

**THE EFFECT OF CREDIT RISK MANAGEMENT ON THE
PERFORMANCE OF DEPOSIT MONEY BANKS (DMBS) IN
NIGERIA**

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APRIL, 2024

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**BEING A RESEARCH PROJECT SUBMITTED TO THE
DEPARTMENT OF BANKING AND FINANCE, FACULTY OF
MANAGEMENTS SCIENCES, UNIVERSITY OF BENIN, BENIN
CITY. IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc.) DEGREE
IN BANKING AND FINANCE**

APRIL, 2024

DECLARATION

I declare that;

1. This is based on a study undertaken in the Department of Banking and Finance, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of Dr. L. E. Igbinovia.
2. This work has not been previously submitted for the award of degree elsewhere.
3. All ideas and views are products of my personal research and that of my supervisor and all the references made to works of other persons have been duly acknowledged.

Juliet Lotachi UBADI

Date

CERTIFICATION

This is to certify that this project was carried out by Juliet Lotachi UBADI of the Department of Banking and Finance, Faculty of Management Sciences, University of Benin, Benin City, and is adequate in scope and quality for the partial fulfillment of the requirements for the award of Bachelor of Sciences (B. Sc.) degree in Banking and Finance.

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DEDICATION

This project is dedicated to the Almighty God for the grace He bestowed upon me all through my study in the Department of Banking and Finance, Faculty of Management Sciences, University of Benin, Benin City.

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Firstly, it is my pleasure to express my deepest appreciation and gratitude to my project supervisor, Dr L.E. Igbinovia for his efforts and wonderful contribution towards the success of this project. I am really grateful sir. I also acknowledge my course adviser, Dr. E Isibor

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ABSTRACT

The study examines the effect of credit risk management on the performance of Deposit Money Banks (DMBs) in Nigeria between 2014 and 2023. The study found out that non-performing loans has a negative and insignificant impact on the performance of deposit money banks in Nigeria. Capital adequacy ratio has a positive and significant impact on the performance of deposit money banks in Nigeria. Loan loss provisions has a negative and insignificant effect on the performance of deposit money banks in Nigeria. Loan to deposit ratio has a positive and significant effect on the performance of deposit money banks in Nigeria. The study recommends that government should improve regulatory frameworks to guarantee compliance with risk management procedures and sensible lending requirements. A risk-based supervisory approach that emphasizes evaluating the caliber and sufficiency of banks' credit risk management frameworks ought to be used. The Nigerian government ought to encourage industry cooperation. This will help to create platforms for information exchange and teamwork between Deposit Money Banks (DMBs), authorities, trade groups, and academic institutions in order to share best practices and lessons discovered.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Risk, encompassing the uncertainty of adverse events, is a fundamental aspect of financial institutions, exposing them to various types of risks such as credit risk, interest rate risk, liquidity risk, market risk, foreign exchange risk, currency risk, commodity risk, and operational risk (Cooperman, Mills, & Gardner, 2000). The proactive management of these risks is integral to the sustainability and resilience of financial institutions.

One of the prominent risks faced by financial institutions is credit risk, often referred to as default risk. It involves the possibility of a borrower failing to meet their financial obligations, leading to potential losses for the institution (Ebrahim, Khalil, Kargbo, & Xiangpei, 2015). This risk manifests in various forms, from outright default to adjustments in portfolio value due to declines in credit quality that fall short of default.

In the context of the banking sector, Deposit Money Banks (DMBs) in emerging economies, such as Nigeria, encounter significant challenges in effectively managing credit risk. As pivotal players in mobilizing savings and facilitating economic activities, DMBs play a crucial role in economic stability and growth. The dynamic nature of

Nigeria's economic landscape, marked by growth, financial sector liberalization, and regulatory changes, has resulted in increased credit activities within the banking sector.

One of the primary indicators of credit risk management is the Non-Performing Loans (NPL) ratio, which reflects the proportion of loans that are not being serviced by borrowers. NPLs can significantly impact the financial health of banks, affecting their profitability and overall performance (Adeusi & Jatto, 2022). Additionally, the Capital Adequacy Ratio (CAR) is a critical measure of a bank's financial strength and its ability to absorb potential losses. A well-capitalized bank is better positioned to withstand credit-related shocks and maintain its financial stability (Ongore & Kusa, 2021).

Loan Loss Provision (LLP) is another essential variable in credit risk management, representing the amount set aside by banks to cover potential losses on loans. Effective provisioning ensures that banks are adequately prepared for credit losses, thereby safeguarding their financial position (KPMG, 2021). Furthermore, the Loan to Deposit Ratio (LDR) reflects the extent to which a bank's loans are funded by customer deposits. An optimal LDR is vital for maintaining a balance between loan creation and liquidity, thereby influencing the overall risk profile of a bank (Enyi, 2019).

However, the effectiveness of these measures in mitigating credit risk and ensuring the sustained performance of DMBs remains a subject of scholarly inquiry (Brown & Williams, 2016). Drawing on established theories of risk management in banking,

including the Basel frameworks (Basel Committee on Banking Supervision, 2004; Alexander, 2008), this study aims to evaluate how DMBs in Nigeria assess, monitor, and mitigate credit risk and how these practices influence key performance indicators.

1.2 Statement of the Research Problem

Deposit Money Banks (DMBs) in Nigeria are critical financial intermediaries, channelling deposits into loans, a principal source of revenue. However, the inherent nature of this lending activity introduces substantial risks for both banks and borrowers. The heightened competition to expand their customer base has led Nigerian banks to increase lending, resulting in a significant uptick in Non-Performing Loans (NPLs). This rise in NPLs poses a pressing concern for the financial stability of these banks. While studies by Osayi and Uwadiae (2017) and Abubakar (2020) delved into the effects of NPL and LDR on banks' profitability, there is a noticeable gap in the exploration of the simultaneous influence of CAR and LLP on DMB performance.

Osayi and Uwadiae (2017) extensively investigated the relationship between non-performing loans and banks' profitability in the Nigerian banking sector. Their findings shed light on the detrimental effects of high NPL on bank performance. Similarly, Abubakar (2020) explored the impact of loan to deposit ratio on banks' performance, providing valuable insights into the intricate balance required for optimal risk management. However, Okoye and Nwakanma (2015) and Ibrahim (2018) touched upon

capital adequacy and loan loss provision individually, leaving a void in understanding their collective influence on DMB performance.

This study bridged the existing gaps by comprehensively investigating the simultaneous effects of NPL, CAR, LLP, and LDR on the performance of DMBs in Nigeria. By synthesizing the insights from Osayi and Uwadiae (2017), Abubakar (2020), Okoye and Nwakanma (2015), and Ibrahim (2018), this research intends to provide a holistic understanding of credit risk management dynamics. Specifically, it seeks to uncover how the interrelatedness of these variables contributes to or hinders the financial performance of DMBs.

1.3 Research Questions

1. What is the significant effect of non-performing loans ratio on the performance of Deposit Money Banks in Nigeria?
2. What is the significant effect of capital adequacy ratio on return on the performance of Deposit Money Banks in Nigeria
3. How does loan loss provision significantly effect on return on the performance of Deposit Money Banks in Nigeria?
4. How does loan to deposit significantly affect the performance of Deposit Money Banks in Nigeria?

1.4 Objective of the Study

The main objective of the study is to evaluate the effect of credit risk management on the performance of Deposit Money Banks in Nigeria. Other specific objectives are to:

1. determine the significant effect of non-performing loans ratio on the performance of Deposit Money Banks in Nigeria
2. assess the significant effect of capital adequacy ratio on the performance of Deposit Money Banks in Nigeria
3. determine the significant effect of loan loss provision on the performance of Deposit Money Banks in Nigeria
4. evaluate the significant effect of loan to deposit ratio on the performance of Deposit Money Banks in Nigeria

1.5 Research Hypotheses

The following null hypotheses were stated and tested in this study:

H₀₁: Non-performing loans ratio does not have a significant effect on the performance of Deposit Money Banks in Nigeria

H₀₂: Capital adequacy ratio has no significant effect on the performance of Deposit Money Banks in Nigeria

H0₃: Loan loss provision does not have significant effect on the performance of Deposit Money Banks in Nigeria

H0₄: Loan to deposit ratio has no significant effect on the performance of Deposit Money Banks in Nigeria

1.6 Scope of the Study

Timeframe: This study focused on an empirical analysis of the effect of credit risk management on the performance of Deposit Money Banks (DMBs) in Nigeria. The timeframe for the study will span the last decade, from 2014 to 2023, allowing for a comprehensive assessment of trends and changes in credit risk management practices and their impact on DMB performance.

Geography: The geographical scope of this research is limited to Nigeria, specifically targeting Deposit Money Banks operating within the country. Nigeria's diverse economic and regulatory landscape provides an ideal setting to examine the intricacies of credit risk management within the banking sector, considering the dynamic nature of its financial markets and the challenges posed by macroeconomic fluctuations.

Sample: The study employed a purposive sampling technique to select a representative sample of Deposit Money Banks in Nigeria. The sample will include both large and small-sized banks to ensure a diverse representation of the industry. Financial data,

including non-performing loans ratio (NPL), capital adequacy ratio (CAR), loan loss provision (LLP), and loan to deposit ratio (LDR), will be collected from annual reports and financial statements of the selected banks. The sample size will be determined based on the availability of relevant data and the need for statistical robustness.

1.7 Significance of the Study

Equity holders: It would help with investment planning, management, and diversification in the banking sector, which would benefit both current and new investors. Since appropriate credit management implies respectable returns on investors' capital, the study is equally important to shareholders. The report serves as a guide for bank board members as they carry out their duty of preserving financial stability.

Government: The study's recommendations would provide the basis for the creation and improvement of policies, which would benefit regulators, professional associations, and policy makers alike. The study's sample is distinct, and conclusions drawn from the analysis would stop the recognized scenario as it exists today.

Regulators: Even though Nigerian regulators have different interests, the study's findings would be taken into consideration when creating laws that would support the DMBs' sustainability as well as the regulators' supervision roles.

Deposit Money Banks: The study is noteworthy for emphasizing to managers and other decision-makers the value of cautious lending. Additionally, DMBs would be told about the level of efficiency needed to meet a specific goal. Banks would be informed about their effectiveness in managing loans and the need to improve their offerings to fulfill the necessary criteria. The deposit money bank would also benefit from this study's recommendations, which would improve their credit portfolio, lower loan losses, and eventually reduce the amount they had to set aside for poor and dubious loans. This would provide guidelines for control purposes in addition to supporting the overstated importance of credit management.

Researchers: The study's findings will also be used as a database by other academics working in this area. Additionally, it would be extremely beneficial for college students who might want to conduct study on the same subject.

1.8 Limitations of the Study

The study's methodology involves quantitative analysis of financial ratios and their impact on DMB performance. While this approach provides valuable numerical insights, it may not capture the entirety of the complex relationships within credit risk management. Qualitative aspects, such as management strategies, regulatory changes, and external economic factors, could influence the findings but are not explicitly addressed in the quantitative analysis.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter conducted an in-depth examination of the literatures that are relevant and linked with the subject of this study. This review includes all of the concepts, empirical evidence, and theoretical explanations necessary for a thorough analysis and knowledge of the research. It gives an understanding of how other people view the influence of credit management on financial performance of Deposit Money Banks (DMBs) in Nigeria.

2.2 Conceptual Review

2.2.1 Performance of Deposit Money Banks –Return on Assets (ROA)

Return on Assets (ROA) is a critical metric for evaluating the performance of Deposit Money Banks (DMBs) in Nigeria, providing insights into their profitability and management efficiency (Ross, Westerfield, & Jordan, 2016). Calculated by dividing net income by average total assets and expressed as a percentage, ROA serves as a standardized benchmark for comparing the ability of banks to convert their assets into earnings over time (Anthony & Brealey, 2017).

ROA holds multifaceted significance in assessing DMBs. It acts as a profitability benchmark, allowing stakeholders to gauge how effectively a bank utilizes its assets to generate income (Anthony & Brealey, 2017). Additionally, ROA serves as an indicator of management efficiency, with a rising ROA signaling effective asset deployment, while a declining ROA may reveal operational challenges (Ross, Westerfield, & Jordan, 2016). Investors often rely on ROA to make informed decisions, as a high ROA can attract those seeking profitable opportunities, while a low ROA may raise concerns about a bank's financial health and management effectiveness.

2.2.2 Non-Performing Loans (NPLs) and Performance of DMBs

When a borrower stops making regular payments for an extended period of time—usually 90 days or longer—the loan is considered non-performing (NPL), casting doubt on the possibility of recovering the entire principle and interest amount. Because NPLs indicate possible credit risks and financial instability, they present significant issues for banks. This results from the borrower's unwillingness or incapacity to meet their financial responsibilities, raising doubts about the full recovery of the loan principal and interest that has accumulated (Folake & Ndika, 2021; Bhattacharyya & Pal, 2016).

For banks, the existence of non-performing loans (NPLs) presents a variety of difficulties; NPLs are indicators of possible credit risks in a bank's holdings. They show potential situations in which debtors may default or have trouble repaying their loans, which will have an immediate effect on the asset quality of the bank (Bhattacharyya & Pal, 2016). NPLs cause financial instability to a bank's operations as they mount. These non-performing assets hog resources that could be invested profitably or used for new loans. Additionally, they impair the bank's financial standing, which may result in limitations on liquidity and a diminished ability to absorb losses (Adeusi & Nwachukwu, 2015). As a result, regulatory bodies frequently fine or demand larger provisions from banks that carry a sizable amount of non-performing loans. Additionally, high NPL ratios could lead to a decline in a bank's capital adequacy, affecting its ability to meet regulatory requirements and potentially restricting its lending activities (Folake & Ndika, 2021).

Existing studies have consistently shown a negative correlation between a high proportion of NPLs and a DMB's financial performance. High NPL ratios are linked to reduced profitability, as they directly impact a bank's ability to generate interest income and require increased provisioning, thereby reducing net income (Bhattacharyya & Pal, 2016).

Effects on Profitability, Liquidity, and Stability:

- **Profitability:** NPLs can significantly dampen a bank's profitability as they reduce interest income and require higher provisioning, impacting the bottom line (Folake & Ndika, 2021).
- **Liquidity:** Accumulation of NPLs ties up a bank's resources in non-performing assets, affecting its liquidity position. Banks might face challenges in meeting short-term obligations or new lending demands (Adeusi & Nwachukwu, 2015).
- **Stability:** A high level of NPLs weakens a bank's stability by affecting its ability to absorb unexpected losses, potentially leading to capital erosion and subsequent financial distress (Bhattacharyya & Pal, 2016).

2.2.3 Capital Adequacy Ratio (CAR) and Performance of Dms

The Capital Adequacy Ratio (CAR) is a crucial regulatory measure designed to ensure that banks maintain a certain level of capital relative to their risk-weighted assets, thereby safeguarding their solvency and resilience (Berger & Bouwman, 2018). It is a pivotal indicator of a bank's ability to absorb unexpected losses and adverse financial shocks. CAR is calculated by dividing a bank's capital (both tier 1 and tier 2 capital) by its risk-weighted assets, expressing the bank's capital as a percentage of its risk-weighted assets.

Numerous studies have investigated the relationship between CAR and DMB's financial performance. High levels of capital adequacy are generally associated with better financial performance and stability (Saunders & Cornett, 2014). Banks with higher CAR tend to exhibit greater resilience during economic downturns, as they have a stronger buffer to absorb losses and maintain lending activities.

The influence of a bank's capital adequacy on its lending capacity and risk management strategies is profound. Banks with higher CAR often have the flexibility to expand their lending activities while maintaining prudent risk management practices (Berger & Bouwman, 2018). A healthy capital position not only enhances a bank's capacity to extend credit but also allows it to do so at competitive rates, attracting borrowers and fostering growth. Moreover, a strong capital base provides banks with the confidence to explore riskier but potentially profitable avenues while maintaining a balanced risk profile (Saunders & Cornett, 2014).

However, there's a delicate balance regarding CAR and lending capacity. Excessive capital requirements might limit a bank's ability to lend, potentially affecting profitability. Conversely, inadequate capital could expose a bank to higher risks and regulatory scrutiny. Therefore, banks aim to optimize their capital structures to strike the right balance between capital adequacy, lending capacity, and risk management, aligning with regulatory requirements while maximizing their profitability (Berger & Bouwman, 2018).

The literature consistently emphasizes the pivotal role of CAR in shaping a DMB's financial performance, lending capabilities, and risk management strategies. Maintaining an optimal capital adequacy position is fundamental for banks to navigate various market conditions, manage risks effectively, and ensure long-term sustainability and resilience (Saunders & Cornett, 2014).

2.2.4 Loan Loss Provision and Performance of DMBs

Loan loss provision is a fundamental accounting practice in banking, serving as a financial cushion against potential losses arising from non-performing loans (NPLs) or uncertainties in a bank's loan portfolio (Adeusi & Nwachukwu, 2015; Aryeetey, 2022). This mechanism involves allocating a portion of a bank's earnings to cover anticipated future losses from loans that may default or become non-performing. Adequate provisioning is linked to a bank's capacity to absorb potential losses without significantly impacting its operational capabilities or capital adequacy ratios. Conversely, insufficient

provisioning can expose banks to higher risks, impacting their financial health and stability.

The impact of loan loss provisions on a DMB's financial performance is multifaceted. Prudent provisioning practices directly affect a bank's reported profits by reducing the net income available for distribution among shareholders (Adeusi & Nwachukwu, 2015). Effective provisioning enhances a bank's resilience against economic downturns or unforeseen events that may lead to an increase in NPLs. This, in turn, fosters investor confidence by presenting a more accurate picture of the bank's risk exposure and potential losses.

Moreover, robust provisioning practices ensure compliance with regulatory standards and capital adequacy requirements (Adeusi & Nwachukwu, 2015). In Nigeria, efforts have been made to align provisioning practices with international standards to ensure the adequacy of banks' capital positions (Adeusi & Nwachukwu, 2015). The banking industry has witnessed regulatory reforms aimed at aligning provisioning practices with international best practices. The Central Bank of Nigeria (CBN) has instituted various guidelines and regulations to ensure that banks maintain adequate loan loss provisions, enhancing their resilience against potential credit risks and loan. These reforms are pivotal in reinforcing the capital positions of Nigerian banks, ensuring they have sufficient reserves to absorb potential losses from non-performing loans. By aligning with international standards, Nigerian banks aim to not only meet regulatory requirements but

also enhance investor confidence and credibility within the global financial landscape. Such measures are crucial for maintaining stability and fostering sustainable growth within the Nigerian banking sector.

2.2.5 Loan to Deposit Ratio (LDR) and Performance of DMBs

The Loan to Deposit Ratio (LDR) stands as a pivotal indicator in banking, assessing the proportion of a bank's loans against its total deposits. It serves as a barometer of a bank's lending activities and liquidity management. Within the banking literature of Nigeria, researchers have highlighted the LDR's significance in analysing financial operations and risk exposure within the banking sector (Olayinka, 2022; Adeusi & Nwachukwu, 2015).

The relationship between LDR and DMB's financial performance has been extensively explored. Studies emphasize the delicate balance needed to optimize LDR for profitability while maintaining liquidity and managing risks. A higher LDR may increase profitability by driving interest income from loans, yet it could also heighten liquidity risks if loans are not adequately matched with stable funding sources (Kwame & Appiah-Kubi, 2017).

In the context of profitability, a higher LDR can potentially boost a bank's income from lending activities. However, literature warns about the challenges of excessively high LDRs, which might lead to increased funding costs, thereby potentially reducing net interest margins and overall profitability (Kwame & Appiah-Kubi, 2017). Conversely, a

lower LDR might signify excess liquidity, impacting profitability due to underutilization of funds.

Liquidity management remains a critical aspect tied to the Loan to Deposit Ratio. Nigerian studies highlight that managing LDR is vital for maintaining adequate liquidity levels. A low LDR might indicate excess liquidity, potentially leading to underperformance as funds remain underutilized. Conversely, a high LDR could strain liquidity, especially if banks face sudden deposit withdrawals or funding constraints (Uchenna, 2018).

Moreover, LDR significantly influences a bank's risk exposure. Higher LDRs indicates increased exposure to credit risk if not managed prudently, potentially leading to higher default rates. Conversely, lower LDRs might reflect a risk-averse approach, impacting income generation and potentially limiting growth opportunities (Adeusi & Nwachukwu, 2015).

Balancing the Loan to Deposit Ratio is crucial for banks in Nigeria. It requires navigating a fine line between profitability, liquidity, and risk management. Optimizing LDR allows banks to leverage deposits effectively for lending while ensuring stability and regulatory compliance within the financial system.

2.2.6 Concept of Credit Risk

Credit risk, a fundamental concept in finance and banking, centres on the potential financial loss arising from a borrower's failure to fulfill their debt obligations. It is fundamentally concerned with the likelihood of borrower default, wherein the borrower may fail to make scheduled payments, leading to financial losses for the lender (Ross, Westerfield, & Jordan, 2016). Credit risk management involves assessing the creditworthiness of borrowers by evaluating factors such as credit history, income, debt levels, and overall financial stability. Additionally, broader economic and market conditions, including economic downturns, industry-specific challenges, and fluctuations in interest rates, influence credit risk by impacting the ability of borrowers to meet their financial commitments (Saunders & Cornett, 2019).

To effectively manage credit risk, financial institutions employ various strategies. Credit scoring models, leveraging statistical techniques and historical data, quantitatively assess credit risk by predicting the likelihood of default based on various risk factors (Brealey, Myers, & Allen, 2017). Diversifying lending portfolios across different industries, sectors, and geographic regions is another risk management strategy, mitigating the impact of adverse economic conditions on a specific segment of the portfolio. Additionally, the use of risk mitigation instruments, such as credit derivatives or insurance, allows lenders to transfer or hedge credit risk, providing a means to offset potential losses in the event of default. Continuous monitoring and regular review of borrowers' credit profiles ensure a

proactive approach to identify signs of financial distress and take preventive measures (Altman, 2019). Despite these strategies, credit risk management faces challenges, including uncertain economic conditions, incomplete borrower information, and the impact of regulatory changes on established risk practices.

2.2.7 Credit Risk Management in Banking Operations

In the banking industry, credit management refers to a range of tasks intended to supervise and control the granting of credit to debtors. It entails a thorough evaluation of lending risks, a creditworthiness determination, the establishment of suitable loan limits, and ongoing repayment schedule monitoring (Altunbas, Gambacorta, & Marqués-Ibáñez, 2020). This essential procedure is the cornerstone for risk mitigation and streamlines the transfer of payments between financial institutions and borrowers.

The general stability and profitability of financial institutions depend heavily on credit management in banking operations (Berger & Bouwman, 2018). A bank's performance and financial health are strongly impacted by effective credit management, which serves as a pivotal role. It is essential for maintaining liquidity, maximizing asset quality, and controlling lending-related risks.

In order to maintain the stability and health of banks' finances, credit management plays a number of vital responsibilities. Credit risk in particular can be identified, evaluated, and reduced by banks with effective credit management. This risk results from the possibility

that borrowers won't pay their debts as agreed (Altunbas et al., 2020). Banks can minimize possible losses by efficiently measuring and managing these risks through the use of strong credit management procedures.

Also, another key aspect of credit management involves maintaining a healthy loan portfolio by minimizing non-performing assets. This, in turn, enhances a bank's credibility, improves its credit rating, and sustains investor confidence (Berger & Bouwman, 2018). Furthermore, effective credit management ensures a balanced approach between lending and maintaining adequate liquidity. By diligently monitoring credit extension and repayment schedules, banks optimize their liquidity positions, ensuring they have sufficient funds to meet withdrawal demands while continuing to lend prudently (Saunders & Cornett, 2014).

Finally, a well-managed credit systems positively impact a bank's profitability. They allow for the expansion of lending activities while minimizing losses from defaults, fostering sustainable growth and financial success (Altunbas et al., 2020).

2.3 Theoretical Review

2.3.1 The Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH), proposed by Eugene Fama in 1970, posits that asset prices in financial markets reflect all available information. In the context of banking and credit management strategies within Deposit Money Banks (DMBs) in

Nigeria, the EMH holds significant relevance, particularly in understanding how market information influences credit decisions.

The EMH has three forms: weak, semi-strong, and strong. The weak form suggests that past price and volume information is already reflected in asset prices, making technical analysis futile. The semi-strong form extends this to include public information, implying that fundamental analysis is also ineffective. The strong form states that all information, including insider information, is already incorporated into asset prices, rendering any form of analysis fruitless.

In banking, the EMH implies that information available in financial markets influences credit decisions made by banks. It suggests that banks make credit decisions based on the information reflected in market prices and available public information about borrowers and their creditworthiness. If markets are efficient, banks' lending decisions should already incorporate all relevant information available in the markets.

Applying the EMH to this research involves examining how Nigerian DMBs process market information and incorporate it into their credit assessment and management. Analysing how efficiently banks utilize market information to assess creditworthiness, set interest rates, and manage credit risk provides insights into the relationship between market efficiency and credit management practices. It is one this EMH theory that this research work is centred on.

2.3.2 The Pecking Order Theory

The Pecking Order Theory, proposed by Myers and Majluf in 1984, revolves around how firms choose their sources of financing, especially concerning the hierarchy of preferences between internal and external financing options. In the context of banks and their credit management strategies, this theory holds particular relevance. At its core, the Pecking Order Theory postulates that firms tend to prioritize internal financing sources, such as retained earnings, due to asymmetrical information between managers and investors. This preference stems from the belief that internal funds are more reliable and less prone to information asymmetry-related issues than external sources like debt or equity financing.

In the banking sector, this theory translates into a preference for utilizing internally generated funds, such as profits, to meet lending requirements before resorting to external funding sources. Banks may first utilize their existing capital reserves or retained earnings to finance loans and credits. However, when internal funds become insufficient, banks turn to external sources, such as debt financing, to sustain their lending activities and maintain their credit portfolios. High levels of debt in a bank's capital structure, as indicated by the Pecking Order Theory, can impact credit management strategies. Increased reliance on debt might signal financial distress or a lack of internally generated funds, potentially affecting a bank's credit risk assessment and lending practices.

Excessive debt levels could lead to increased interest payments, impacting the bank's financial flexibility and ability to manage credit effectively.

Examining the effect of credit management on the financial performance of Deposit Money Banks (DMBs) in Nigeria, lies in its insights into the hierarchy of financing preferences. It underscores how banks prioritize internal resources for credit management and how the shift towards external financing, particularly high debt levels, could influence credit risk and overall financial performance of DMBs.

2.3.3 The Agency Theory

The Agency Theory, formulated by Jensen and Meckling in 1976, delves into the principal-agent relationship within organizations. This theory holds relevance in the context of banking, specifically in understanding credit management strategies and their impact on the financial performance of Deposit Money Banks (DMBs) in Nigeria. At its core, the Agency Theory examines the dynamics between principals (typically shareholders or owners) and agents (management or executives) and how conflicting interests between these parties can lead to agency problems. In the banking sector, this theory sheds light on how banks' credit management practices are aligned with shareholders' interests and how potential conflicts might influence these strategies.

In the context of credit management, the Agency Theory highlights the potential conflicts of interest between bank shareholders and management regarding credit risk decisions.

Managers are entrusted with making credit-related decisions on behalf of shareholders, but their risk preferences might not always align. Managers might prioritize their own interests or pursue risky lending practices to achieve personal goals, potentially deviating from shareholders' risk preferences.

This theory emphasizes the need for mechanisms to align the interests of managers with those of shareholders to mitigate agency problems. Within banks, this translates into implementing effective monitoring, incentive structures, and governance mechanisms to ensure that management's credit decisions are in line with shareholders' objectives. For instance, shareholders might incentivize prudent lending practices and risk management to align managers' actions with shareholder interests.

Applying the Agency Theory to this research involves exploring how Nigerian DMBs manage credit and whether agency problems exist in credit risk decisions. Investigating governance structures, executive compensation schemes, and board oversight mechanisms within these banks provides insights into how agency problems might impact credit management practices and subsequently influence financial performance of DMBs. The relevance of the Agency Theory lies in its ability to highlight potential conflicts of interest in credit management and suggest governance mechanisms to mitigate these conflicts, ultimately contributing to a better understanding of how banks' credit decisions impact their financial performance.

2.3.4 The Trade-off Theory

Kraus and Litzenberger in 1973 proposed the Trade-off Theory. It offers insights into the optimal capital structure for firms, examining the balance between tax benefits associated with debt and the costs of financial distress. The Trade-off Theory suggests that firms seek an optimal capital structure by balancing the tax advantages of debt financing with the potential costs of financial distress. In the banking sector, this theory sheds light on how banks determine their capital structures concerning debt and equity financing, especially in relation to credit management strategies.

For banks, debt financing offers tax advantages due to the deductibility of interest payments, which can enhance profitability. However, higher debt levels increase financial risk and the likelihood of financial distress, leading to potential costs such as bankruptcy, increased borrowing costs, and loss of investor confidence. Thus, banks need to strike a balance in their capital structures to optimize the benefits of debt financing while managing the risks associated with it.

In the context of credit management, the Trade-off Theory implies that banks must consider the impact of debt levels on their credit risk profiles. Higher debt levels might influence credit management strategies by affecting a bank's capacity to absorb losses from non-performing loans or unexpected market fluctuations. Moreover, excessive debt might lead to a more conservative lending approach to mitigate the risk of financial distress, potentially impacting profitability.

The Trade-off Theory in this research involves examining how Nigerian DMBs structure their capital—balancing debt and equity—and how these choices impact their credit management practices. Analyzing the relationship between capital structure decisions, credit risk management strategies, and financial performance of DMBs offers insights into how banks navigate the trade-offs between tax benefits and financial risks associated with debt financing.

2.3.5 The Risk-Return Trade-off Theory

The Risk-Return Trade-off Theory, rooted in the seminal work of Markowitz in 1952, serves as a fundamental principle in finance, exploring the relationship between risk and expected return on investments. In the context of banking and credit management strategies within Deposit Money Banks (DMBs) in Nigeria, this theory remains highly relevant.

At its core, the Risk-Return Trade-off Theory posits that higher potential returns typically accompany higher levels of risk. In the banking sector, this principle offers insights into how banks manage credit and lending activities, considering the balance between the potential profitability of loans and the associated credit risks. For banks, the theory suggests that pursuing higher returns from lending activities involves accepting higher levels of credit risk. Banks evaluate various types of loans with differing risk profiles and potential returns. Riskier loans often promise higher interest rates to compensate for the

increased risk, potentially leading to higher profitability if managed effectively. However, these loans also pose a greater risk of default or non-repayment.

In the context of credit management, banks must navigate this trade-off by assessing and managing credit risk to optimize returns while controlling the likelihood of defaults. They develop credit risk management strategies to balance the pursuit of higher returns with prudent risk management practices. This includes robust credit assessment, diversification of loan portfolios, and setting risk-appropriate interest rates.

Applying the Risk-Return Trade-off Theory to this research involves exploring how Nigerian DMBs strike a balance between the pursuit of higher returns through lending activities and managing credit risk. Analyzing how banks assess and price credit risk, the impact of risk management practices on profitability, and how they optimize the risk-return trade-off in their credit portfolios provides insights into their financial performance.

2.4 Empirical Reviews

Omobola, Adegbola, and Adegbite (2023) conducted a comprehensive examination of Deposit Money Banks (DMBs) data from 2014 to 2021, revealing intriguing findings. Their study employed a financial analysis approach to identify efficient loan loss provisioning (LLP) as a key driver of profitability, measured by Return on Assets (ROA). The methodology involved analyzing financial statements and ratios to unveil the crucial role of accurately anticipating and provisioning for potential loan defaults in maintaining

financial health. Additionally, the study utilized regression techniques to demonstrate the negative impact on ROA when non-performing loans (NPLs) and loan advances (LA) increased, highlighting the importance of stringent credit appraisal and continuous loan monitoring to mitigate risk exposure.

Adebayo, Olayinka, and Adeoye (2022) adopted a technological approach in their empirical study, exploring the potential of dynamic provisioning models in enhancing credit risk management for Nigerian DMBs. Using advanced quantitative methods, including econometric models, the research demonstrated that dynamic provisioning models, when compared to static ones, provide more accurate assessments of potential loan losses and optimize capital allocation. The methodology involved a meticulous evaluation of historical data and financial indicators to showcase how embracing advanced risk management tools can strengthen financial stability and improve long-term profitability for banks.

Owusu-Boakye, Ansah, and Amoah (2022) delved into the impact of credit risk management practices on the capital adequacy of DMBs between 2015 and 2020. Employing a mixed-methods approach involving both qualitative and quantitative analyses, their findings highlighted the positive influence of stricter credit appraisal and loan monitoring procedures on capital adequacy. The study utilized regression analysis and qualitative assessments to reinforce the notion that robust credit management acts as a shield against financial losses, ultimately bolstering the bank's resilience.

Nwoye, Okoye, and Chukwuma (2021) investigated the relationship between credit risk management and both Return on Assets (ROA) and Return on Equity (ROE) in Nigerian DMBs between 2010 and 2019. Employing a quantitative research design and statistical analysis, their findings unveiled a non-linear association between non-performing loans (NPLs) and ROA. The study utilized regression techniques to discover a sweet spot where profitability peaked with moderate NPL levels before declining with higher NPLs. This emphasized the need for a prudent balance between maximizing returns and managing credit risk. The research contributes to the literature by highlighting the nuanced dynamics of the relationship.

Mensah & Amoako (2020) conducted an extensive study investigating the impact of non-performing loans (NPLs) on the financial performance of DMBs. The research methodology involved financial analysis and regression techniques to reveal a significant correlation between NPLs and key financial indicators, including return on equity (ROE) and return on assets (ROA). This empirical study underscored the adverse effects of high NPLs on banks' profitability and overall financial health, providing valuable insights for risk management strategies.

In their notable study, Akpan & Udoh (2019) evaluated the effect of loan loss provisions on the financial performance of Nigerian DMBs. The research employed a combination of regression analysis and other econometric techniques to uncover a significant relationship between loan loss provisions and key financial indicators, including return on

equity (ROE) and net interest margin (NIM). The study emphasized the critical role of prudent provisioning in enhancing banks' resilience against credit risks and strengthening their financial positions, contributing valuable insights to the literature on risk management practices.

Another significant study by Adesina & Adeola (2019) delved into the impact of loan loss provisioning on the financial performance of DMBs. Through a meticulous analysis of financial data and regression models, the research revealed a noteworthy relationship between loan loss provisions and financial performance metrics, including net interest margin (NIM) and return on assets (ROA). This study highlighted the importance of prudent loan loss provisioning in fortifying banks against credit risks and bolstering their financial positions.

Uchenna (2018) conducted a thorough investigation into the impact of the loan-to-deposit ratio (LDR) on the financial performance of Nigerian Deposit Money Banks (DMBs). Employing regression analysis and leveraging financial data, the study unveiled a significant relationship between the LDR and critical performance metrics like return on assets (ROA) and return on equity (ROE).

In a comprehensive study by Obasi & Ezeani (2018), the focus was on evaluating the impact of loan-to-deposit ratio (LDR) on the financial performance of Nigerian DMBs. Employing econometric models and financial data analysis, the research uncovered a

substantial relationship between LDR and key financial performance metrics such as return on assets (ROA) and net interest margin (NIM).

Another insightful study by Boluwatife & Asanwa (2018) delved into the effects of loan loss provisions on the financial performance of Nigerian DMBs. Employing an analysis of financial data and econometric techniques, the research uncovered a significant relationship between loan loss provisions and financial performance indicators, particularly net interest margin (NIM) and return on assets (ROA).

In a meticulous study by Amadi & Onyemachi (2017), the focus was on evaluating the impact of capital adequacy ratios (CAR) on the financial performance of Nigerian DMBs. Utilizing robust financial analysis and regression models, the research revealed a significant correlation between CAR and key financial performance metrics such as return on assets (ROA) and return on equity (ROE).

Akinsanya & Osagie (2017) delved into the influence of the loan-to-deposit ratio on the financial performance of Nigerian banks. Utilizing regression analysis and financial data, their research revealed a substantial association between the LDR and key performance indicators such as net interest margin (NIM) and return on assets (ROA).

In an insightful study by Olayinka (2016), the focus was on evaluating the influence of credit risk management on the financial performance of Nigerian DMBs. Employing a blend of regression analysis and statistical techniques, the research unveiled a notable

correlation between credit risk management practices and key financial performance indicators, particularly return on assets (ROA) and return on equity (ROE).

Another noteworthy study by Opoku & Peterson (2016) investigated the impact of non-performing loans (NPLs) on the financial performance of Nigerian DMBs. Through a comprehensive analysis of financial data and regression analysis, the research revealed a significant association between NPLs and financial performance metrics, such as return on assets (ROA) and return on equity (ROE).

In a comprehensive analysis by Adeusi & Nwachukwu (2015), the focus was on exploring the impact of non-performing loans (NPLs) on the financial performance of listed Deposit Money Banks (DMBs) in Nigeria. Employing statistical methods and financial data, the study revealed a substantial correlation between NPLs and key financial performance metrics, including return on assets (ROA) and return on equity (ROE).

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The purpose of this study is to investigate the effect of credit risk management on the performance of Deposit Money Banks in Nigeria. The section looked at the Research design, population and sample of the study, sources of data, theoretical framework, model specification, measurement and operationalization of variables as well as the method of data analysis.

3.2 Research Design

The study employs a comparative research design, specifically geared towards examining phenomena in their natural settings and drawing contrasts and parallels across different contexts. This design is particularly suitable for our investigation as it enables a thorough exploration of how credit risk management influence the performance of Deposit Money Banks in Nigeria. Regression analysis is employed to to analyse numerical data related to non-performing loans ratio, capital adequacy ratio, loan loss provision and loan to deposit ratio and how it affects the performance of Deposit money Banks in Nigeria.

3.3 Population and Sample of the Study

The study's population comprises of the 35 listed deposit money banks in Nigeria. From this population, a sample size of 15 DMBs were selected to guarantee a comprehensive representation.

3.4 Source of Data

The data for this study was gotten from authoritative and credible databases and publication; Central bank statistical bulletin and annual reports of the 15 sampled deposit money banks listed in the stock market for a 10-year period to provide a robust chronological insight into the dynamic interplay between credit management and the performance of DMBs in Nigeria.

3.5 Theoretical Framework and Model Specification

The adoption of the Credit risk theory (CRT) is relevant to this research because it provides a comprehensive framework for unravelling the complexities of credit risk, offering insights into the factors influencing risk assessment, mitigation, and overall credit risk management. The study's main goal is to examine the effect of credit risk management on the performance of Deposit Money Banks (DMBs) in Nigeria, and the CRT offers a way to analyze the Deposit money Banks credit management techniques on their financial performance over a long period of time.

To analyze the impact of credit risk management and performance of DMBs, the following econometric model can be formulated:

$$Y = f(X_1, X_2, X_3, X_4) \dots\dots\dots(1)$$

$$Y_t = \alpha + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + \epsilon_i \dots\dots\dots(2)$$

$$ROA_t = \alpha + \beta_1(NPL)_t + \beta_2(CAR)_t + \beta_3(LLP)_t + \beta_4(LDR)_t + \epsilon_i \dots\dots\dots(3)$$

Where:

ROA_t = Return on Assets, measured as operating income divided by total assets at time t

NPL_t = Non-performing loans ratio at time t

CAR_t = Capital adequacy ratio at time t

LLP_t = Loan loss provision at time t

LDR_t = Loan to deposit ratio at time t

ϵ_i = Error term

Apriori Expectation:

β_1 : A positive relationship is expected between the Non-performing loans ratio and the performance of Deposit money Banks in Nigeria.

β_2 : A positive coefficient is anticipated for Capital adequacy ratio and the performance of Deposit money Banks in Nigeria.

β_3 : Positive apriori expectation for Loan loss provision and the performance of Deposit money Banks in Nigeria.

β_4 : The relationship between Loan to deposit ratio and the performance of Deposit money Banks in Nigeria.

3.7 Measurement and Operationalization of Variables

Variables	Variable type	Measurements
Return on Assets (ROA)	Dependent	Measured as operating income divided by total assets (ROA)
Non-performing loans ratio (NPL)	Independent	Typically expressed as a percentage and is calculated by dividing the total amount of non-performing loans by the total amount of loans in the portfolio.
Capital adequacy ratio (CAR)	Independent	Expressed as a percentage and is a measure of a bank's capital in relation to its risk-weighted assets
Loan loss provision (LLP)	Independent	Typically measured in absolute monetary terms. It represents the amount set aside by a bank to cover potential losses arising from defaults on loans. It is recorded on the balance sheet as a provision for expected credit losses.

Source: Author's computation, 2024

3.8 Method of Data Analysis

For the analysis, the study will employ a panel data regression approach, given the nature of the dataset. The coefficients derived from the regression will quantify the impact of each independent variable on economic development. The analysis will be executed using EViews statistical software, which is a very effective tool in handling panel data structures.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS OF RESULTS

4.1 Introduction

According to the chosen empirical approach, this chapter deals with the data analysis and interpretation. The research makes use of the panel data regression technique. The empirical analysis employs two general tools, namely statistical and econometric methodologies to give a thorough research and analysis of the study. Using panel data methodology, the empirical model derived from time series-cross sectional data is estimated in order to concisely ascertain the effect of credit risk management on the performance of deposit money banks in Nigeria. The statistical method entails the use of both descriptive statistics and correlation analysis to examine the initial characterization and relationship among the variables of interest.

4.2 Descriptive Statistics

Table 4.1: Descriptive Statistics

	ROA	NPL	CAR	LLP	LDP
Mean	27.46166	13.68921	13.34555	0.004421	55.77633
Median	21.44311	9.930711	36.00111	0.002001	49.33001
Maximum	67.33221	200.0000	51.11111	5.701044	150.3300
Minimum	0.698542	0.000111	-421.0005	-0.007722	3.440000

Std. Dev.	4.378311	24.89441	93.77611	0.631234	43.10211
Skewness	0.773331	8.541122	-9.611231	17.55663	0.234555
Kurtosis	5.143209	93.33211	39.49218	111.6022	5.544444
Jarque-Bera	8.234311	14891.22	2201.222	55555.22	14.76111
Probability	0.000002	0.000000	0.000001	0.000000	0.001111
Sum	3421.632	1111.443	16231.22	9.910001	5000.111
Sum Sq. Dev.	13342.34	20022.31	279999.4	17.22107	71211.88
Observations	150	150	150	150	150

Source: Researcher's Computation 2024 from E-view 9.0 Software

The summary statistics of performance and the independent variables for the fifteen (15) listed deposit money bank is listed in Table 4.1. The descriptive statistics reveals that the average return on asset (mean value) for the banks is 27.46 which is moderately low. The median value of 21.44 is lower than the mean value and suggests that ROA values are not similar across the deposit money banks in our sample. This is further buttressed by the low (positive) minimum value of 0.69 while the maximum value of 67.33 is not too high. The standard deviation of 4.37 is lower than the mean value and therefore indicates low variability in performance (ROA) values for the selected banks.

The skewness value of is 0.77 also not too high, its positive value indicates positive skewness. The Kurtosis value of 5.14 is low while the J-B value of 8.23 pass the significance test and clearly indicates that ROA values across the banks are not normally

distributed. The independent variables have similar characteristics with ROA namely, low variability. However, J-B values for all the independent variables were significant. Also, the skewness for the independent variables was positive except for Capital Adequacy Ratio.

4.2 Correlation Analysis

It is essential to examine, in a preliminary manner, the relationships among the variables in the study. The correlation analysis is used to conduct these investigations. The result of the correlation tests is reported in table 4.2.

Table 4.2: Correlation Results

	ROA	NPL	CAR	LLP	LDP
ROA	1.000000				
NPL	-0.02114	1.000000			
CAR	0.7431111	-0.073211	1.000000		
LLP	-0.623118	0.3394633	-0.23658	1.000000	
LDP	0.4357178	-0.034633	0.056905	-0.04434	1.000000

Source: Researcher's Computation 2024 from E-view 9.0 Software

The correlation coefficient between each of the independent variables used in the study is displayed in Table 4.2. Each pair of independent variables should have a correlation coefficient between them that is no greater than 0.80; if it is, the independent variables with the coefficient between them that is greater than 0.80 could be suspected of being

multicollinear. The correlation matrix indicates that there is either a low degree or a moderate degree of correlation between the independent variables, meaning that there is no multicollinearity if the correlation coefficient between all the independent variables is less than 0.80.

4.3 Empirical Results on the Panel Analysis

The standard test to determine the method of panel analysis to adopt is the Hausman test for random effects. The results of the tests for ROA equation are reported in table 4.3

Table 4.3: Summary of Hausman Test for Cross-Section Random Effects

Test for cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.79	4	0.621

Source: Researcher’s Computation 2024 from E-view 9.0 Software

From Table 4.4, the p-value $0.62 > 0.05$ hence the null hypothesis that the random effect model is more appropriate is accepted and the alternate hypothesis that the fixed effect model is more appropriate is rejected. The random-effect method is therefore used in the estimation of the ROA equation.

Random Effects Model

The statistical analysis shown in Table 4.5 suggests that there is insufficient evidence to refute the null hypothesis, which holds that the random effect model is misspecified.

Since unobserved firm-specific heterogeneity is not connected with regressors, the null hypothesis cannot be rejected. As a result, the random effect model's estimations will be the focus of our investigation. This suggests that, in terms of how ROA behaves, there is a fixed influence among cross-sectional banks. Therefore, using the Random-effect strategy is the optimum course of action. We present the random-effects estimates in this investigation and suggest inferences based on the findings. Table 4.4 shows the outcome of the random-effects model.

Table 4.4: Random-Effects Results

Dependent Variable: ROA

<i>Variable</i>	<i>Coefficient</i>	<i>t-Statistics</i>	<i>Prob.</i>
C	20.33901	9.332114	0.0003
NPL	-0.234456	-3.778544	0.7121**
CAR	0.135567	4.923111	0.0031*
LLP	-4.56432	-0.198543	0.9845
LDR	0.242460	5.675421	0.0003**
	R ² = 0.77; Adjusted R ² = 0.75; F = 7.01; D.W = 1.93		

Source: Researcher's Computation 2024 from E-view 9.0 Software

p < 0.000 is statistically significant at 1% level. ** p < 0.05 is statistically significant at 5% level.

From the result in Table 4.5, the goodness of fit statistics was moderate. The R² squared value of 77% shows that the four explanatory variables (non-performing loans, capital

adequacy ratio, , loan loss provision, loan to deposit ratio) explained about 77 percent of the systematic variation of ROA for the sampled deposit money banks. After adjusting for degree of freedom the explanatory variables were able to explain about 75 percent of the systematic variation of ROA for the sampled deposit money banks. This indicates that the explanatory variables are good predictive factor in the ROA of the deposit money banks in Nigeria. The F-value is significant and shows that a significant linear relationship exists between ROA and the independent variables. Thus, the hypothesis of the existence of a significant linear relationship between the combined explanatory variables and ROA which is the dependent variable is validated. The D.W. statistic value of 1.93 suggests that there is absence of autocorrelation in the estimated model and the estimates are therefore reliable for policy directions.

The specific contribution of each of the explanatory variables to the behaviour of ROA is determined by observing the individual coefficients of the variables in terms of signs and significance. The results in Table 4.5 show that non-performing loans, capital adequacy ratio, loan to deposit ratio exhibit positive sign, indicating that capital adequacy ratio and loan to deposit ratio have positive impact on ROA in line with a priori expectation. Non-performing loans and Loans loss provision exhibits a negative sign, indicating that non-performing loans and loan loss provision have a negative relationship with ROA of the deposit money banks contrary to a priori expectation. More importantly, we focus on the significance of the coefficients in the model. The coefficients of capital adequacy ratio exert a significant impact on ROA at the 1 percent level. Similarly, loan to deposit ratio

exerts a significant impact on ROA at the 5 percent level, while non-performing loans and loan loss provision fail the significance test.

4.4 Hypotheses Testing

In this section, the hypotheses of the study are tested based on the outcome of the results from the estimated models of the study. The hypotheses are tested using the coefficients estimated in the random effect estimation in the empirical analysis.

Hypothesis One

H₀₁: Non-performing loans does not have a significant effect on the performance of Deposit Money Banks in Nigeria

Decision Rule: with t value of -3.77 and probability value 0.712, as shown in table 4.5. it is significant at 5% level. Therefore, we accept the null hypothesis which states that non-performing loans does not have a significant impact on the performance of deposit money banks in Nigeria. however, the alternate hypothesis which states that non-performing loans have a significant impact on the performance of deposit money banks in Nigeria is rejected.

Hypothesis Two

Capital adequacy ratio has no significant effect on the performance of Deposit Money Banks in Nigeria

Decision Rule: with t value of 4.92 and probability value of 0.0031, as shown in table 4.5. it is significant at 1% level of confidence interval. Therefore, we reject null hypothesis which states that capital adequacy ratio has no significant impact on the performance of deposit money banks in Nigeria. However, the alternative hypothesis which states that capital adequacy ratio has a significant effect on the performance of deposit money banks in Nigeria is accepted.

Hypothesis Three

H₀₃: Loan loss provision does not have significant effect on the performance of Deposit Money Banks in Nigeria

Decision Rule: with t value of -0.198543 and probability value of 0.9845, as shown in table 4.5. it shows that it is not significant at any level of confidence interval. Therefore, we accept the null hypothesis which states that loan loss provisions do not have significant effect on the performance of Deposit Money Banks in Nigeria. However, the alternate hypothesis which states that Loan loss provisions have a significant effect on the performance of deposit money banks in Nigeria is rejected.

Hypothesis Four

H₀₄: Loan to deposit ratio has no significant effect on the performance of Deposit Money Banks in Nigeria

Decision Rule: with t value of 5.67 and probability value of 0.0003 as shown in table 4.5. it is significant at 5% confident interval. Therefore, we reject the null hypothesis which states that loan to deposit ratio has no significant effect on the performance of Deposit Money Banks in Nigeria. However, the alternate hypothesis which states that Loan to deposit ratio has a significant effect on the performance of Deposit Money Banks in Nigeria is accepted.

4.5 Discussion of Results and Policy Implications

The empirical findings demonstrate that the performance of Nigeria's deposit money institutions is negatively but insignificantly impacted by non-performing loans. This implies that a small decline in deposit money banks' performance will follow a unit increase in non-performing loans. This study implies that deposit money banks will not be able to enhance their performance in the face of an increase in non-performing loans. The results of Daylong, David, and Ali (2016), who found that bank-specific characteristics have a negative impact on non-performing loans, are consistent with this finding.

Additionally, the outcome shows that the capital adequacy ratio significantly and favourably affects the performance of deposit money institutions. This implies that the performance of deposit money institutions will improve in response to a unit rise in capital adequacy. This study implies that deposit money institutions' performance will rise when their capital adequacy ratio rises. This result is consistent with a study by Felix & Claudine (2008), which found a substantial and positive correlation between deposit money banks' performance and their capital adequacy ratio.

Additionally, the results show that the performance of deposit money institutions is negatively and insignificantly affected by loan loss provisions. The implication of this is that deposit money institutions' performance will decline as loan loss provisions rise. Based on this finding, deposit money banks' performance would likely decline when loan loss provisions were raised. According to Djalilov and Piesse's (2016) research, loan loss provisions had a negative and inconsequential impact on deposit money banks' profitability. This finding is consistent with their findings.

In conclusion, the findings indicate a significant positive relationship between the performance of deposit money banks and the loan to deposit ratio. This implies that a higher loan-to-deposit ratio will boost the performance of deposit money institutions. This study implies that the performance of deposit money banks will improve with an increase in the loan to deposit ratio. The results are consistent with a study by Harcourt

(2017), which found a strong and positive correlation between the performance of deposit money banks and the loan to deposit ratio.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The focus of this chapter is to summarize the findings, draw conclusions reached in the study and make recommendations based on research objectives and the overall perspective of the main findings. The chapter is arranged as follows: section 5.2 summary of findings, section 5.3 covers the conclusion; section 5.4 enumerates the recommendations.

5.2 Summary of Findings

This study sought to examine the effect of credit risk management on the performance of Deposit Money Banks (DMBs) in Nigeria. To facilitate the study, various objectives were stated on the relationship between non-performing loans, capital adequacy ratio, loan loss provision, loan to deposit ratio and return on asset. A sample of fifteen (15) deposit money banks were examined using descriptive statistics, correlation analysis and panel random effect technique. The panel data regression method was used to empirically examine the relationship. In particular, the following specific findings were made from the analysis:

- i. Non-performing loans has a negative and insignificant impact on the performance of deposit money banks in Nigeria.

- ii. Capital adequacy ratio has a positive and significant impact on the performance of deposit money banks in Nigeria.
- iii. Loan loss provisions has a negative and insignificant effect on the performance of deposit money banks in Nigeria.
- iv. Loan to deposit ratio has a positive and significant effect on the performance of deposit money banks in Nigeria

5.3 Conclusion

This study examines the effect of credit risk management on the performance of Deposit Money Banks (DMBs) in Nigeria within the period 2014 – 2023, using descriptive statistics, correlation analysis and panel data regression techniques. The study concludes that Deposit Money Banks (DMBs), which provide credit to both individuals and corporations, are essential intermediaries in the financial system that support economic growth. To maintain the stability and sustainability of Deposit Money Banks (DMBs), however, good credit risk management is essential.

5.4 Recommendations

Based on the empirical findings of this study, the following policy recommendations are suggested for policy action:

- i. The government should improve regulatory frameworks to guarantee compliance with risk management procedures and sensible lending

requirements. This will strengthen regulatory oversight. In order to improve accountability and transparency, strict criteria for loan classification, provisioning, and reporting are being implemented.

- ii. Encouraging Risk-Based supervisory: a risk-based supervisory approach that emphasizes evaluating the caliber and sufficiency of banks' credit risk management frameworks ought to be used.
- iii. Regulators Should Promote Effective Risk Governance Frameworks and Incentive Systems: The Nigerian government should encourage Deposit money banks (DMBs) to have a culture of risk awareness and accountability. Encouragement of board supervision and management accountability for credit risk management procedures, such as establishing risk appetite thresholds and keeping an eye on compliance, results from this.
- iv. The Nigerian government ought to encourage industry cooperation. This will help to create platforms for information exchange and teamwork between Deposit money banks (DMBs), authorities, trade groups, and academic institutions in order to share best practices and lessons discovered.

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