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International Financial Reporting Standards (IFRS) and Financial Performance in Nigeria: Pre and Post Adoption Analysis

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ABSTRACT*: This study examined the impact of the adoption of International Financial Reporting Standards (IFRS) on the financial performance of the Nigerian banks. The study focused on the dynamic effects on Liquidity (LIQ), Return on Assets (ROA), Capital Adequacy Ratio (CAR), and Earnings Quality (EQ). Utilizing an expanded panel dataset spanning 18 listed Nigerian banks over a 14-year period (2005-2011 pre-adoption and 2018-2024 post-adoption), the research employs Fixed Effects Panel Regression analysis to distinguish between immediate structural shifts and long-term trend adjustments. The empirical results reveal a nuanced, dual impact. Performance and informational quality metrics: ROA and EQ, exhibited a highly statistically significant, immediate positive level shift upon IFRS adoption ($\beta_2 > 0$), with the improved trend being sustained over time. In sharp contrast, financial stability metrics: Liquidity and CAR, suffered a significant synchronous immediate negative level shock (e.g., CAR $\beta_2 = -2.10^{**}$). The study concludes that IFRS adoption serves as a powerful, immediate catalyst for external credibility and profitability, but simultaneously imposes considerable transitional costs on internal stability. Policy recommendations emphasize the need for regulatory frameworks to support institutional capacity and strategically mitigate transitional risks, such as the pro-cyclicality of IFRS 9, to ensure the long-term resilience required by the banking sector's key stakeholders. This research significantly contributes to accounting and finance literature by evaluating the dual impact in the Nigerian banks' context, empirically refining the stakeholders' theory.*

Keywords*:* International Financial Reporting Standards (IFRS), Financial Performance, Liquidity (LIQ), Return on Assets (ROA), Capital Adequacy Ratio (CAR), and Earnings Quality (EQ).

1. INTRODUCTION

The shift from local accounting standards to International Financial Reporting Standards (IFRS) has elicited significant global interest, debate and controversy, primarily because IFRS diverges in critical ways from the pre-existing standards of many adopting countries (Uwuigbe et al., 2016). In Nigeria, this transition involved moving from the Statements of Accounting Standards (SAS) to the full adoption of IFRS in 2012. This transformation was not merely a technical accounting change but part of a broader commitment to global integration and accountability in financial reporting. The adoption of IFRS has emerged as an issue of international relevance, driven by the need for standardization, reliability, uniformity, transparency, and comparability in corporate financial reporting (Mensah, 2020).

The push for a unified set of global accounting standards has gained momentum with the rise in international trade, cross-border investments, and the need for easier access to foreign capital markets. Investors, regulators, and other users of financial statements increasingly demand comparability and credibility in financial information across different jurisdictions. A globally accepted accounting framework is believed to provide a level playing field for companies, regardless of their country of origin (Murphy, 2010). In Nigeria, a coalition of national, foreign, and local financial stakeholders has advocated for the adoption of IFRS, emphasizing its potential to enhance investor confidence, corporate governance, and economic growth.

IFRS itself is a comprehensive set of international accounting principles initially developed to harmonize accounting practices within the European Union. Its broader goal has been to create transparent, comparable and high-quality financial statements that facilitate investment and integration into the global economy (Cardozza, 2008; Ebiaghan, 2018). Although IFRS originated within the context of European capital markets, its relevance has since expanded globally. As globalization deepened economic ties among nations, countries like Nigeria recognized the importance of adopting a uniform set of standards to stay competitive and attract foreign direct investment.

In response to these global developments, the Nigerian government introduced a formal roadmap for the phased implementation of IFRS. The process began with Public Interest Entities (PIEs), such as listed companies and financial institutions, which were mandated to adopt IFRS starting January 1, 2012. This move was in line with the trend in many emerging markets aiming to align domestic financial reporting frameworks with international best practices. The historical origins of IFRS trace back to 1973, when sixteen professional accounting bodies from countries including the United States, United Kingdom, France, Canada, Germany, Australia, Japan, the Netherlands, and Mexico formed the International Accounting Standards Committee (IASC) to develop globally recognized standards (Garuba & Donwa, 2011). This body was officially restructured in 2001 into the International Accounting Standards Board (IASB), which has since served as the main authority for issuing IFRS and its interpretations (Ezeani & Oladele, 2012).

Nevertheless, the Nigerian banking sector remains a critical yet fragile pillar of the national economy, plagued by systemic challenges such as chronic undercapitalization, volatile liquidity positions, and suboptimal profitability, all of which constrain its ability to drive sustainable economic growth (Sanusi, 2010; Adeyemi & Fagbemi, 2018). Despite sectoral reforms, including the Central Bank of Nigeria's (CBN) 2024 mandate raising minimum capital requirements to ₦500 billion ($402.5million) for international banks and ₦200 billion (161 million) for national banks, financial performance metrics such as return on assets (ROA) and liquidity ratios continue to lag behind regional and global peers (CBN, 2024; Afolabi et al., 2021). For instance, the 2009 banking crisis, triggered by excessive risk-taking and poor capital adequacy, revealed severe weaknesses in financial resilience, culminating in a ₦620 billion ($4.1 billion) bailout and the collapse of eight banks (Sanusi, 2010).

Compounding this uncertainty are Nigeria's unique institutional challenges, including regulatory fragmentation, political interference in banking oversight, and uneven implementation of IFRS principles (Okpala, 2012; Adeyemi & Fagbemi, 2018). These factors risk diluting IFRS's potential to strengthen financial resilience, particularly as banks navigate the CBN's stringent 2024 capital requirements. Without rigorous evidence on how IFRS adoption interacts with financial performance indicators such as liquidity, ROA, and capital adequacy ratios, policymakers lack actionable insights to align regulatory frameworks with global standards.

This study addresses these gaps by analyzing the impact of IFRS adoption on financial performance of Nigerian banks, comparing pre-IFRS (2005-2011) and post-IFRS (2018-2024) periods. Using liquidity, ROA, capital adequacy and earnings quality as performance proxies (the performance proxies being the dependent variables), it evaluates whether IFRS adoption has systematically improved financial outcomes or merely coincided with sectoral reforms. The specific objectives are:

i. To examine the effect of IFRS adoption on the liquidity of Nigerian banks.
ii. To assess the effect of IFRS adoption on the Return on Assets (ROA) of Nigerian banks.
iii. To evaluate the effect of IFRS adoption on the capital adequacy of Nigerian banks.
iv. To determine the influence of IFRS adoption on the earnings quality of Nigerian banks.

2. LITERATURE REVIEW

The adoption of International Financial Reporting Standards (IFRS) has been widely advocated as a catalyst for enhancing financial performance by improving transparency, comparability, and investor confidence. High-quality financial reporting under IFRS reduces information asymmetry, lowers the cost of capital, and facilitates cross-border investment, all of which can positively influence corporate profitability and operational efficiency (Barth et al., 2008; Daske et al., 2008). For instance, firms adopting IFRS often experience improved access to global capital markets, as standardized reporting aligns with investor expectations and reduces perceived risk (Armstrong et al., 2010).

In the Nigerian banking sector, the link between IFRS and financial performance is particularly complex, given the dual pressures of regulatory expectations and market realities. Banks are expected to act as custodians of public confidence while also delivering profitability and competitiveness in a volatile economic environment. IFRS adoption, in this sense, is intended to provide a framework that mitigates risks of earnings manipulation and enhances the credibility of performance indicators such as liquidity, capital adequacy, and earnings quality (Umoren & Enang, 2015). However, the effectiveness of this framework depends heavily on the monitoring capacity of regulatory institutions like the Central Bank of Nigeria (CBN) and the Financial Reporting Council (FRC). Without rigorous enforcement, banks may continue practices of creative accounting that undermine the spirit of IFRS, even if they comply with the letter of the standards (Adegboye et al., 2022).

In practice, however, the extent to which IFRS adoption affect firm performance depends on their confidence in the enforcement of standards within a given jurisdiction. For Nigeria, where weak corporate governance and enforcement gaps remain a challenge, foreign investors may remain cautious despite the formal adoption of IFRS, limiting the anticipated performance gains (Okafor & Ogundele, 2016). Thus, IFRS adoption alone cannot be viewed as a panacea; it must be accompanied by structural reforms that strengthen investor protection, enhance audit quality, and promote regulatory independence. Theories in supports of these clams are presented in Table 1:

Table 1: Unified Lens for IFRS and Firm Performance

Dimension	Agency Theory	Signaling Theory	Stakeholder Theory	Expected Net Effect (IFRS)
Information	Reduces asymmetry and discretion	Conveys credible quality	Broadens accountability	↑ Transparency & comparability
Behavior	Disciplines opportunism	Rewards costly, honest disclosure	Aligns with societal legitimacy	↓ Earnings management; ↑ monitoring
Markets	Lowers agency costs → cheaper capital	Improves market liquidity & coverage	Stabilizes depositor/creditor confidence	↓ Cost of capital; ↑ funding stability
Performance Metrics	Cleaner earnings; prudent risk	Valuation benefits for "serious" adopters	Resilience valued by regulators/public	Earnings quality ↑, Liquidity ↑ (net), Capital adequacy more prudent, ROA mixed short-run; ↑ long-run risk-adjusted

The relationship between IFRS adoption and key financial metrics, often reported mixed outcomes. For example, Iyoha and Jimoh (2018) reported a positive and statistically significant relationship between IFRS compliance and Tobin's Q, a proxy for market-based performance of 25 listed Nigerian firms from 2009 to 2016. Also, Osasere and Ilaboya (2018) reported a 12% post-IFRS improvement in Nigerian banks' liquidity and ROA, attributing the gains to standardized risk disclosures and asset valuations under standards like IFRS 9. Similarly, Aderin and Otakefe (2016) found that IFRS adoption reduced earnings manipulation in Nigerian banks, thereby indirectly boosting ROA reliability. Agan, Okoye, Erin, and Modebe (2016) found that while IFRS adoption improved ROE and net interest margins, these benefits were unevenly distributed, with larger institutions experiencing more significant gains due to their greater capacity to absorb implementation costs and adapt to new reporting systems. Adebisi and Matthew (2022) reported that the stricter loan impairment requirements significantly reduced reported profits in the short term but enhanced long-term stability and resilience against credit risk. Odoemelam et al (2019) found that in the Nigerian context, the book value and earnings of banks became more strongly associated with market share prices after IFRS adoption. However, Adegbie and Adeniji (2021) reported that while IFRS improved disclosure quality, its impact on profitability metrics such as Net Profit Margin and ROA was marginal.

3. RESEARCH METHODOLOGY

This study adopted the ex-*post facto* research design. This research design is appropriate if the causal relationship between variables when the regressor (IFRS adoption) cannot be manipulated or controlled by the researcher (Kerlinger & Lee, 2000; Oburota & Ebiaghan, 2023). By analyzing pre-existing data from Nigerian banks over 14 years (2005-2011) and (2018-2024), this design allows for the examination of pre- and post-IFRS effects on financial performance (proxied by LIQ, ROA, CAR and EQ). The study population are all 18 banks listed on the Nigerian Exchange Group (NGX) as of September 2025 (18 banks × 14 years). This timeframe captures pre- and post-IFRS adoption dynamics, ensuring a balanced analysis of transitional impacts on financial performance.

This study employed both Panel Regression and Interrupted Time Series (ITS) Analysis. The Panel Regression Analysis examines the data across the multiple entities (banks), accounting for entity-specific heterogeneity and time trends, while ITS Analysis assesses the impact of IFRS adoption by analyzing changes in the level (immediate effect) and trend (gradual effect) of outcomes (by LIQ, ROA, CAR and EQ) before and after IFRS adoption.

The panel regression s expressed as:

$\boldsymbol{Y_{it}} = \beta_0 + \beta_1 IFRS_t + \beta_2 Size_{it} + \varepsilon_{it}$ ……………. ***Eqn. 3.1 to 3.4***

Where:

$\boldsymbol{Y_{it}} = Financial\ performance$ (LIQ, ROA, CAR and EQ) of bank i at time t

$\boldsymbol{IFRS_t} =$ Dummy variable for IFRS adoption (1 = post_IFRS, 0 = pre_IFRS)

$\boldsymbol{Size_{it}} =$ Bank size (log $of\ total\ assets$)

$\boldsymbol{\beta_1} =$ Impact of IFRS adoption on financial performance

$\boldsymbol{\beta_2} =$ Impact of bank size on financial performance

$\boldsymbol{\varepsilon_{it}} =$ Error term

All four models will be estimated using Fixed Effects Model (FEM) or Random Effects Model (REM) based on the Hausman test.

While traditional performance metrics like Liquidity and ROA have universally understood, standard formulaic definitions, the inclusion of CAR and EQ are vital for testing the comprehensive regulatory and informational impact of IFRS due to the following reasons:

i. CAR (ratio of capital to risk-weighted assets) is the primary mandated metric used by the CBN and the Basel Accords to assess a bank's financial strength and capacity to absorb unexpected losses.

ii. Earnings Quality (accrual quality or value relevance) is the cornerstone metric for assessing the success of IFRS as an informational standard.

4. RESULTS AND DISCUSSION

The empirical foundation of this study utilizes a comprehensive panel dataset covering the Nigerian banking sector. The dataset encompasses 18 listed commercial, mortgage, and micro-finance banks on the Nigerian Exchange Group (NGX) over a 14-year expanded research period: 2005–2011 (pre-IFRS adoption) and 2018–2024 (post-IFRS adoption). This yields a total of 252 firm-year observations. The mandatory adoption of IFRS occurred in 2012, serving as the intervention point in the dynamic analysis.

Table 2: Descriptive Statistics for Key Variables

Variable	N	Mean (2005-2011 Pre)	Std. Dev. (Pre)	Mean (2018-2024 Post)	Std. Dev. (Post)	Change in Mean (%)
Liquidity	252	1.151	0.053	1.157	0.041	0.52
ROA	252	0.81	0.70	1.68	0.40	107.41
Capital Adequacy	252	14.34	2.51	14.12	2.58	-1.54
Earnings Quality	252	0.703	0.210	0.758	0.170	7.82

Source: Authors' calculations using Python (v3.10) with Pandas (v2.1.0)

The descriptive analysis reveals that the banking sector experienced substantial growth post-IFRS adoption, reflected by the significant increase in the mean of Total Assets. Crucially, the mean Return on Assets (ROA) more than doubled (107.41% increase), indicating an enhanced profitability. Liquidity, on the other hand, showed a modest increase, but Capital Adequacy Ratio (CAR) experienced a marginal decrease in the mean value, from 14.34% pre-IFRS to 14.12% post-IFRS. Simultaneously, the variability (Standard Deviation) of CAR marginally increased post-IFRS, moving from 2.51 to 2.58. This subtle increase in the standard deviation of CAR suggests a higher inherent volatility in regulatory capital post-adoption. This phenomenon is likely tied to the mandatory shift toward the forward-looking Expected Credit Loss (ECL) model under IFRS 9, which was implemented within the post-IFRS period (2018-2024). The ECL model requires more dynamic and often discretionary provisioning than the prior incurred loss model, intrinsically introducing greater variability in risk-weighted assets and, consequently, the reported CAR. Earnings Quality, proxied here as a measure of accruals reliability, saw an improvement in its mean (7.82% increase) and a reduction in its variability, suggesting a general enhancement in the reliability of reported earnings.

4.1.2 Panel Data Diagnostic Tests

The selection between the Fixed Effects Model (FEM) and the Random Effects Model (REM) was guided by the Hausman test. The results consistently indicated a preference for FEM across all four dependent variables (Liquidity, ROA, CAR, and Earnings Quality), with p-values below the 0.05 threshold.

Table 3: Panel Regression (Fixed Effects) Results

Dependent Variable	**Liquidity (Current Ratio)**	**ROA (Profitability)**	**CAR (Regulatory Strength)**	**EQ (Reliability)**
Model Selection (Hausman)	FEM ($p<0.05$)	FEM ($p<0.01$)	FEM ($p<0.05$)	FEM ($p<0.05$)
IFRS (Coefficient)	-0.025***	0.0040***	-1.15***	0.10**
IFRS (p-value)	0.038	0.007	0.041	0.025
log(Size) (Coefficient)	0.016	-0.001	0.88***	-0.01
R^2 (Within)	0.36	0.43	0.32	0.38
Note: *** p<0.01 ** p<0.05 * p<0.10				

Source: Authors' calculations using Python (v3.10) with Pandas (v2.1.0)

The FEM analysis for Liquidity confirms a statistically significant inverse relationship with IFRS adoption. The IFRS dummy coefficient was estimated at -0.025 ($p=0.038$). This suggests that the mandatory adoption of IFRS resulted in an immediate structural reduction in the average liquidity ratio by 2.5%, indicating a short-term negative effect. This contraction is likely due to stricter IFRS rules governing asset and liability classification, which constrained traditional short-term liquidity management buffers. Bank size was not found to have a significant effect on liquidity. The model explained 36% of the variation in liquidity within banks over time (R^2 (Within) = 0.36).

The most striking finding pertains to the stability metrics: Liquidity and CAR both experienced a synchronous, immediate negative level shift (shock) upon IFRS adoption, followed by a statistically significant positive trend recovery over the post-adoption period (2018-2024). This phenomenon is crucial from a ***Stakeholder Theory*** perspective, as capital adequacy and liquidity are primary concerns for non-equity stakeholders (depositors, creditors, and the CBN regulator) who rely on the bank's solvency and short-term resilience.

5. CONCLUSION AND RECOMMENDATIONS

This study concludes that mandatory IFRS adoption presents a critical duality for the Nigerian banking sector, which can be comprehensively understood through the lens of Agency, Signaling, and Stakeholder Theories. It functions as an immediate and powerful catalyst for external credibility, driving significant, structural gains in market-facing profitability (ROA) and informational reliability (Earnings Quality). These positive shifts immediately reduced information asymmetry, directly supporting Agency Theory by minimizing managerial discretion and reducing the probability of earnings management, and simultaneously reinforcing Signaling Theory by acting as a credible commitment to high-quality reporting in emerging markets. However, the transition simultaneously imposes significant immediate stress on internal financial stability, manifested by sharp, synchronous negative shocks to liquidity and capital adequacy (CAR). These shocks require attention not only for shareholders but also for key external Stakeholders, namely regulators and creditors, who depend on the bank's long-term solvency. The stresses are amplified by the complexity of standards like IFRS 9, demanding substantial operational overhaul and greater capital reserves. Based on the findings, the following comprehensive and actionable recommendations are put forth for regulators and bank management:

i. The CBN must implement counter-cyclical provisioning buffers during economic downturns, ensuring capital minimums are protected against unwarranted accounting shocks.
ii. Regulators should dedicate resources to clarify and harmonize IFRS interpretations with indigenous Nigerian financial practices, particularly concerning specialized areas like complex lending or indigenous loan loss provisioning rules.
iii. Bank leadership must proactively manage the trade-off between external visibility (Signaling) and internal stability (Stakeholder resilience).

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