

Readiness of the Banking Sector in Bangladesh for IFRS 9 Expected Credit Loss Implementation: A Comparative Perspective from Pakistan, Nepal, and Sri Lanka

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ABSTRACT

Bangladesh Bank has required banks to move from a rule-based loan classification and provisioning regime to an IFRS 9 expected credit loss (ECL) framework by 2027. This study draws lessons for Bangladeshi banks from three South Asian jurisdictions that adopted ECL earlier: Sri Lanka (2018), and Nepal and Pakistan (both 2024). Using a descriptive, comparative design built entirely on publicly available data, the study examines the gross impairment rates and profitability of the four leading local commercial banks in each country before and after adoption, and sets these series alongside GDP growth, inflation and unemployment. Average gross impairment rates were higher after adoption in all three countries, rising from 2.60% to 4.42% in Sri Lanka, from 3.26% to 4.48% in Nepal and from 3.75% to 4.18% in Pakistan, while average profitability was lower. The adoption-year increase was uniform across banks in Sri Lanka and Nepal but not in Pakistan, where adoption had been deferred repeatedly. Impairment movements were directionally consistent with macroeconomic conditions, though not monotonic, and dispersion across banks points to the role of bank-level data, modelling and governance preparedness. Drawing on regulatory documents and the preparatory measures reported in the comparator countries, maps these lessons to the phased implementation timeline set by Bangladesh Bank and propose policy priorities on data infrastructure, modelling capacity, macroeconomic scenario guidance, training, phased transition and internal coordination. Because the evidence is descriptive, drawn from a small sample with short post-adoption windows, the findings are indicative rather than causal

Keywords: IFRS 9; expected credit loss; loan loss provisioning; banking sector; Bangladesh; South Asia; emerging economies

JEL classification: M41; M48; G21; G28; O53.

INTRODUCTION

The global financial crisis of 2008 exposed a structural weakness in the way banks recognised credit losses. The incurred loss model of IAS 39 recognised impairment only when there was objective evidence of loss, such as a borrower default or missed payment, and was widely criticised as backward-looking and procyclical (Pucci, 2017). The International Accounting Standards Board responded with IFRS 9 Financial Instruments, which replaced the incurred loss approach with a forward-looking expected credit loss (ECL) model. Under IFRS 9, banks must recognise credit losses on the basis of expectations and forecasts rather than waiting for a default to occur, with ECL estimated from the probability of default (PD), loss given default (LGD) and exposure at default (EAD) and conditioned on current and forward-looking information (BIS, 2017; KPMG, 2014). The intended benefits are greater accountability and transparency, so that stakeholders can see expected losses earlier and are less exposed to sudden shocks of the kind seen in 2008.

The transition is not costless. Earlier and larger loss recognition reduces reported profit in the short run (the “front-loading” effect), whereas an incurred loss model tends to produce sudden, large charges when defaults crystallise (the “cliff” effect) (Kund & Rugilo, 2023). The reliance on macroeconomic forecasts also raises modelling complexity and governance risk (Breed et al., 2023). Perhaps for these reasons, adoption has been uneven. IFRS 9 became mandatory on 1 January 2018, yet many jurisdictions delayed implementation or granted regulatory leniency because of the expected impact (PwC, 2014).

South Asia illustrates this heterogeneity. Sri Lanka made SLFRS 9 mandatory for licensed banks from 1 January 2018. Pakistan and Nepal postponed adoption several times before implementing it in 2024. Bangladesh is still in a preparatory phase: BRPD Circular No. 3, issued by Bangladesh Bank on 3 January 2025, requires banks to move from rule-based provisioning to ECL-based loan classification and provisioning by 2027, through a three-phase timeline that begins with governance, data and capacity building (Kibria & Rahman, 2025). The sequencing of that timeline, with its early emphasis on a borrower-level database going back to January 2022 and on staff training, reflects the practical constraints Bangladeshi banks are expected to face: limited digitised historical data, modelling capability, and governance arrangements that were designed for a rule-based regime.

Existing research gives limited guidance for this setting. Empirical studies of IFRS 9 have concentrated on European and a small number of other emerging-market banking systems, and the economic and institutional conditions of South Asian economies are not directly comparable. To the author's knowledge, the experiences of Sri Lanka, Nepal and Pakistan have not been examined side by side, and little attention has been paid to the preparatory measures banks took, or to how post-adoption impairment relates to macroeconomic conditions. This study addresses three research questions:

RQ1. How did gross impairment rates and profitability of leading commercial banks in Sri Lanka, Nepal and Pakistan change around the adoption of IFRS 9 ECL?

RQ2. How do post-adoption impairment patterns relate to macroeconomic conditions (GDP growth, inflation and unemployment) and to the preparatory measures banks took?

RQ3. What lessons follow for the banking sector of Bangladesh ahead of the 2027 implementation deadline?

The study makes three contributions. First, it assembles bank-level, pre- and post-adoption evidence for three South Asian jurisdictions that share broad contextual features with Bangladesh. Second, it sets impairment trajectories alongside the macroeconomic variables through which forward-looking ECL models transmit conditions into provisions. Third, it distils the preparatory measures reported in the comparator countries into a set of lessons and relates them to Bangladesh Bank's phased timeline. The study is descriptive and interpretive rather than causal, and the limits are made explicit that follow (Section 6).

The remainder of the paper is organised as follows. Section 2 reviews the literature and regulatory background. Section 3 describes the data and methodology. Section 4 presents the results for each country and a cross-country synthesis. Section 5 discusses the findings and their implications for Bangladesh. Section 6 concludes with limitations and directions for future research.

BACKGROUND AND LITERATURE REVIEW

From the incurred loss model to expected credit loss

IFRS 9 replaced the incurred loss model of IAS 39 with a forward-looking ECL model that fundamentally changed how banks record credit losses. ECL combines current conditions with forward-looking information through the parameters PD, LGD and EAD (BIS, 2017). From a theoretical perspective, the model can be understood through agency theory and the financial transparency literature: by requiring earlier recognition of expected losses, it aims to improve accountability to stakeholders and to reduce the likelihood that banks report stability until losses suddenly materialise (Khaless, 2025). The same features generate the trade-off noted above between front-loaded provisions and cliff-edge losses (Kund & Rugilo, 2023). Incorporating current and future macroeconomic factors into credit-loss estimates improves forward-looking content but increases modelling complexity and governance risk (Breed et al., 2023).

Empirical evidence on IFRS 9 adoption

Empirical work generally finds that ECL raises provisions. A multi-country study of 149 banks reports that adoption was associated with consistently higher impairments and loan loss allowances, with a larger effect in low-income countries (Ribeiro et al., 2024). Evidence from European banks links IFRS 9 implementation to regulatory capital and capital buffers (Boscia et al., 2022). In emerging markets, a study of Egyptian banks finds that ECL improved the timeliness of loss recognition, with corporate governance factors playing a role (Ali, 2021). In Gulf banks, provisions increased after adoption, but the effect on non-performing loans was limited, which the author attributes to banks learning the pattern and taking corrective action (Abuaddous, 2023). From the investor's perspective, Indonesian evidence indicates that forward-looking information under IFRS 9 is value-relevant

(Firmansyah et al., 2023). On the modelling side, Breed et al. (2023) propose principal component regression as a way of integrating macroeconomic and macroprudential information into ECL estimation.

Macroeconomic transmission to expected credit loss

Because ECL is conditioned on forward-looking information, macroeconomic conditions feed directly into its parameters. Lower GDP growth is generally associated with a higher probability of default, which raises ECL given that $ECL = PD \times LGD \times EAD$. High inflation erodes real income and can raise PD and LGD, as sudden increases in living costs cause defaults and lower recovery prospects (Sikiru et al., 2023). Unemployment bears on repayment capacity, and retail PDs in particular are closely tied to unemployment (Boháčik, 2025). Banks' own credit risk management practices are in turn linked to profitability (Dung et al., 2024). These relationships motivate the juxtaposition of impairment trajectories with GDP growth, inflation and unemployment in Section Regulatory context: Bangladesh and the comparator countries

Bangladesh currently applies a rule-based regime in which loans are classified into risk buckets and provisioned at prescribed rates, irrespective of impairment evidence. IFRS 9 instead requires a three-stage ECL approach. Table 1 summarises the main differences, and Table 2 sets out the implementation timeline issued by Bangladesh Bank.

Table 1. Existing provisioning practice in Bangladesh compared with IFRS 9

Item	Existing practice (Bangladesh Bank, rule-based)	IFRS 9 (ECL)
Framework	Strict rule-based system for loan classification and provisioning.	Mandatory ECL model that is forward-looking and risk-sensitive.
Classification	Risk buckets based on prescribed criteria: STD-0, STD-1, STD-2, SMA, Standard, Doubtful and Loss.	Three stages: Stage 1 (performing, no significant increase in credit risk); Stage 2 (significant increase in credit risk, not credit-impaired); Stage 3 (credit-impaired, e.g. default or bankruptcy).
Provisioning	Prescribed rates: standard 1%; SMA 5%; substandard 20%; doubtful 50%; bad/loss 100%. Provisioning is not driven by impairment evidence.	Stage 1: 12-month ECL; Stages 2 and 3: lifetime ECL. PD and LGD are estimated from the bank's historical experience and forward-looking information.
Interest	Interest on classified loans is generally accounted for through an interest suspense account.	Stages 1 and 2: interest on the gross carrying amount; Stage 3: interest on the net carrying amount.
Off-balance sheet	Disclosed under contingent liabilities and commitments; a 1% provision is held on off-balance sheet exposures.	Off-balance sheet exposures are brought within the ECL model.

Source: Compiled from Bangladesh Bank provisioning requirements and IFRS 9 as summarised by Kibria and Rahman (2025). [Verify provisioning rates against the current BRPD circular]

Table 2. Bangladesh Bank implementation timeline for IFRS 9 ECL

Step	Requirement	Implement by	Report to BRPD by
Phase I			
1	Form an IFRS 9 implementation team led by the MD/CEO; obtain Board approval of a time-bound action plan for ECL-based classification and provisioning.	March 2025	15 April 2025
2	Build a database of monthly borrower-level data from January 2022 (sector, borrower and loan-nature classification and default percentages, recovery rates, macroeconomic factors, etc.) for ECL estimation.	June 2025	15 July 2025
3	Prepare and submit a pre-assessment report with a transition plan from the rule-based model, probable challenges and required actions.	September 2025	October 2025
4	Training and capacity building for all relevant employees.	December 2025	15 January 2026
Phase II			
5	Bangladesh Bank to issue ECL guidelines following BCBS documents and IFRS 9.	January 2026 (by BB)	NA
6	Banks finalise an automated ECL-based classification and provisioning model per BB guidelines.	June 2026	15 July 2026 [source table shows 2025; confirm]
7	Pilot implementation in branches covering at least 25% of the loan portfolio.	September 2026	15 October 2026
8	Pilot implementation in branches covering at least 50% of the loan portfolio.	December 2026	15 January 2027
9	Parallel half-yearly provisional financial statements under IFRS 9 and existing policy.	December 2026 onwards	Within 15 days of reference date
Phase III			
10	Pilot implementation in branches covering at least 75% of the loan portfolio.	June 2027	15 July 2027
11	Full implementation of ECL-based loan classification and provisioning under IFRS 9.	December 2027	15 January 2028

Source: Kibria and Rahman (2025), summarising Bangladesh Bank BRPD Circular No. 3 (3 January 2025).

The comparator countries followed different paths (Table 3). Sri Lanka made SLFRS 9 mandatory for banks from 1 January 2018. Supervision was led by the Central Bank of Sri Lanka (CBSL), responsibility for implementation rested with banks' boards of directors, and CBSL consulted the Institute of Chartered Accountants of Sri Lanka and the banking sector to understand the likely impact (CBSL, 2018). In Pakistan, the State Bank of Pakistan (SBP) initially announced adoption for 1 January 2022, then deferred it to 2023 and again to 2024 after banks reported implementation difficulties; adoption became mandatory from 2024 (SBP, 2024). The repeated deferrals attracted criticism for delaying transparency and the provision of more accurate information to investors. In Nepal, the Institute of Chartered Accountants of Nepal initially announced adoption from 16 July 2021, but implementation was deferred to the 2023–24 fiscal year because banks faced challenges in preparing for the

change. Nepal Rastra Bank has overseen the process and issued guidance over the years, and the Nepal Bankers' Association organised readiness programmes ahead of implementation (Nepal Bankers' Association, 2024).

Table 3. IFRS 9 implementation in the comparator countries

Country	Adoption year	Regulatory authority	Adoption path
Sri Lanka	2018	Central Bank of Sri Lanka (CBSL)	Made mandatory for all licensed banks from 1 January 2018.
Pakistan	2024	State Bank of Pakistan (SBP)	Implemented in phases; timing and instructions were amended several times (2022 → 2023 → 2024).
Nepal	2024	Nepal Rastra Bank (NRB)	Deferred from 2021 to 2023–24; NRB guidance to support compliance; readiness programmes by the Nepal Bankers' Association.

Sources: CBSL (2018); SBP (2024); Nepal Bankers' Association (2024).

RESEARCH GAP

Four gaps motivate this study. First, the IFRS 9 literature is concentrated in Europe and a few other regions, leaving South Asian economies, whose economic structures and contexts differ, under-examined. Second, most studies report that impairments rose after adoption but say little about the magnitude of the change, or about the internal measures banks took to manage it, leaving understanding of governance and data infrastructure thin. Third, post-implementation evidence beyond the initial period is scarce, which makes it hard to construct meaningful time series. Fourth, the interaction between macroeconomic shocks, such as the COVID-19 pandemic and inflation episodes, and ECL outcomes remains under-explored, so the performance of ECL models in volatile economies is uncertain. Closely related, the author is not aware of studies that compare Sri Lanka, Nepal and Pakistan with a view to identifying practices that Bangladesh could draw on.

DATA AND METHODOLOGY

Research design

This study adopts a descriptive and comparative research design that combines quantitative and qualitative elements. The quantitative component computes and compares gross impairment rates and profitability for leading banks before and after IFRS 9 adoption. The qualitative component interprets those patterns by relating them to macroeconomic conditions and to the preparatory measures reported for banks in each country. The analysis proceeds in three steps: (i) a quantitative pre- versus post-adoption comparison of bank-level and country-average impairment and profitability; (ii) an interpretive juxtaposition of impairment trajectories with GDP growth, inflation and unemployment, and with banks' preparatory measures; and (iii) an application of the resulting lessons to the Bangladeshi context. All evidence is drawn from secondary sources.

Sample and observation windows

The sample comprises the four leading local commercial banks in each country: Bank of Ceylon, Sampath Bank, Seylan Bank and Nations Trust Bank (Sri Lanka); Nabil Bank, Global IME Bank, Nepal Bank Limited and NMB Bank (Nepal); and Bank Alfalah, Allied Bank, MCB Bank Limited and Bank Al-Habib (Pakistan). [State the criterion used to define "leading", e.g. total assets or loans in a given year] Only local commercial banks are included. Countries were chosen from South Asia so that contextual features would be relevant to Bangladesh. Observation windows differ because adoption dates differ (Table 4). Pre-adoption means are computed over the three years before adoption, and post-adoption means over all available years from the adoption year onward. Post-adoption windows are therefore four years for Sri Lanka, one year for Nepal and two years for Pakistan.

Table 4. Sample and observation windows

Country	Banks	Adoption year	Observation window	Pre-adoption years	Post-adoption years
Sri Lanka	4	2018	2015–2021	2015–2017 (3)	2018–2021 (4)
Nepal	4	2024	2021–2024	2021–2023 (3)	2024 (1)
Pakistan	4	2024	2021–2025	2021–2023 (3)	2024–2025 (2)

Note: Post-adoption windows are short and unequal across countries; see Section 6 for implications.

Variables and data sources

The bank-level variables are loans and advances (gross and net), impairment on loans and advances, and profit, taken from annual reports and audited financial statements. The main indicator is the gross impairment rate, [define precisely, e.g. impairment allowance (stock) ÷ gross loans and advances]. Gross rather than net impairment is emphasised because it reflects the ECL charge ($PD \times LGD \times EAD$) before collateral and recoveries are considered; net rates are useful for assessing the effect on the income statement after collateral and recoveries but are not reported here. Profitability is measured by a profitability rate, [define, e.g. profit after tax ÷ equity or ÷ total assets]. Macroeconomic variables are annual GDP growth, inflation and unemployment for each country [cite the source of the macroeconomic series, e.g. World Bank or IMF, and state whether fiscal or calendar years are used].

Regulatory information comes from central bank and standard-setter documents (CBSL, 2018; SBP, 2024; Nepal Bankers' Association, 2024; Kibria & Rahman, 2025), and contextual material from professional-services publications (KPMG, 2014; PwC, 2014) and academic studies. The study uses only publicly disclosed information. No confidential or client data were used.

Analytical approach

Country averages are simple (equal-weighted) means across the four banks in each country for the pre- and post-adoption windows. Because the sample is small and the post-adoption windows are short, no inferential tests are conducted. The data are interpreted by inspecting bank-level series, country averages and graphical comparisons with the macroeconomic variables, and associations are described in directional terms. Statements about causation are avoided.

RESULTS

Sri Lanka

Table 5 reports gross impairment rates and profitability for the four Sri Lankan banks. Impairment rates rose for every bank in 2018, the year SLFRS 9 became mandatory: Bank of Ceylon from 4.65% to 5.39%, Sampath Bank from 1.51% to 3.03%, Seylan Bank from 1.96% to 2.94% and Nations Trust Bank from 1.20% to 2.53%. Rates continued to rise for most banks through 2021, with Seylan Bank's dip to 2.75% in 2019 the main exception. The country average increased from 2.60% in the pre-adoption window to 4.42% in the post-adoption window, an increase of 1.83 percentage points, or about 70%. The net impairment series, which is not tabulated here, is reported to show a similar pattern, suggesting that the rise does not reflect gross provisioning alone and is consistent with the lifetime-loss recognition introduced by SLFRS 9.

Table 5. Gross impairment rates and profitability: Sri Lanka (%)

Bank	2015	2016	2017	2018	2019	2020	2021
Panel A: Gross impairment rate							
Bank of Ceylon	5.05	4.50	4.65	5.39	6.00	5.99	6.32
Sampath Bank	1.82	1.66	1.51	3.03	4.20	5.10	6.21
Seylan Bank	2.89	2.50	1.96	2.94	2.75	3.80	5.14
Nations Trust Bank	1.68	1.72	1.20	2.53	3.22	3.91	4.26
Country average: pre-adoption 2.60 post-adoption 4.42							
Panel B: Profitability rate							
Bank of Ceylon	13.06	16.09	11.26	9.50	9.66	7.19	12.95
Sampath Bank	13.04	13.50	13.07	10.53	9.38	7.84	11.91
Seylan Bank	13.40	10.59	8.98	5.81	6.00	5.26	8.36
Nations Trust Bank	14.85	10.72	11.88	8.67	7.51	9.40	16.80
Country average: pre-adoption 12.54 post-adoption 9.17							

Note: SLFRS 9 adopted 1 January 2018 (pre-adoption: 2015–2017; post-adoption: 2018–2021). Averages are equal-weighted means across the four banks. Source: Banks' annual reports; author's calculations.

Profitability fell by more than three percentage points on average, from 12.54% to 9.17%. All four banks recorded lower profitability in 2018 than in 2017 (for instance, Seylan Bank from 8.98% to 5.81%), and three of the four reached their lowest level in 2020, a year that coincides with the COVID-19 pandemic. By 2021, profitability had partly recovered: Nations Trust Bank's 16.80% exceeds all of its pre-adoption values, Bank of Ceylon's 12.95% falls within its pre-adoption range, and Sampath Bank and Seylan Bank remain below their pre-adoption levels. The post-adoption window therefore overlaps with the pandemic, and the fall in profitability cannot be attributed to ECL alone.

Figure 1 sets the impairment series against GDP growth, inflation and unemployment. GDP growth in Sri Lanka was volatile, starting at 6.5% in 2015 and turning negative in 2017, 2018 and 2020 [verify GDP series against the cited source]. Impairment rates generally rose over this period, which is directionally consistent with the expected link between weaker growth and higher PD. The association is not monotonic, however: impairment rates continued to rise in 2019 and 2021, when growth rebounded. Inflation peaked at 7.70% in 2017, fell to 2.14% in 2018 and rose again to 6.15% in 2020 and 7.01% in 2021. The adoption-year jump in 2018 therefore cannot be attributed to inflation in that year, although elevated inflation in 2017 and again in 2020–2021 may have fed into forward-looking assessments of PD and LGD. Unemployment declined to 4.05% in 2017, then rose to a peak of 5.36% in 2020, alongside generally rising impairment. Seylan Bank is a partial exception, with a rate of 2.75% in 2019, which could reflect borrowers with stronger credit quality or collateral, although this is speculative.

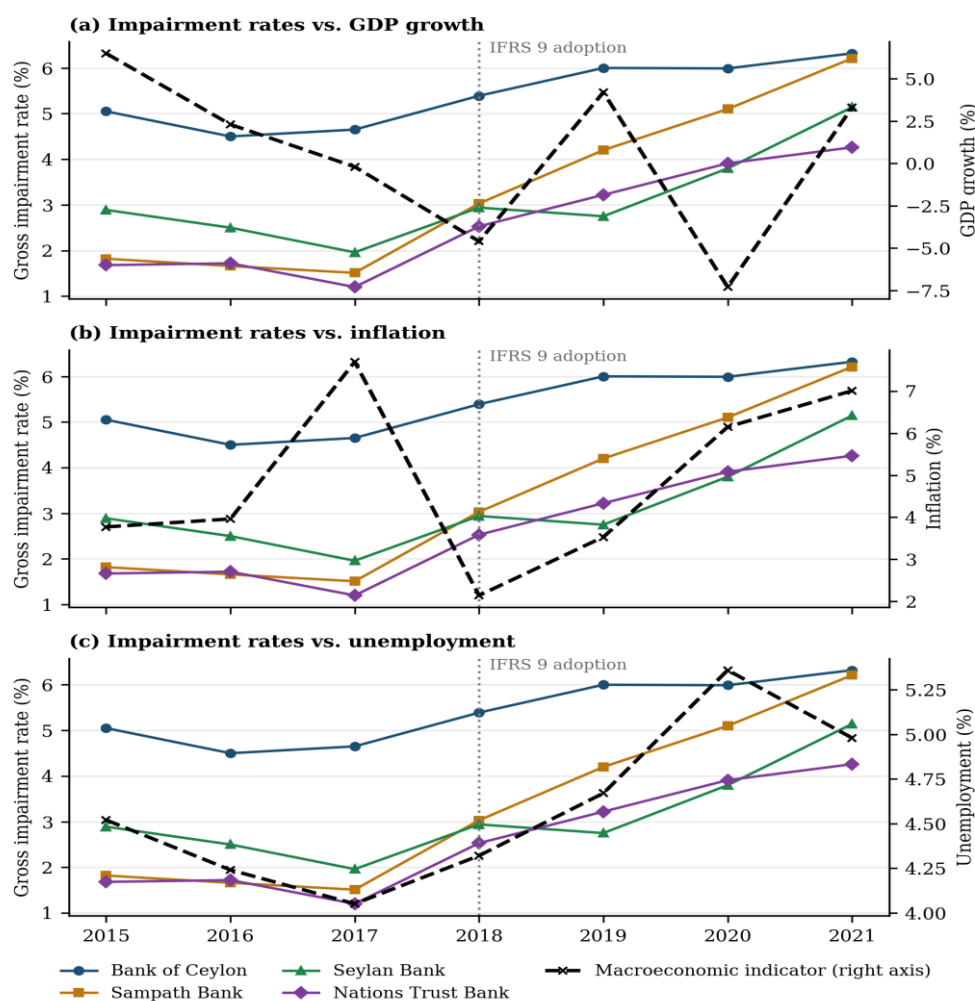


Figure 1. Gross impairment rates of Sri Lankan banks and macroeconomic indicators, 2015–2021. Solid lines (left axis): banks; dashed line (right axis): macroeconomic indicator. The dotted vertical line marks the adoption year (2018). Source: Banks' annual reports; macroeconomic data [cite source].

Nepal

Nepal shows a broadly similar pattern, but with important differences in timing (Table 6). The country-average gross impairment rate rose from 3.26% in the pre-adoption window (2021–2023) to 4.48% in 2024, the first year of adoption, an increase of 1.22 percentage points. Impairment rates rose for all four banks between 2023 and 2024, for example from 3.40% to 5.17% at Nepal Bank Limited and from 3.84% to 4.44% at Nabil Bank. However, unlike in Sri Lanka, impairment rates were already rising before adoption: three of the four banks recorded higher rates in 2023 than in 2022. This may reflect banks' preparation during the repeated deferrals of implementation, or other factors such as macroeconomic conditions and bank-specific circumstances, which the data do not allow us to separate.

Profitability fell by more than in the other two countries, from an average of 17.80% to 8.52% (a decline of 9.28 percentage points). Two features qualify this result. First, profitability declined every year from 2021 for all four banks, so most of the fall precedes adoption and cannot be attributed to ECL. Second, the average is heavily influenced by Nepal Bank Limited, whose profitability rate collapsed to 0.11% in 2024. Because a fall of that size is unlikely to be explained by ECL alone, it is treated as an outlier rather than as a pure adoption effect. The comparatively sharp 2024 declines at Nepal Bank Limited and NMB Bank could signal weaker preparedness, but the evidence is insufficient to establish this.

Table 6. Gross impairment rates and profitability: Nepal (%)

Bank	2021	2022	2023	2024
Panel A: Gross impairment rate				
Nabil Bank	1.82	2.37	3.84	4.44
Global IME Bank	2.57	2.45	3.83	4.42
Nepal Bank Limited	5.11	5.06	3.40	5.17
NMB Bank	2.95	2.53	3.16	3.89
Country average: pre-adoption 3.26 post-adoption 4.48				
Panel B: Profitability rate				
Nabil Bank	26.34	18.23	13.85	13.35
Global IME Bank	19.20	17.07	13.89	11.88
Nepal Bank Limited	24.91	17.78	13.66	0.11
NMB Bank	19.39	17.17	12.10	8.74
Country average: pre-adoption 17.80 post-adoption 8.52				

Note: Adoption in 2024 (pre-adoption: 2021–2023; post-adoption: 2024, a single year). Source: Banks' annual reports; author's calculations.

Figure 2 relates the Nepalese impairment series to the macroeconomic variables. GDP growth fluctuated, from 4.8% in 2021 and 5.6% in 2022 to 2.0% in 2023 and 3.7% in 2024. Impairment rates rose in 2023 as growth slowed, which is consistent with the expected GDP–PD link, but they rose again in 2024 even as growth recovered. Possible explanations include delayed credit-risk recognition, continued stress in some sectors such as small and medium-sized enterprises, and the lag between macroeconomic recovery and borrower repayment capacity. Inflation rose from 4.15% in 2021 to 7.65% in 2022 and then eased to 6.05% by 2024, while impairment rates increased steadily over 2022–2024, which suggests a lagged response in provisions. Unemployment moved in the opposite direction to what theory would predict, falling from 12.2% to about 10.7% while impairment rose; this may reflect banks working through legacy non-performing loans, and no further inferences are drawn.

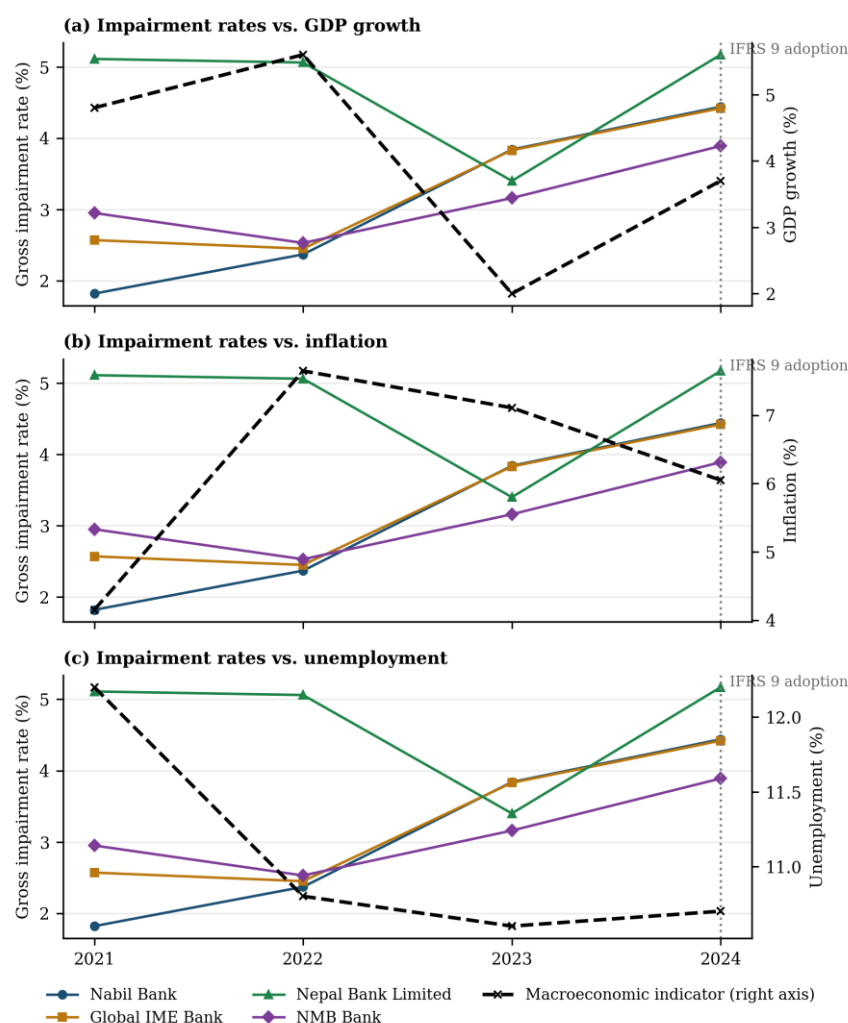


Figure 2. Gross impairment rates of Nepalese banks and macroeconomic indicators, 2021–2024. Solid lines (left axis): banks; dashed line (right axis): macroeconomic indicator. The dotted vertical line marks the adoption year. Source: Banks' annual reports; macroeconomic data [cite source].

Pakistan

Pakistan shows the smallest change in average impairment (Table 7). The country average rose from 3.75% in 2021–2023 to 4.18% in 2024–2025, an increase of 0.42 percentage points, compared with 1.83 in Sri Lanka and 1.22 in Nepal. Bank-level patterns are mixed and do not show a uniform adoption-year step. In 2024, the first year of adoption, impairment rates were lower than in 2023 at three banks (Bank Alfalah: 5.43% to 4.05%; Allied Bank: 1.58% to 1.41%; MCB Bank: 7.16% to 4.86%) and higher only at Bank Al-Habib (2.97% to 5.05%). In 2025, three banks recorded increases (Bank Alfalah, Allied Bank and MCB Bank) and Bank Al-Habib recorded a small decrease (5.05% to 4.83%). Levels also differ considerably across banks, from about 1.4–1.9% at Allied Bank in every year to 4.9–7.2% at MCB Bank. One possible explanation for the modest average change is that implementation was phased and repeatedly deferred, which gave banks additional time to prepare and to learn from earlier adopters; the data cannot confirm this.

Profitability decreased on average from 13.38% in the pre-adoption window to 11.64% afterwards, a decline of 1.74 percentage points and the smallest of the three countries. As in Nepal, the timing matters: all four banks' profitability rates fell sharply between 2021 and 2022 (for example from 14.16% to 8.51% at Bank Alfalah and from 24.98% to 16.31% at MCB Bank), before adoption, and the pre-adoption average is lifted by unusually high 2021 values. After adoption, profitability rates were broadly stable. Every bank's 2025 rate was above its 2024 rate, and three of the four banks' 2025 rates were above their 2023 levels.

Table 7. Gross impairment rates and profitability: Pakistan (%)

Bank	2021	2022	2023	2024	2025
Panel A: Gross impairment rate					
Bank Alfalah	3.60	4.35	5.43	4.05	4.46
Allied Bank	1.93	1.38	1.58	1.41	1.94
MCB Bank Limited	7.22	5.54	7.16	4.86	6.81
Bank Al-Habib	1.75	2.14	2.97	5.05	4.83
Country average: pre-adoption 3.75 post-adoption 4.18					
Panel B: Profitability rate					
Bank Alfalah	14.16	8.51	8.85	7.56	8.11
Allied Bank	14.59	9.84	11.39	11.44	12.16
MCB Bank Limited	24.98	16.31	18.18	15.70	18.94
Bank Al-Habib	16.02	8.25	9.45	8.34	10.86
Country average: pre-adoption 13.38 post-adoption 11.64					

Note: Adoption in 2024 (pre-adoption: 2021–2023; post-adoption: 2024–2025). Source: Banks' annual reports; author's calculations.

Figure 3 places the Pakistani series alongside macroeconomic conditions. GDP growth fell from 6.5% in 2021 to 0% in 2023, and inflation rose to 30.8% in 2023 before easing to 12.6% in 2024 and 5.6% in 2025. Impairment rates at three of the four banks peaked in 2023, at the trough in growth and the peak in inflation, and fell in 2024 as conditions eased. This suggests that for these banks movements in 2023–2024 are at least as consistent with the macroeconomic cycle as with the adoption of ECL. Unemployment was stable at around 5.4–5.5% over 2022–2024 and then increased to 8.0% in 2025, the year in which impairment rates rose again at three banks. Bank Al-Habib and Allied Bank behave differently from the others: Al-Habib's impairment rate rose steadily from 1.75% in 2021 to about 5% after adoption, while Allied Bank's rates stayed low throughout. Differences of this kind could reflect recovery strategies, internal measures for managing the transition, or customer-base characteristics, but the study cannot test these explanations.

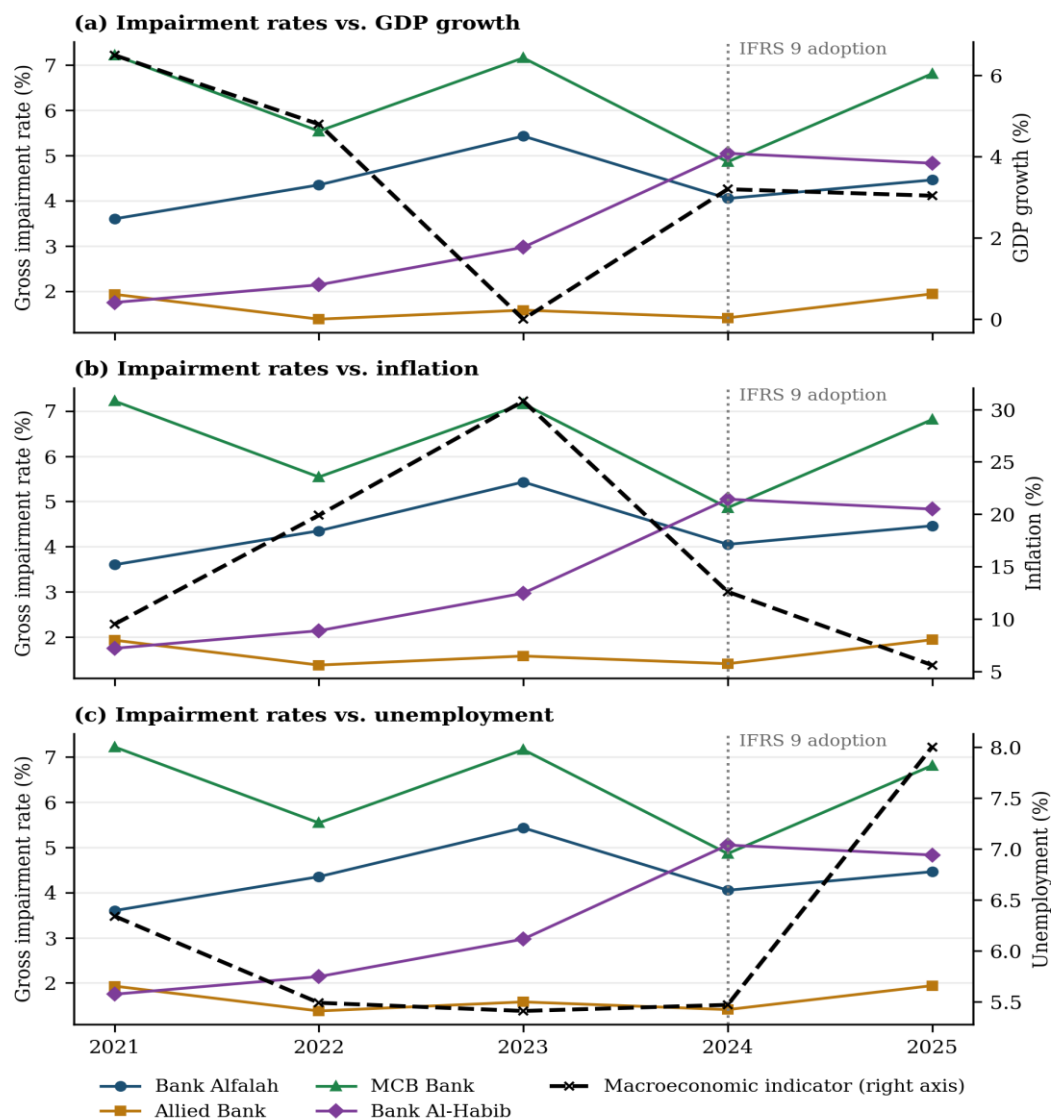


Figure 3. Gross impairment rates of Pakistani banks and macroeconomic indicators, 2021–2025. Solid lines (left axis): banks; dashed line (right axis): macroeconomic indicator. The dotted vertical line marks the adoption year. Source: Banks' annual reports; macroeconomic data [cite source]. Cross-country synthesis

Table 8 consolidates the country-level results. Four observations emerge. First, average gross impairment rates were higher after adoption in all three countries, but by different amounts: +1.83 percentage points in Sri Lanka, +1.22 in Nepal and +0.42 in Pakistan. These differences should be read together with the unequal post-adoption windows (four, one and two years) and, for Nepal, with an upward trend that began before adoption.

Table 8. Pre- and post-adoption country averages (%)

Country	Adoption year	Post years	Imp. pre	Imp. post	Δ (pp)	Profit pre	Profit post	Δ (pp)
Sri Lanka	2018	4	2.60	4.42	+1.83	12.54	9.17	-3.36
Nepal	2024	1	3.26	4.48	+1.22	17.80	8.52	-9.28
Pakistan	2024	2	3.75	4.18	+0.42	13.38	11.64	-1.74

Note: “Imp.” = gross impairment rate; “Profit” = profitability rate; Δ = post minus pre, in percentage points. Averages are equal-weighted across four banks per country and computed over the windows in Table 4. Source: Authors’ calculations from banks’ annual reports.

Second, the adoption-year pattern differs. In Sri Lanka and Nepal, all four banks recorded higher impairment rates in the adoption year than in the preceding year. In Pakistan there was no uniform step: three banks reported lower rates in 2024 and the increase, where it occurred, came in 2025 for most banks. Third, profitability was lower after adoption in all three countries, but in Nepal and Pakistan a considerable part of the decline pre-dates adoption (2021–2023 in Nepal and 2022 in Pakistan), and in Sri Lanka the post-adoption window overlaps with the pandemic. The profitability results are therefore compatible with a front-loading effect but do not demonstrate one. Fourth, there is wide dispersion across banks within each country. Allied Bank in Pakistan maintained low rates throughout, whereas MCB Bank maintained high rates, and Bank Al-Habib moved from low to high. This dispersion suggests that portfolio composition and bank-specific practices matter alongside country-level conditions.

Finally, impairment trajectories were broadly consistent in direction with macroeconomic conditions, with weaker growth, higher inflation and higher unemployment tending to coincide with higher impairment in Sri Lanka and Pakistan. The relationship is not monotonic in any of the three countries, and in Nepal unemployment moved in the opposite direction. Timing differences, legacy non-performing loans and model calibration may all contribute, and the descriptive design cannot separate them.

DISCUSSION

Interpreting the evidence

The results suggest that two sets of factors shape ECL outcomes. The first is macroeconomic: GDP growth, inflation and unemployment affect borrowers’ repayment capacity and banks’ ability to recover amounts due, and in a forward-looking model these effects enter PD and LGD directly. The second is internal to banks: the quality and availability of data, the maturity of risk modelling, the use of forward-looking scenarios and the strength of governance. The first set of factors is visible in the directional co-movement described in Section 4, in particular in Pakistan, where impairment rates at three banks peaked at the trough in growth and the peak in inflation. The second is suggested by the dispersion across banks within each country. Both are offered as propositions for future testing rather than as findings, since the design does not permit statistical identification.

Adoption-year increases were clear in Sri Lanka and Nepal, which fits the front-loading logic: moving from an incurred loss model to lifetime-loss recognition for deteriorated exposures raises allowances at transition (Kund & Rugilo, 2023). Pakistan departs from this pattern. One reading is that repeated deferral and phased implementation allowed banks to prepare and learn from earlier adopters; another is that macroeconomic easing in 2024 offset the transition effect. The data are consistent with both readings. A further caution is that the post-adoption experience of Nepal and Pakistan is still brief, so what appears to be a modest effect may change as more years become available.

Preparatory measures in the comparator countries

Three preparatory measures are reported for the comparator countries. Early model build and scenario analysis. In Sri Lanka, banks such as Bank of Ceylon developed ECL models in 2018 that considered a range of future economic scenarios, and engaged external consultants and had models validated through internal audit, which is reported to have helped them lessen the impact relative to peers. Risk model infrastructure and credit scorecards. In Pakistan, many banks engaged external consultants specialising in advanced financial solutions to build credit scorecards and a reliable risk-model infrastructure early, supported by investment in modelling and IT, positioning them to moderate post-adoption shocks. Readiness programmes and training. In Nepal, the Nepal Bankers’ Association organised extended readiness programmes and training that urged banks to build human resources, training timelines and supporting infrastructure, with the aim of avoiding sudden jumps in provisioning after implementation (Nepal Bankers’ Association, 2024). [Add citations to the specific bank or regulator documents supporting the Sri Lankan and Pakistani measures] Although these measures are plausible contributors to smoother transitions, the data do not allow these measures to be linked them to the outcomes in Section 4, and their effectiveness should be regarded as indicative.

Implications for Bangladesh

Macroeconomic context. Bangladesh has experienced moderate growth but high and volatile inflation and exchange rates. According to the Bangladesh Bureau of Statistics (2024), GDP growth has declined from pre-pandemic levels of around 7% to 5.8% in FY2023–24, inflation has averaged around 9–10% on the back of higher energy prices, import costs and taka depreciation, and the exchange rate has stood at about 122 taka per US dollar [update to the latest available data]. The banking system is also reported to face liquidity pressure and a high level of non-performing loans, with a ratio of 9% cited [verify and update with the latest Bangladesh Bank data; NPL ratios have changed materially since this figure]. These conditions bear directly on the forward-looking components of IFRS 9, in particular PD and LGD, and signal the need to improve data quality, scenario modelling and governance well before 2027.

Preparatory steps by banks. Banks implementing the ECL requirements have taken steps that mirror Phase I of Bangladesh Bank's timeline (Table 2): forming IFRS 9 steering and implementation committees that draw on risk management, finance and IT; consolidating borrower-level and collateral data in central databases; engaging external advisers and training staff and branches; and coordinating with the regulator to meet its expectations. [Cite published bank disclosures or regulator documents for these steps]

Institutional constraints. Practitioner-informed observations point to several constraints that could slow implementation: limited system-held data and continued reliance on manual processes and physical files; resistance to change and weak cooperation between departments; limited technical knowledge among staff; information asymmetry across branches; and gaps in understanding of IFRS 9 requirements. [These observations come from the author's professional exposure and are not systematically evidenced; replace or support them with published sources, or with primary data such as interviews, before submission]

Table 9 relates the lessons from the comparator countries to the Bangladeshi context.

Table 9. Lessons from the comparator countries and their relevance for Bangladesh (2025–2027)

Lesson	Evidence from comparator countries	Relevance to Bangladesh
Macroeconomic sensitivity	Impairment trajectories moved in the direction expected from GDP growth, inflation and unemployment in Sri Lanka and Pakistan, though not monotonically.	Growth has been sluggish and inflation volatile. Banks will need robust macroeconomic forecasting to avoid abrupt swings in ECL.
Adoption-year impact	Impairment rose for all four banks in the adoption year in Sri Lanka and Nepal; no uniform step in Pakistan.	Banks may see higher impairment at transition under forward-looking scenarios. The magnitude is uncertain and is likely to depend on data quality, models and current provisioning levels.
Forward-looking volatility	Shocks such as the pandemic and inflation episodes coincided with higher impairment and complicate attribution to adoption.	Bangladesh Bank should provide guidance and oversight on consistent macroeconomic scenario inputs to prevent inconsistent ECL results across banks.
Institutional preparedness	Early model build and scenarios (Sri Lanka), risk infrastructure and scorecards (Pakistan), readiness programmes and training (Nepal).	Constraints in data systems, technical knowledge and cross-department coordination must be addressed through centralised data, training and governance.

Source: Author's synthesis of Sections 4 and 5.

The comparator evidence also supports a broader point: compliance with the letter of IFRS 9 and regulatory guidance is not sufficient for a smooth transition. Banks need to attend to macroeconomic conditions, data

availability and model readiness, and regulators need to combine clear guidance with infrastructure that makes good data and models feasible.

Policy implications

The analysis points to six priorities for regulators and banks:

Strengthen data infrastructure. Bangladesh Bank and banks should work together to build centralised, borrower-level databases, and to standardise the estimation of ECL parameters such as PD and LGD across the sector or at least provide benchmarks.

Build modelling capacity early. Banks should construct ECL models in advance and benchmark their output against existing rule-based provisions in order to identify weaknesses and calibrate models. Indicative ECL estimates produced during pre-assessment from current data can support this.

Issue guidance on macroeconomic scenarios. The macroeconomic evidence in this study suggests that scenario inputs are consequential. Bangladesh Bank should specify the macroeconomic factors and scenario conventions that banks must consider, so as to ensure consistency and prevent the selection of factors that present more favourable figures.

Invest in training and knowledge sharing. Regular sessions among regulators, auditors, advisers and bank officials, including branch-level staff, as in Nepal, would help build understanding of IFRS 9 and its implications.

Phase the transition and consider transitional relief. Bangladesh Bank's timeline already provides for pilots covering 25%, 50% and 75% of loan portfolios and for parallel half-yearly reporting. Maintaining parallel reporting would let banks benchmark results, moderate transition shocks and adjust systems. Whether additional transitional relief is warranted should be assessed once indicative ECL results are available.

Improve coordination within banks. Departments differ in their appetite for robust systems and transparent data, because these entail complex changes. Governance arrangements such as steering committees should ensure that risk, finance, IT and business units agree on requirements and responsibilities.

6. CONCLUSION, LIMITATIONS AND FUTURE RESEARCH

Conclusion

This study examined the transition from IAS 39 to IFRS 9 ECL in three South Asian banking systems to draw lessons for Bangladesh, where banks must implement ECL by 2027. Average gross impairment rates were higher after adoption in Sri Lanka, Nepal and Pakistan, and average profitability was lower, with the largest impairment increase in Sri Lanka (+1.83 percentage points), followed by Nepal (+1.22) and Pakistan (+0.42). The adoption-year increase was visible at every bank in Sri Lanka and Nepal but not in Pakistan. Impairment movements were broadly consistent in direction with macroeconomic conditions, and the dispersion across banks suggests that bank-specific data, modelling and governance preparedness matter. Reported preparatory measures in the three countries, namely early model development with scenario analysis, risk-model infrastructure and training programmes, indicate what Bangladeshi banks can do ahead of 2027. For Bangladesh, the implications concern data infrastructure, modelling capacity, consistent macroeconomic scenarios, training, phased transition and internal coordination.

Limitations

Several limitations qualify the findings. (1) The design is descriptive and no inferential tests were performed, so associations with macroeconomic variables are assessed visually and cannot be interpreted causally. (2) The sample comprises 12 leading banks and is not representative of the banking systems of the three countries. (3) Post-adoption windows are short and unequal (four years for Sri Lanka, one for Nepal and two for Pakistan), and some trends, notably in Nepal, began before adoption. (4) Concurrent shocks, including the COVID-19 pandemic and inflation episodes, overlap with the post-adoption periods and cannot be separated from the effect of ECL. (5) Gross impairment and profitability ratios may not be fully comparable across jurisdictions because of differences in local standards, prudential rules and disclosure; net impairment rates are not tabulated. (6) Macroeconomic series are annual and national, and may not align with banks' reporting periods. (7) The Bangladesh analysis relies on regulatory documents, public information and practitioner-informed observations rather than primary data, and the regulatory framework continues to evolve as Bangladesh Bank issues further guidance [update: BB guidelines were scheduled for January 2026; confirm whether they have been issued and revise accordingly].

Directions for future research

Future work could (i) apply panel regression or difference-in-differences methods with bank fixed effects and macroeconomic controls to larger samples, exploiting the staggered adoption dates across countries; (ii) extend the post-adoption window as further data become available; (iii) analyse stage-wise disclosures (Stages 1, 2 and 3) and net impairment charges to identify the sources of change; (iv) collect primary data, through interviews or surveys with bank executives, auditors and regulators in Bangladesh, to measure readiness directly and test the institutional constraints discussed here; and (v) test whether banks' data and modelling maturity is associated with more stable ECL outcomes.

Declarations

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Competing interests. [Disclose any relationship with firms or banks involved in IFRS 9 ECL implementation in Bangladesh, or state that there are none. If the underlying research was carried out with a student or with input from a professional services firm, record this here and obtain any required consent.]

Data availability. The data analysed are drawn from publicly available annual reports and audited financial statements of the banks listed in Section 3.2 and from the macroeconomic sources cited. [The compiled dataset is available from the corresponding author on reasonable request: confirm.]

Author contributions. [Provide CRediT statement.]

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