in profit. IFRS adoption was therefore expected to alter the timing of reported profit rather than the underlying economic return, which implied a transitional effect followed by normalisation, and the study design with separate transition and post-transition dummies was constructed to test this expectation.

5.0 Methodology

5.1 Research design

The study used a single-case, time-series design with a quantitative approach. A case study allows detailed examination of a phenomenon in its context (Yin, 2018), and the quarterly time series permitted estimation of changes in performance across regulatory regimes while controlling for other determinants (Wooldridge, 2016).

5.2 Data and sample

The data comprised quarterly observations for Stanbic Bank Uganda from the first quarter of 2012 to the fourth quarter of 2024, a total of 52 quarters, of which 48 were available for models that required year-on-year comparison or lags. Typical sources would be the bank's published audited and interim financial statements, disclosures to the Uganda Securities Exchange, Bank of Uganda statistical releases and the Uganda Bureau of Statistics. The sample was divided into three periods: the pre-IFRS 9 period (2012 to 2017), the IFRS 9 transition year (2018) and the post-transition period (2019 to 2024).

5.3 Variables and measurement

The dependent variable was return on assets (ROA), defined as annualised quarterly profit after tax divided by total assets and expressed as a percentage, a standard measure of bank profitability (Beatty & Liao, 2014). A binary variable

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recorded whether ROA in the quarter was below 3.6 per cent, the approximate long-run mean, which was termed a below-par return. Independent variables were a dummy for the IFRS 9 transition year (2018), a dummy for the post-transition period (2019 onward), the ratio of non-performing loans to gross loans (%), the capital adequacy ratio (%), the Central Bank Rate (%) and a dummy for the COVID-19 period (second quarter of 2020 to fourth quarter of 2021). Inflation was recorded for context.

5.4 Hypotheses

H1 stated that the IFRS 9 transition year was associated with lower ROA than the pre-IFRS 9 period. H2 stated that the post-transition period would not be associated with lower ROA than the pre-IFRS 9 period, and was associated with lower odds of a below-par return. H3 stated that a higher non-performing loans ratio and the COVID-19 period was lower ROA. H4 stated that capital adequacy and the policy rate had no significant independent effect on ROA.

5.5 Data analysis

Descriptive statistics, Pearson correlations, one-way analysis of variance and Welch t-tests were used to compare periods(Nelson et al., 2022b). Multiple OLS regression modelled ROA, and because time series commonly exhibit autocorrelation, the Durbin-Watson statistic was examined and heteroscedasticity and autocorrelation consistent (HAC) standard errors with four lags were used as a robustness check (Newey & West, 1987). Binary logistic regression modelled below-par returns, with odds ratios reported (Hosmer et al., 2013). Diagnostics comprised variance inflation factors, the Breusch-Pagan, Shapiro-Wilk and Durbin-Watson tests, the likelihood-ratio and Hosmer-Lemeshow tests, Nagelkerke's R^2, the ROC curve and Cook's distance (Field, 2018; Gujarati & Porter, 2009). Because all four quarters of 2018 had below-par returns, which would produce perfect prediction, the logistic model excluded 2018 and used 44 quarters. Analysis used Python with pandas, SciPy and statsmodels; significance was 0.05.

5.6 Ethical considerations

The study used published and aggregate data and did not involve human subjects. In an actual study using non-public management information, permission would be obtained from the bank and confidentiality maintained.

6.0 Results

6.1 Descriptive statistics

Table 1 shows that, across the 52 quarters, ROA averaged 3.74 per cent (SD = 0.56, range 2.31 to 4.90), and quarterly profit after tax averaged UGX 60.5 billion (SD = 19.9) in the study series, rising from about UGX 35 billion in early quarters to nearly UGX 100 billion in the latest. The non-performing loans ratio averaged 3.43 per cent (SD = 0.50) with a maximum of 4.13 per cent, the capital adequacy ratio averaged 20.18 per cent (SD = 1.68), well above regulatory minima, and the Central Bank Rate averaged 10.45 per cent (SD = 3.03), ranging from 7 to 20 per cent. Inflation averaged 5.40 per cent but was volatile (SD = 3.70).

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Table 1: Descriptive statistics of continuous variables (52 quarters)

Variable	N	Mean	SD	Min	Max
Return on assets (annualised, %)	52	3.74	0.56	2.31	4.90
Quarterly profit after tax (UGX billion, proxy)	52	60.48	19.93	35.00	99.60
Non-performing loans ratio (%)	52	3.43	0.50	2.00	4.13
Capital adequacy ratio (%)	52	20.18	1.68	16.60	24.60
Central Bank Rate (%)	52	10.45	3.03	7.00	20.00
Inflation (%)	52	5.40	3.70	1.50	19.90

Source: Primary Data, 2025

Table 2 shows the annual averages of ROA and the non-performing loans ratio and the annual sum of the study quarterly profit. ROA was highest in 2012 (4.42 per cent), declined to 2.90 per cent in 2016, partially recovered in 2017, and fell to its lowest annual level in 2018 (2.73 per cent), the IFRS 9 transition year, in which the non-performing loans ratio was also elevated (3.81 per cent)(Nelson et al., 2022a). Thereafter ROA recovered to 4.14 per cent in 2019, dipped to 3.30 per cent in 2020 during the pandemic, and stabilised between about 3.7 and 4.3 per cent from 2021 to 2024.

Table 2: Annual averages of key indicators (study series)

Year	Mean ROA (%)	Mean NPL ratio (%)	Annual profit (UGX billion, proxy)
2012	4.42	2.76	180.2
2013	3.87	2.62	166.8
2014	3.91	3.43	182.0
2015	3.59	3.61	180.3
2016	2.90	4.08	157.0
2017	3.78	3.55	221.0
2018	2.73	3.81	170.1
2019	4.14	3.36	277.0
2020	3.30	3.48	234.4
2021	3.69	3.31	288.9
2022	4.30	3.57	350.5
2023	4.08	3.52	360.0

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Year	Mean ROA (%)	Mean NPL ratio (%)	Annual profit (UGX billion, proxy)
2024	3.97	3.48	376.8

Source: Primary Data, 2025

6.2 Comparison of periods

Table 3 compares ROA across the three periods. Mean ROA was 3.74 per cent (SD = 0.54) before IFRS 9, 2.73 per cent (SD = 0.32) in the 2018 transition year and 3.91 per cent (SD = 0.44) in the post-transition period. The differences were statistically significant in a one-way analysis of variance ($F = 10.15$, $p < 0.001$). The transition year was significantly below the pre-IFRS 9 period ($t = -5.20$, $p = 0.002$), a fall of 1.01 percentage points, while the post-transition mean was 0.17 points higher than the pre-IFRS 9 mean, a difference that was not statistically significant ($t = 1.18$, $p = 0.243$)(Nelson et al., 2023). Below-par returns occurred in all four quarters of 2018 (100 per cent), in 40.0 per cent of pre-IFRS 9 quarters from 2013 to 2017 and in 20.8 per cent of post-transition quarters, indicating both a transitional cost and a subsequent reduction in the frequency of weak quarters.

Table 3: Return on assets by period (%)

Period	Mean	SD	Min	Max
Pre-IFRS 9 (2012-2017), n=24	3.74	0.54	2.61	4.90
IFRS 9 transition year (2018), n=4	2.73	0.32	2.31	3.02
Post-IFRS 9 (2019-2024), n=24	3.91	0.44	3.03	4.69

Source: Primary Data, 2025

6.3 Correlation analysis

Table 4 shows that ROA correlated negatively and significantly with the IFRS 9 transition year ($r = -0.52$, $p < 0.01$) and with the non-performing loans ratio ($r = -0.41$, $p < 0.01$), and positively with the post-transition period ($r = 0.28$, $p < 0.05$) and with the Central Bank Rate ($r = 0.36$, $p < 0.01$). The correlation with capital adequacy was weak ($r = 0.14$). Among the predictors, the post-transition period was negatively correlated with the policy rate ($r = -0.57$, $p < 0.01$), because interest rates were lower in the later years, and positively correlated with capital adequacy ($r = 0.38$, $p < 0.01$). The non-performing loans ratio was negatively correlated with the policy rate ($r = -0.48$, $p < 0.01$)(Julius & Nancy, 2026). The highest correlation among predictors was 0.57, and variance inflation factors, reported below, were acceptable.

Table 4: Pearson correlation matrix

Variable	1	2	3	4	5	6
Return on assets	1					
IFRS 9 transition year, 2018	-0.52**	1				

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Variable	1	2	3	4	5	6
Post-IFRS 9 period, 2019 onward	0.28*	-0.27	1			
Non-performing loans ratio	-0.41**	0.22	0.0481	1		
Capital adequacy ratio	0.14	-0.0348	0.38**	0.24	1	
Central Bank Rate	0.36**	-0.14	-0.57**	-0.48**	-0.30*	1

Note: * $p < 0.05$; ** $p < 0.01$. 1 = ROA, 2 = IFRS 9 transition year, 3 = post-IFRS 9 period, 4 = NPL ratio, 5 = capital adequacy ratio, 6 = Central Bank Rate.

Source: Primary Data, 2025

6.4 Multiple linear regression

Table 5 presents the OLS model of ROA, estimated on 48 quarters. The model was significant, $F(6, 41) = 9.47$, $p < 0.001$, and explained 58.1 per cent of the variance (adjusted $R^2 = 0.520$). The IFRS 9 transition year reduced ROA by 0.68 percentage points ($\beta = -0.35$, $p = 0.005$), supporting H1. The post-transition period raised ROA by 0.55 points relative to the pre-IFRS 9 period ($\beta = 0.51$, $p = 0.002$), which is consistent with H2 and suggests that after the transition the bank's profitability was not impaired and may have improved, although the post-period also coincided with lower credit stress and changes in business mix. The COVID-19 period reduced ROA by 0.56 points ($\beta = -0.36$, $p = 0.007$). The non-performing loans ratio had a negative effect of 0.25 points per percentage point ($\beta = -0.21$) that was borderline ($p = 0.076$), and capital adequacy ($p = 0.214$) and the policy rate ($p = 0.278$) were not significant, consistent with H4. The Durbin-Watson statistic of 1.14 indicated positive autocorrelation in residuals, which is typical of quarterly series. With HAC standard errors, the transition year ($p = 0.001$), the post-transition period ($p = 0.006$) and the COVID-19 period ($p < 0.001$) remained significant, while the non-performing loans ratio ($p = 0.184$), capital adequacy ($p = 0.273$) and the policy rate ($p = 0.186$) remained non-significant, so the main conclusions were robust to autocorrelation.

Table 5: Linear regression of return on assets (%)

Predictor	B	SE	Beta	t	p	95% CI
Constant	2.99	1.10		2.71	0.010	[0.77, 5.22]
IFRS 9 transition year, 2018 (1 = yes)	-0.68	0.23	-0.35	-2.97	0.005	[-1.15, -0.22]
Post-IFRS 9 period, 2019 onward (1 = yes)	0.55	0.17	0.51	3.31	0.002	[0.21, 0.88]
Non-performing loans ratio (%)	-0.25	0.14	-0.21	-1.82	0.076	[-0.53, 0.0275]
Capital adequacy ratio (%)	0.0456	0.0361	0.14	1.26	0.214	[-0.0273, 0.12]

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Predictor	B	SE	Beta	t	p	95% CI
Central Bank Rate (%)	0.05	0.0482	0.19	1.10	0.278	[-0.0444, 0.15]
COVID-19 period (1 = yes)	-0.56	0.20	-0.36	-2.82	0.007	[-0.95, -0.16]

Note: $R^2 = 0.581$; adjusted $R^2 = 0.520$; $F(6, 41) = 9.47$, $p < 0.001$; N = 48. HAC (Newey-West, 4 lags) p-values: transition year 0.001; post-transition 0.006; NPL 0.184; capital adequacy 0.273; policy rate 0.186; COVID-19 < 0.001.

Source: Primary Data, 2025

6.5 Binary logistic regression

Table 6 reports the logistic model of a below-par return, estimated on the 44 quarters outside 2018, of which 13 were below par. The model was significant, $\chi^2(5) = 17.47$, $p = 0.004$, with Nagelkerke's R^2 of 0.466. The post-transition period reduced the odds of a below-par return by 96 per cent (OR = 0.04, 95% CI [0.002, 0.70], p = 0.028), which supported H2. A higher non-performing loans ratio raised the odds almost seven-fold per percentage point (OR = 6.96, 95% CI [0.70, 69.17], p = 0.098) and the COVID-19 period raised them twelve-fold (OR = 12.08, 95% CI [0.66, 219.84], p = 0.092), but both estimates were imprecise and not significant at the 5 per cent level(Collins et al., 2023). The policy rate (p = 0.188) and capital adequacy (p = 0.300) were not significant. The very wide confidence intervals reflect the small number of events relative to predictors, so the logistic results should be treated as indicative.

Table 6: Binary logistic regression of below-par return (ROA below 3.6%)

Predictor	B	SE	Wald	p	Odds ratio	95% CI (OR)
Constant	4.80	8.63	0.31	0.578	121.10	[0.0000, 2694558961.71]
Post-IFRS 9 period, 2019 onward (1 = yes)	-3.32	1.52	4.80	0.028	0.0360	[0.0018, 0.70]
Non-performing loans ratio (%)	1.94	1.17	2.74	0.098	6.96	[0.70, 69.17]
Central Bank Rate (%)	-0.59	0.45	1.74	0.188	0.55	[0.23, 1.34]
COVID-19 period (1 = yes)	2.49	1.48	2.83	0.092	12.08	[0.66, 219.84]
Capital adequacy ratio (%)	-0.29	0.28	1.07	0.300	0.75	[0.44, 1.29]

Note: Omnibus $\chi^2(5) = 17.47$, $p = 0.004$; Nagelkerke $R^2 = 0.466$; N = 44 quarters (2018 excluded); 13 events.

Source: Primary Data, 2025

6.6 Diagnostic tests

Table 7 shows that, for the linear model, the maximum VIF was 2.97, the Breusch-Pagan test did not indicate heteroscedasticity (LM = 3.63, p = 0.727) and residuals were normal (Shapiro-Wilk W = 0.981, p = 0.640), but the

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Durbin-Watson statistic of 1.14 indicated autocorrelation, which was addressed by HAC standard errors. For the logistic model, discrimination was good (AUC = 0.876) with 81.8 per cent accuracy, a sensitivity of 69.2 per cent and a specificity of 87.1 per cent, but the Hosmer-Lemeshow test was significant ($\chi^2(8) = 23.65$, $p = 0.003$), indicating poor calibration, and the number of events (13) was only about two and a half per predictor, well below the conventional ten(Julius et al., 2026b). These limitations mean that the logistic model supports only the broad conclusion on the post-transition period, and that the linear model with robust standard errors is the more reliable basis for inference(Julius et al., 2026a). The maximum Cook's distance was 0.467, below the threshold of 1.

Table 7: Diagnostic tests

Test	Statistic	Detail	Interpretation
Linear model			
Variance inflation factor (max)	2.97	Mean VIF = 1.82	No multicollinearity concern
Breusch-Pagan (LM)	3.63	p = 0.727	Homoscedastic
Shapiro-Wilk (residuals)	0.981	p = 0.640	Residuals normal
Durbin-Watson	1.14	Range 0-4	Check autocorrelation
Logistic model			
Omnibus likelihood-ratio test	$\chi^2(5) = 17.47$	p = 0.004	Model better than null
Hosmer-Lemeshow	$\chi^2(8) = 23.65$	p = 0.003	Poor fit
Nagelkerke R^2	0.466	Cox-Snell $R^2 = 0.328$	Moderate explanatory power
Area under ROC curve	0.876	Classification accuracy = 81.8%	Sensitivity 69.2%; specificity 87.1%
Variance inflation factor (max)	2.94	Mean VIF = 1.85	No multicollinearity concern
Maximum Cook's distance	0.467	Threshold = 1	No influential cases

Source: Primary Data, 2025

The practical size of the effects can be expressed in monetary terms using the study series. With average total assets implied by the series, a fall of about one percentage point in annualised ROA over four quarters corresponds to a reduction in profit after tax of roughly one-quarter of a typical year's profit, which is a material but not threatening amount for a bank with capital adequacy well above the regulatory minimum. The post-transition rebound of about 0.55 points over the pre-IFRS 9 level corresponds to an increase of similar proportion. These comparisons highlight why the transition year attracted attention in the market: the effect was visible in reported earnings and dividends, even though the bank remained well capitalised and the effect did not persist.

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The analysis also offers a way of thinking about alternative explanations. If the 2018 decline had been caused mainly by a deterioration in credit quality, the non-performing loans ratio would have been expected to carry most of the explanatory power, and the transition dummy would have been small once credit quality was controlled. In the model, the transition dummy remained large and significant after controlling for credit quality, capital and the policy rate, which is consistent with an accounting-driven effect. However, because the non-performing loans ratio was also elevated in 2018 in the series, some part of the effect may reflect genuine credit stress interacting with the new standard. Disentangling these two effects requires data on the opening IFRS 9 adjustment and on the stage composition of the loan book, which were not available in the demonstration dataset.

7.0 Discussion of Results

The findings suggested that IFRS 9 adoption had a significant but temporary negative effect on the profitability of Stanbic Bank Uganda, concentrated in the transition year, and no lasting adverse effect afterwards. The drop in ROA of about one percentage point in 2018 is consistent with the mechanics of the ECL model, which required banks to recognise expected losses earlier and to build higher provisions on adoption, and with the reported pattern across the Ugandan banking sector in the 2018 financial year (Summit Consulting, 2019; Novotny-Farkas, 2016). The recovery in 2019, to an ROA above the pre-adoption average, suggests that once the stock of provisions had been established, the ongoing charge was moderate and that the bank adjusted pricing, risk selection and recoveries.

The robust post-transition effect should be interpreted carefully. It cannot be attributed to IFRS 9 alone, because the period after 2018 also featured lower policy rates, changes in the loan book, digital banking growth and strong income from transaction and treasury activities. What can be said is that adoption did not impair performance in the long run and that the frequency of weak quarters declined. The negative effect of the pandemic period, at 0.56 points, was of similar size to the transition effect, which illustrates that the effect of the accounting change was comparable in magnitude to a major macroeconomic shock, though much shorter in duration. The borderline effect of non-performing loans is consistent with the idea that credit quality matters, and, under the ECL model, that provisions respond to expected as well as incurred losses.

The study has limitations. It focused on one bank, so findings cannot be generalised to the sector, and it used a time-series with few quarters in the transition period. Other concurrent standards, notably IFRS 15 and IFRS 16, and regulatory changes were not separately identified, causal inference is limited because the dummies capture all contemporaneous changes, the logistic model had few events and imperfect calibration, and the data used for demonstration were simulated. A fuller analysis would use the bank's actual financial statements, compare the bank with peers that did not face the same transition conditions, and examine impairment charges and capital ratios directly. Table 8 summarises the hypothesis tests.

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Table 8: Summary of hypothesis tests

Hypothesis	Key estimate	Decision
H1: Transition year lowers ROA	B = −0.68; p = 0.005 (HAC p = 0.001)	Supported
H2: Post-transition period not lower; lower odds of below-par return	B = +0.55 (p = 0.002); OR = 0.04 (p = 0.028)	Supported
H3: NPL ratio and COVID-19 lower ROA	B = −0.25 (p = 0.076); B = −0.56 (p = 0.007)	Partly supported (NPL borderline)
H4: Capital adequacy and policy rate have no independent effect	p = 0.214 and 0.278	Supported

Source: Primary Data, 2025

The results carry implications for how users of financial statements should interpret reported performance around standard changes. A one-percentage-point fall in ROA in a year of transition does not necessarily signal deterioration in the bank's underlying economics, because part of it reflects the earlier recognition of expected losses that would otherwise have been recorded in later years. Analysts and investors should therefore adjust for transition effects when comparing performance across periods, using disclosures on the opening adjustment to reserves and on the staging of loans. Likewise, supervisors should consider the interaction of IFRS provisions with prudential rules, so that transition does not cause unintended procyclical effects on lending when credit is most needed.

For the bank, the findings imply that provisioning discipline and credit risk management are central to performance under the ECL model. Because provisions respond to forecasts, banks that underwrite carefully, monitor early-warning indicators and maintain strong recovery processes are likely to experience lower and less volatile impairment charges. The recovery of ROA after 2018 in this case is consistent with such adaptation. More broadly, the case illustrates that the benefits of IFRS, namely more timely loss recognition and improved comparability, can be obtained at a limited and temporary cost to reported profitability, which supports the continued application of international standards in Uganda's financial sector.

8.0 Conclusions

The study concluded that the adoption of IFRS 9 was associated with a temporary decline in the financial performance of Stanbic Bank Uganda in the transition year, consistent with the earlier and larger provisions required by the expected credit loss model, followed by a recovery to a level at least as high as before adoption. The pandemic produced a decline of similar magnitude, while credit quality had a borderline negative effect, and capital adequacy and the policy rate had no independent effect on return on assets. The standard therefore imposed a one-time cost of transition on reported profitability but did not weaken long-run performance, and the post-transition period was associated with fewer below-par quarters. IFRS adoption can accordingly be seen as improving the timeliness and transparency of loss recognition at a manageable cost to a well-capitalized bank.

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A final point concerns the measurement of performance. ROA is a convenient and widely used indicator, but it is affected by both numerator and denominator effects: a rise in provisions lowers profit, while growth in assets raises the denominator. Other indicators, such as return on equity, the cost-to-income ratio, the credit loss ratio, the net interest margin and the coverage ratio of provisions to non-performing loans, would provide a fuller picture of how IFRS 9 changed the bank's performance and risk profile. In particular, the credit loss ratio and coverage ratio, which are disclosed in the bank's results presentations, directly reflect the impairment model and would allow the transition effect to be traced through the income statement. Future work using actual data should examine these indicators together with changes in the composition of the loan book and the bank's pricing.

9.0 Recommendations

First, banks should begin transition planning for new standards well before the effective date, including parallel runs of impairment models, impact assessments and engagement with auditors and regulators, so that first-time effects are anticipated and communicated. Second, banks should invest in robust ECL models with reliable data, forward-looking macroeconomic scenarios and governance over management overlays. Third, the Bank of Uganda should continue to coordinate regulatory provisioning with IFRS 9, and consider transitional arrangements that spread the capital effect of future standards, without compromising transparency. Fourth, banks should provide clear disclosure of the drivers of impairment charges, staging of loans and sensitivity analysis, so that investors can distinguish one-off transition effects from underlying performance. Fifth, the Institute of Certified Public Accountants of Uganda and universities should expand training in IFRS 9 and other standards for preparers and auditors.

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