Impact of Credit Risk on the Performance of Deposit Money Banks in Nigeria (1994-2024)

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Abstract
This study examined the impact of credit risk on the performance of deposit money banks in Nigeria from 1994 to 2024. This study sought to achieve the following objectives; to examine the impact of nonperforming loan on total asset of deposit money banks performance in Nigeria, to examine the impact of loan loss provision on total asset of deposit money banks performance in Nigeria, and to examine the impact of loan and advance on total asset of deposit money banks performance in Nigeria for a period of 31 years spanning from 1994 to 2024. The study adopted the ex-post facto research design to take into account the trends in the time series data set. Annual data were obtained from CBN statistical bulletin and NDIC data base for the period of the study. The ordinary least square (OLS) Model was used to analyze the data. The findings of the study revealed that, Nonperforming loans do not have significant positive effect on the performance of deposit money banks in Nigeria. Whereas, Loan loss provision, and Loan and advance has positive and significant effect on the performance of deposit money banks in Nigeria. Based on the findings, it was recommended that, The Central Banks of Nigeria (CBN) as the major regulatory authority of the Deposit Money Banks (DMBs) in Nigeria should formulate policies that would help to reduce the incidence of high proportion of nonperforming loans among deposit money banks in Nigeria thus effectively reducing exposure to credit risk. Also, Deposit Money Banks should ensure that they make adequate provision for loan loss and bad debt when they occur. This is so because frequent occurrence of the incidence of loan loss and bad debt can lead to bank failure.

Key words: *Credit risk, Nonperforming loan, Loan loss provision, Loan and advances, Performance of Deposit money banks*

Introduction

Banks exist because they perform certain special functions that other financial intermediaries cannot replicate. These special functions are the intermediating roles between savers (depositors) and the borrowers; that is, mobilizing idle financial resources from the surplus units (the savers through the accounting systems and bills discounting), and making these financial resources available to the borrowers (deficit units) through loans and advances, and when they (the banks) invest in securities. These functions have remained the primary role and main business of every banking industry in the world. It has helped in accelerating the pace of a nation's economic growth and its long-term sustainability. But, in conducting these intermediating roles, the banks are invariably exposed to credit risk that may have a potential direct and indirect influence on their performance (Erhabor & Ofiafoh, 2020).

According to Gana *et al* (2022), credit risk refers to the probability of incurring losses resulting from non-payment of a loan (principal and/or interest) by a debtor. The risk is more common in the financial industry principally the banking sector. It is a major risk encountered by commercial banks. The Nigerian banking sector witnessed financial booms in the late 1990s. However, as the numbers of the actors' grow significantly in the system, the banks experienced increase in non-performing loan and this contributed significantly to the financial agony of the sector. In addition, the presence of greedy debtors who often abandon their debt responsibilities in one bank only to contract new debts in other banks also contributed to the mess. This could be attributed to the exponential increase in the number of banks as against the prevailing capacity of the human resources of the banks. This gave birth to a number of other problems including poor asset quality, inadequate credit appraisal, and corruption. Consequently, the number of distressed banks increased. Apochi & Baffa (2022) also attributed the excessive rate of non-performing loans to low level of corporate governance. Malik and Shafie (2021) argued that the need for Corporate Governance such as risk management committee (RMC) is crucial in that it places explicit emphasis on managing risk activities due to the growth in market risk intensity which also often affects other sectors of the economy. In Nigeria, the Central Bank of Nigeria code on Corporate Governance (2014) clearly states the roles and responsibilities of the bank's board toward risk management framework. The code highlighted for the Board to have a system which effectively identifies, measures, monitors, controls and manages risks. This shows how important risk management committee is to the banks. Thus, good credit risk policy is an important pre-requisite for banks' performance and capital adequacy maintenance in any economy. Deposit Money Banks (DMBs) in Nigeria have encountered several challenges over the years due to relaxed credit standards for borrowers. This worsens the credit standing of bank's counterparties and customers thus leading to default in honoring outstanding credit obligations.

Therefore, bank performance is the ability of banks to make profit from all business activities. Safii, (2019) indicated that financial performance is one instrument to assess the success or failure of a bank. Thus, a bank can be successful if it can achieve the set objectives of its banking to the maximum. Furthermore, the survival of banks can be maintained, if they are willing to mitigate the credit risk with various precautionary measures. Credit risk arises from non-performance by a borrower from the bank, this may arise from either as a result of inability or an unwillingness to perform in the pre-commitment contracted manner Bencharle & Nwankwo (2021). However, an effective risk management is crucial for banks.

The motivation for this study is due to the economic crisis that occurred in 2020 as a result of the COVID 19 outbreak and the global economic dislocation aftermath which has negatively affected financial institutions and other sectors of the economy, Also the Russia-Ukraine crisis which affected the global economy of which Nigeria was not left out as the increase in crude oil and gas prices brought about a corresponding increase in the pump price of petroleum products locally and this gave rise to capital outflows, decreased economic activities and dampened returns on investment particularly in the oil sector which has indirectly affected the banking sector in terms of credit facility. In addition, the loan to the oil and gas sector is about 30% of the total risk assets in the banking sector as at 2022 (Central Bank of Nigeria Bulletin, 2022). The asset quality of commercial banks in Nigeria was adversely affected and this was attributed to high rate of foreign exchange, and high cost of power as a result of global crude oil downturn and the non-performing loan ratio of banks which jumped to 5.3% in April 2022 from 4.84% in February 2022 (CBN report, 2022). However, Non-performing loans (NPLs) which arise due to loan default (credit risk), is the major challenge faced by DMB's in Nigeria (CBN, 2020). This further necessitated the

Central bank of Nigeria (CBN) to design several policies and frameworks to guide the banks in Nigeria against the repeat of the 2008 global financial and economic meltdown through the banking reforms. The 2020 CBN reform immediately brought the idea that commercial banks should hold substantial amount of capital that would make them survive when such economic crisis occur again and ensure strict compliance with CBN credit risk management system. However, the 2018 CBN forensic audit report that led to the collapse of Skye Banks Plc has continued to raise concern to stakeholders in Nigeria (CBN, 2018). Furthermore, the merger of Access bank Plc and Diamond Bank Plc in 2019 as result of liquidity challenge which arose due to poor credit management. In 2021, the first bank Plc was faced with the challenge of non-performing loans which further negatively affected market shares of the bank has further necessitated the need for examining the mediating role of risk management committee on the relationship between credit risk and performance of DMBs in Nigeria. The driving force for this study is the fact that financial intermediation which is the core function of financial institutions/intermediaries which involves transfer of funds from surplus economic units to deficit economic units, like every other business, is faced with several risks factors, major among them is credit risk. This is so because credit is the major product of financial intermediation and credit risk is the consequence. Credit risk has a direct effect on the value and performance of the financial intermediaries and can erode the capital base of the banks if not mitigated. Coupled with the current licensing of banks in Nigeria, and the fact that some banks fragrantly violate the prudential guidelines by mismanaging credit such that even the international banks have started losing their licenses, it becomes necessary to reawaken bank management to the fact that lending should be based on need and not frivolity, personal interest or political connection/expectation.

1.2 Statement of the Problem

Banking is a business, and like all other businesses that are set up for profit maximization. It must be emphasized that banks earn incomes from their intermediary functions by paying less interest on deposit and charging high interest on loans. However, no investor can maximize his or her returns without engaging in risk; thus, as banks intermediate, they face a series of risks, such of which is credit risk. If banks avoided these risks to minimize failure rates to zero, they would limit the purpose of the banking system to promote investors' market value, which at the same time would be detrimental to the sustainability of the financial system (Erhabor & Ofiafoh, 2020). Numerous efforts have been made by the central bank of Nigeria regarding credit risk management among which are; establishment of the credit risk management framework in 2014, guideline on loan loss provision in 2012, implementation of the international financial reporting standard (IFRS) in 2018 among others, this is to ensure that deposit money banks effectively manage their credit risk and enhance their performance (Edor, 2023).

However, the result from previous researcher on the relationship between credit risk and deposit money banks performance is mixed, Ikpe & Ekwere (2021); Kankpang *et al* (2021); Edor (2023) found a positive relationship between credit risk and deposit money banks performance while Omorokunwa & Ogbeide (2022) found a negative relationship between credit risk and banks performance.

Therefore, despite the findings of previous researchers on this topic, the relationship between credit risk and deposit money banks performance is yet to be ascertain thereby causing the academia and policy makers to further investigate the issue due to the unresolved nature of the relationship between these two variables. This study however, is structured to fill this gap by empirically investigates the effect of credit risk on the performance of deposit money banks in Nigeria.

1.3 Objectives of the Study

The main objective of this study is to evaluate the effect of credit risk on the performance of deposit money banks in Nigeria. The specific objectives are; To evaluate the effect of non-performing loans (NPL) on the total asset (TA) of deposit money banks in Nigeria, To evaluate the effect of loan loss provision (LLP) on the total asset (TA) of deposit money banks in Nigeria, and to evaluate the effect of loan and advance (LAA) on the total asset (TA) of deposit money banks in Nigeria.

2.0 Literature Review

2.1 Conceptual Review

2.1.1. Credit Risk

Risk is a measure of the level of uncertainty in an event or activity. It is the likelihood of a negative outcome. In finance, it can be defined as the probability that actual return on investment will be different from expected return. According to Kankpang *et al* (2023) Credit risks are losses occasioned by the failure of a bank customer to effect the payment of interest and principal amount owed on time and in full. Owojori et al. (2011) posits that available statistics from liquidated banks showed that inability to collect loans and advances extended to customers and creditors or companies related to directors or managers was a major contributor to the distress of liquidated banks in Nigeria. With the collapse of deposit money banks in Nigeria, one would wonder the best strategy a deposit money bank can adopt to completely eliminate credit risk or loan defaults. Credit risk management strategies are issues of concern in deposit money banks today and there is need to come up with improved strategies to deliver better results for future performance (Ikpe & Enang, 2021). Credit risk is an example of financial risk which arises when the possibility of repaying loans or bonds is impaired as a result of specific or general events that affect the expected cash flow that could have aided the repayment by borrowers to banks or any other financial institutions. Credit risk is also known as default risk. This means a situation where a borrower fails to fulfill his obligations to the lender either in part or in full. According to Edor (2022) credit risk is the possibility of losing money due to the inability, unwillingness, or untimeliness of counterparty to honor a financial obligation. Besides, Basel Committee (1999) identified credit risk as the uncertainty factors that expose the inability of a party to a contract to meet its maturing obligations to the bank in line with the agreed terms. Omorokunwa & Ogbeide (2022) sees credit risk as sudden negative effect of indicators of financial soundness on the performance of banks. A lot of factors that are either specific or general in nature interact to bring about credit risk. The specific factors are internal to the firm (borrower) involved and can be managed through credit portfolio diversification whereas the general factors (that is, macroeconomic factors) are caused by the changes in the economy such that every participant in the economy is affected.

Credit risk management

Credit risk management has become an important subject of discourse in the present turbulent financial environment. Consequently, the banking sector being the cardinal focal institution that is heavily depended on by other sectors of the economy as a source of short credit facility is often confronted with the challenges of effective credit management and its impact on their overall performance (Omorokunwa & Ogbeide, 2022); Erhabor & Ofiafoh, 2020). The dynamic nature of the global financial system and high rate of loan defaults heightened credit risk for deposit money banks which transmit to their adverse financial performance in the long run. Risks are the uncertainties that significantly determine the performance of banks (Ajao & Oseyomon, 2019). According to Basel Accords, banks face various types of risk but credit risk seems to be outstanding due to its impact on financial performance. Credit risk is the possibility of loss arising from the default of borrower inability to settle their maturing obligation in terms of loans as at when due. Banks usually redistribute their liquidity in terms of credit to borrowers, which is needed to be paid back by the borrowers. However, the possibility of repayment as at when due by the borrowers is not fully guaranteed, hence, default in repayment is always there for the banks on lend loans due to unfavorable and turbulent business environment confronting the customers taking the loans. Sequel to the increasing incidence of huge debts profile in the banking sector, gross insider abuses, non-adherence to established credit policies, the credibility and competence of most bank management team have been subject of debate in recent time.

The major focus of risk management is targeted on minimizing earnings fluctuation and substantial loss reduction. There is need to adopt a standardized procedure of identifying, measuring and quantifying risk as well as developing strategies to manage risk effectively (Gestel & Baesens, 2008). Identifying and analyzing the potential sources of risk is one of the most important steps in risk management, then there is need for statistical analysis to measure and quantify the default probability associated with the identified risk (Gestel & Baesens, 2008). The next step is treatment of risk through risk reduction and risk transfer. Risk reduction involves reducing the proportion of risk through the use of collateral to reduce the actual loss while risk transfer implies transmitting risk to other institutions such as banks (through loan syndication) and insurances (risk underwriting) (Ajao & Oseyomon, 2019).

Performance of Deposit Money Bank in Nigeria

The performance of Deposit Money Banks (DMBs) in Nigeria has been significantly influenced by the implementation of effective credit risk practices. According to Osuji and Ogbuji (2020), the proper identification, assessment, and management of credit risk are critical in maintaining the stability and profitability of DMBs in Nigeria. These banks face a multitude of challenges such as loan defaults, economic volatility, and regulatory changes, which can impair their financial health. Efficient credit risk management practices, such as credit scoring models and collateral management, have been shown to mitigate these risks and improve the financial performance of these institutions (Adeusi *et al,* 2023).

In Nigeria, the regulatory framework provided by the Central Bank of Nigeria (CBN) plays a pivotal role in shaping the credit risk management practices of DMBs. Okoye and Eze (2018) noted that banks that align their credit policies with the regulatory guidelines of the CBN tend to perform better, both in terms of profitability and in reducing non-performing loans (NPLs). According to Ajao *et al* (2019) the use of appropriate credit risk assessment tools, help deposit money banks avoid significant credit losses, thereby enhancing their financial stability. In contrast, poor credit risk management strategies, such as inadequate loan evaluation and monitoring systems, have been identified as key contributors to the decline in bank performance.

Furthermore, the relationship between credit risk management and the financial performance of DMBs in Nigeria has been explored in various studies. According to Nwachukwu and Nwokike (2019), banks with robust credit risk management frameworks are able to sustain profitability despite adverse economic conditions. They emphasize that a proactive approach to credit risk management, involving regular stress testing and portfolio diversification, is essential for sustaining performance in the face of economic downturns. Therefore, effective credit risk management not only ensures regulatory compliance but also strengthens the competitive position of Nigerian DMBs in a rapidly evolving financial landscape.

Credit Risk and Deposit Money Banks Performance.

Credit risk is one of the most critical risks faced by deposit money banks (DMBs) in Nigeria, primarily due to the nature of their business, which involves extending credit to individuals, businesses, and government entities. Credit risk arises when borrowers fail to fulfill their loan obligations, leading to non-performing loans (NPLs) and ultimately affecting the profitability and financial stability of banks. Empirical evidence has shown that high levels of credit risk significantly impair bank performance, especially in economies like Nigeria, where credit management practices can be weak and regulatory frameworks inconsistently enforced (Uwaleke & Omodero, 2021). Hence, banks with poor credit risk control often report reduced returns on assets (ROA) and equity (ROE), indicating a direct link between asset quality and profitability.

In recent years, studies have found that the performance of Nigerian banks is inversely related to the volume of non-performing loans. As NPL ratios increase, bank profitability tends to decline, largely due to the rising cost of loan loss provisions and impaired loan recovery processes (Nwanyanwu, 2022). Moreover, macroeconomic instability, such as inflation and currency depreciation, often exacerbates credit risk exposure in Nigeria, thereby threatening the quality of banks' loan portfolios. The Central Bank of Nigeria (CBN) has continued to enforce prudential guidelines and capital adequacy requirements to mitigate credit risk, but compliance and effective implementation remain key challenges for many banks.

Furthermore, efficient credit risk management has been identified as a strategic driver of sustainable bank performance. According to Okonkwo, Eze, and Ezeabasili (2023), Nigerian banks that implement robust credit appraisal systems, continuous monitoring, and customer risk profiling tend to experience better financial outcomes than their counterparts. The adoption of Basel II and III standards by Nigerian banks has also enhanced risk management practices, although the pace of full compliance is still evolving. the relationship between credit risk and bank performance in Nigeria is strongly negative; managing credit risk effectively is essential for ensuring financial stability, maintaining investor confidence, and promoting long-term profitability in the Nigerian banking sector.

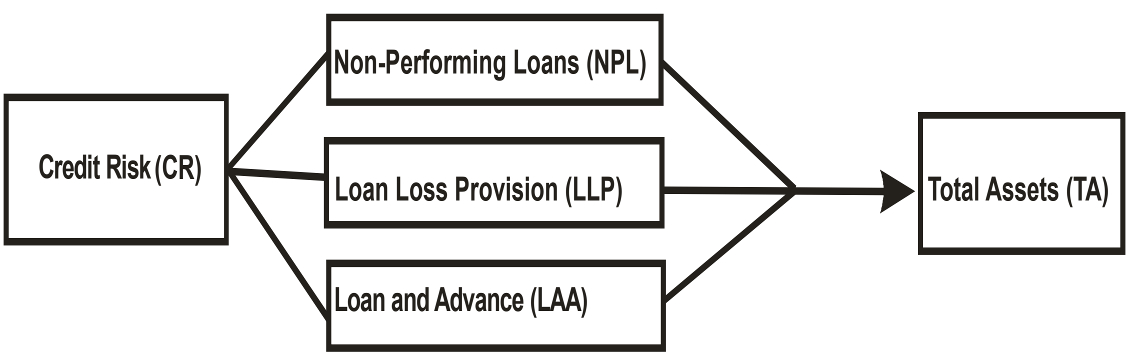

Fig 1.1: A schematic diagram showing how the independent variables influence the dependent variable.

2.2 Theoretical Review

Financial Distress Theory

This theory was propounded by Baldwin and Scott's (1983). The Financial Distress Theory of Banks explains how banks, as financial intermediaries, may experience distress when they are unable to meet their short- or long-term financial obligations due to internal inefficiencies or external economic shocks. It emphasizes that banks are particularly vulnerable to distress because

they operate with high financial leverage holding large amounts of debt relative to equity and rely heavily on public trust and liquidity. Theory of financial distress is pivotal to the financial performance of banks, as banks need to stay healthy to continue their business of financial intermediation. However, according to this theory, financial distress lurks at the corner when banks begin to show signs of inability to meet their financial obligations at due dates. It is imperative for banks to ring-fence their financial health from vulnerable circumstances such as systemic shocks from the incidence of COVID-19 and poor monitoring of risks and financial performance (Berger and Pukthuanthong 2012, 2016; Proag 2014; Wruck 1990). Arguably, the biggest challenge of a bank is not much of credit default but the ebbing aftermaths of credit defaults, such as not being able to honor depositors' withdrawal due to poor liquidity, which may culminate in a bank run (this is a situation when a bank's depositors make unusual cash withdrawals due to suspicion that the bank is going to go bankrupt or insolvent). If this occurred, it could cripple a bank's liquidity, cash reserve ratio, and capital adequacy ratio and eventually cause its collapse.
The theory holds the following assumptions;

i. Banks operate with a high proportion of debt (mostly customer deposits), making them vulnerable to financial distress if their income drops or loan defaults rise.
ii. When banks accumulate too many non-performing loans or risky assets, their ability to meet financial obligations weakens, leading to distress.
iii. Once customers and investors lose confidence in a bank often due to signs of poor performance or risk, withdrawals and panic can trigger or worsen financial distress.

Empirical Review

Aliyu *et al* (2024) examined the effect of credit risk on the financial performance of listed deposit money banks in Nigeria. The study adopted correlational research design and used secondary data sourced from Nigeria Exchange Group (NXG) from 2014 to 2023. The data collected were analysed using generalized least square (GLS) regression analysis. The findings reveal that the capital adequacy ratio had a positive effect on the financial performance of listed deposit money banks in Nigeria. Based on the findings, the study concludes that the capital adequacy ratio affects financial performance positively. The study therefore recommends among others, that the Central Bank of Nigeria (CBN) committee on credit risk management should monitor Deposit Money Banks credit risk threshold for absolute compliance.

Kankpang *et al* (2023) examined credit risk and profitability of deposit money banks in Nigeria. The study adopted ex-post facto research design and used secondary data sourced from Central Bank of Nigeria's statistical bulletin and Nigeria's bureaus of statistics. Ordinary least square of multiple regression techniques was used for analysis. The study found the existence of significant influence of liquidity risk and non-performing loans on profitability of deposit money banks in Nigeria.

Edor (2022) examined the risk management implications on the performance of deposit money banks in Nigeria. This study focuses on those risk management practices and bank's financial performance in Nigeria. Secondary data sourced was based on a 7year progressive annual reports and financial statements of 5 banks. The VECM was adopted to analyze the data collected. They found a significant relationship between banks performance and risk management.

Omorokunwa & Ogbeide (2022) investigate the effect of credit risk management on the profitability of quoted deposit money bank in the Nigerian capital market. The panel regression system was applied in the estimation of the panel data from 2006 to 2018 covering 12 banks in Nigeria. The ARDL technique of data analysis was adopted. The result of the empirical tests showed a significant relationship between credit management and bank performance. The bank non-performing loan ratio had an indirect (negative) relationship with the performance of the banks. On the other hand, a bank loan to deposit ratio had a direct impact on the performance of banks in Nigeria. However, bank leverage did not have any impact on the performance of the banks in Nigeria.

Gana *et al,* (2022) examines the effect of credit risk on financial performance of listed money deposit banks in Nigeria. The study adopts correlation research design and utilized secondary data extracted from the published accounts of the 14 listed money deposit banks in Nigeria from 2011 - 2020. Ordinary least square of Multiple regression technique was used for data analysis and results revealed LLP and CAR as having a direct and significant relationship with ROE, while NPLR and LATD have an insignificant effect on ROE.

Apochi & Baffa (2022) examined the risk management committee's role on the effect of credit risk on financial performance of 13 deposit money banks in Nigeria from 2012 to 2021. Finance distress theory was adopted for the study. The study adopted census sampling technique. VECM was used to analyze the panel data. The multiple regression result revealed that credit risk has a negative and significant effect on financial performance. The moderating role of risk management committee revealed that credit risk has a positive and significant impact on financial performance of deposit money banks in Nigeria.

Methodology

Research Design

This study adopted ex-post facto research design which uses basically already existing data (Obiageli, 2021).

Model Specification

The model that is used in this study is adopted from Apochi & Baffa. (2022) to ascertain the effect of credit risk on deposit money bank performance.

The model is given as:

TA = (NPL, LLP, LAA) .... (1)

The regression form of the model is specified thus:

$TA = \beta_0 + \beta_1 NPL + \beta_2 LLP + \beta_3 INR + \beta_4 LAA + \varepsilon$.................................. (2)

Where;

TA = Total Assets; NPL = Non-Performing Loans; LLP = Loan Loss Provision; LAA = Loan and Advance; ε = Error term; $\beta_0 + \beta_4$ = Beta coefficient

Method of Data Analysis

The Ordinary Least Square (OLS) technique involving multiple regression analysis is adopted here to evaluate the extent to which elements of credit risk impacts on performance of deposit money banks in Nigeria. The choice of this technique is on the premise that the OLS is assumed to be the best linear unbiased estimator. The analysis is done with the aid of E-views 12.

Data Analysis and Discussion of Findings

Descriptive statistics

Table 4.1: **Descriptive Statistics**

Variables	**TA**	**NPL**	**LLP**	**LAA**
Mean	14256.48	13.22742	581.1116	9765.133
Std. Dev.	15539.29	8.468175	818.1079	10916.57
Observations	31	31	31	31

Source: Author's Computation, (2025) from E-views 8

The results of the descriptive statistics as presented in table 4.1 revealed that all the variables except NPL have considerable high mean values in the distribution of the series. Of all the variables NPL has the lowest mean value of 13.48000. The standard deviation show how far the values are from the mean, from the findings above, all variables have a fair deviation from the mean.

Unit Root Test

The unit root test was conducted using the Augmented Dickey-Fuller (ADF) test to find out whether the variables exhibit unit roots property. The table below shows this:

Table 4.3: Summary of Unit Root Test Results

Variables	**ADF Test Statistic**	**95% Critical ADF Value**	**Order of Integration**	**Remarks**
TA*	-7.533185	-2.971853	1(0)	Stationary
NPL*	-6.259774	-2.971853	1(0)	Stationary
LLP*	-5.509535	-2.976253	1(0)	Stationary
LAA*	-4.214614	-2.967767	1(0)	Stationary

Source: Author's computation, 2025 using E-view 8.0* indicates significant at 5% levels.

From table 4.3, it is seen that all of the variables are stationary at levels. This is confirmed from the ADF test statistic which is greater than the 95% critical ADF values for all the variables. This shows that the time series properties of the data were relatively stable as there is no biasedness of information, indicating that the result is reliable.

Table 4.4 Least Squares Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5784.236	3309.861	1.7476	0.0919
NPL	-280.3077	169.1081	-1.6576	0.1090
LLP	4.063141	1.652929	2.458146	0.0207
LAA	1.005501	0.148397	6.775734	0.0000
R-squared		0.848419		
Adjusted R-squared		0.831577		
F-statistic		50.374		
Prob(F-statistic)		0.000000		
Durbin-Watson stat		1.532295		

Source: Author's computation, 2025 using E-view 8.0

Interpretation

From the regression result above, it can be seen that the R-square of 0.85 is very high, explaining 85 percent of the systematic variation of the effect of credit risk on the performance of deposit money banks in Nigeria is captured by the model. The model could not explain the other 15 percent as forces outside the model specification could be responsible for the unexplained percentage. The adjusted R-square of 0.83 is also very high, implying that the model has 83 percent predictive ability. The Durbin Watson (DW) statistic of 1.53 is within the acceptable range. The F-statistic is very significant and it shows the overall performance of the model.

On the significance of the individual variables, NPL is found not to have significant effect on TA (NPL Prob. 0.1090 > 0.05), LLP has significant and positive effect on TA (LLP Prob. 0.0207 < 0.05), LAA has significant and positive effect on TA (LAA Prob. 0.0000 < 0.05).

On the direction of the effect of the independent variables on the dependent variable, NPL has negative but not significant effect on TA. A unit increase in NPL will result in 280% reduction in TA. LLP has a positive significant effect on TA. A unit increase in LPP has a positive effect of 406% on TA. LAA also has a positive significant effect on TA. A unit increase in LAA will result in 100% direct and consequential increase in TA. This can be mathematically expressed as:

$$TA = 5784.236*C - 280.3077*NPL + 4.063141*LLP + 1.005501*LAA$$

From the empirical analysis the study therefore states that credit risk has significant effect on the performance of deposit money banks in Nigeria (NPL Prob. = 0.1090>0.05). Loan loss provision (LLP) has significant positive effect on the performance of deposit money banks in Nigeria as measured by total assets (LLP Prob. = 0.0207 < 0.05). Also, loan and advance significantly has positive effect on the performance of deposit money banks in Nigeria (LAA Prob. 0.000 < 0.05).

Test of Hypotheses

Ho1: There is no significant effect of nonperforming loans on the performance of deposit money banks in Nigeria.

The regression table above revealed that nonperforming loans has the probability value of 0.1090 which is above the threshold of 0.05. This implies that null hypothesis one is accepted, while alternate hypothesis one is rejected. Therefore, the study concluded that nonperforming loans does not significantly impact on performance of deposit money banks in Nigeria.

Ho2: Loan loss provision has no significant effect on the performance of deposit money banks in Nigeria.

From the regression table above, it is observed that loan loss provision has a probability value of 0.0207 which is below the threshold of 0.05. This implies that null hypothesis two is rejected, while alternate hypothesis two is accepted. Therefore, the study concluded that loan loss provision has a significant impact on the performance of deposit money banks in Nigeria.

Ho3: Loan and advance have no significant effect on the performance of deposit money banks in Nigeria.

From the regression table above, it is observed that loan and advance have the probability value of 0.0000 which is below the threshold of 0.05. This implies that null hypothesis three is rejected while alternate hypothesis three is accepted. Therefore, the study concluded that loan and advance have a statistically significant impact on the performance of deposit money banks in Nigeria.

Discussion of Findings

It can be seen from the result of the study that nonperforming loans do not have significant effect on the performance of deposit money banks in Nigeria. Nonperforming loans in the result is not significant in the model estimation. The relationship is though negative but it is not significant as revealed from the table above. This finding is consistent with Bencharles & Nwankwo (2021) who examined the impact of credit risk on deposit money banks stability from 2009 to 2019.

Also, as can be observed from the result in the table above, loan loss provision was significant in the model. The relationship between loan loss provision and the performance of deposit money banks in Nigeria is positive and significant. This implies that loan loss provision has significant influence on the performance of deposit money banks in Nigeria. This finding is similar to the findings of Gana et al et.al (2022).

It is observed from the result in the table above that loan and advance have significant relationship with the performance of deposit money banks in Nigeria in the model. The relationship is positive and significant. This implies that the higher the level of loan and advance, the higher the performance of deposit money banks in Nigeria. This finding is consistent with economic literature and theory that the highest earning asset of deposit money banks in Nigeria is the loan portfolio.

Conclusions and Recommendations

The banking sector in Nigeria needs special attention in view of the spate of banks failures the sector has witnessed over the years and the critical role played by the sector in facilitating economic development. As the study observes, a number of banks failures are caused by the inability of the banks to effectively manage their credit risk. The negative effect of nonperforming loans on the performance of deposit money banks in Nigeria as revealed in this study cannot be overemphasized.

Based on the findings of the study, the following recommendations were therefore made;

i. The Central Banks of Nigeria (CBN) as the major regulatory authority of the Deposit Money Banks (DMBs) in Nigeria should formulate policies that would help to reduce the incidence of high proportion of nonperforming loans among deposit money banks in Nigeria thus effectively reducing exposure to credit risk.
ii. Deposit Money Banks should ensure that they make adequate provision for loan loss and bad debt when they occur. This is so because frequent occurrence of the incidence of loan loss and bad debt can lead to bank failure.
iii. The bank loan officer should properly scrutinise any application for loan and advance since they are the highest earning assets of deposit money banks to ensure that there is adequate provision of collateral security to guarantee prompt loan repayment and avoid incidence of loan repayment default.

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