

**THE EFFECT OF CREDIT RISK INDICATORS ON STABILITY OF LISTED
DEPOSIT MONEY BANKS IN NIGERIA**

Umar Salim Ibrahim.

Department of Accounting, Faculty of Management Sciences
Federal University Dutse, Jigawa State, Nigeria
salimumar11@yahoo.com

Hamza Umar Muhammad

Department of Accounting, Faculty of Management Sciences
Federal University Dutse, Jigawa State, Nigeria

Idris Hauwa Jibrin

Department of Accountancy, Collage of Business and Management
Kaduna Polytechnic

Jamilu Madaki

Department of Accounting, Faculty of Management Science,
Federal University Dutse, Jigawa State. Nigeria

Abdullahi Zaharadeen Musa

Department of Accounting, Faculty of Management Science,
Federal University Dutse, Jigawa State. Nigeria

Najib Muhammed Sani

Department of Accounting, Faculty of Management Sciences
Federal University Gusau, Zamfara State, Nigeria
<https://doi.org/10.57233/gujaf.v7i1.31>

Abstract

This study examined the effect of credit risk indicators on stability of listed deposit money banks in Nigeria. The relationships between the loan-to-deposit ratio and provisions for doubtful debts on liquidity ratio. Quantitative research design was utilized, and the study analyzes panel data from 11 listed deposit money banks for the period of ten years from 2011 to 2021. Fixed and random effects were used for the regression analyses. The findings provide a significant positive relationship between the loan-to-deposit ratio and the liquidity ratio, suggesting that improved credit risk management through effective lending practices enhances banking stability. Conversely, the analysis highlights that provisions for doubtful debts do not significantly affect liquidity ratios, revealing gaps in current risk management frameworks. These insights underline the need for policy recommendations that enhance the loan-to-deposit ratio and improve provisions for doubtful debts to support the banking system's stability in Nigeria. This study contributes to the broader discourse on financial stability, providing empirical evidence and actionable strategies for risk managers and policymakers in navigating the complex financial landscape.

Key Words: Liquidity Ratio, Loan to Deposit Ratio, Provisions for Doubtful Debt and Risk Management.

1.0 Introduction

The stability of the banking system is not merely a matter of institutional resilience; it serves as a foundational bedrock for economic growth and financial development, particularly in the context of emerging economies such as Nigeria (Farhat, 2023). In these settings, banks act as indispensable financial intermediaries, bridging the gap between savers who wish to invest their excess funds and borrowers who require capital for productive purposes (Subramanian & Kumar 2022). This intermediate is pivotal as it fosters investments that drive economic activity, create jobs, and enhance the overall prosperity of nations. However, the effective functioning of the banking sector is inextricably linked to the soundness of its credit risk management practices. Bhatt et al. (2023) deficient credit risk management has been a critical factor in precipitating banking crises around the world, spotlighting the importance of robust risk management strategies for regulators, policymakers, and banking institutions alike.

In Nigeria, the landscape of the banking sector has been marked by considerable volatility over the last few decades, driven by a combination of macroeconomic fluctuations, regulatory reforms, and inherent institutional weaknesses (Sani et al., 2022). The country's financial system has not only weathered the storms of economic challenges but has also been shaped by legislative efforts aimed at fortifying the banking framework. The Central Bank of Nigeria (CBN) has taken significant strides to enhance the regulatory environment, including the adoption of Basel II and III standards and the implementation of risk-based supervision (Iwedi et al., 2023). Despite these reforms, the banking sector continues to grapple with persistent challenges in credit risk management. Key issues such as excessively high levels of non-performing loans (NPLs), frail corporate governance structures, and inadequacies in risk assessment methodologies remain prevalent, undermining the potential for sustained.

The banking crisis of 2009 serves as a stark reminder of the catastrophic consequences stemming from ineffective credit risk management. This crisis precipitated a substantial government intervention that included the bailout and consolidation of various banks, underscoring the urgency of addressing credit risk vulnerabilities (Makinen, 2021). While subsequent reforms have bolstered transparency and stability within the sector, concerns about the adequacy of credit risk management frameworks across commercial banks continue to linger. Additionally, the ever-evolving economic environment characterized by oil price volatility, fluctuating currency rates, and recent global disruptions such as the COVID-19 pandemic has exerted further pressure on credit portfolios, complicating the already intricate landscape of risk management (Machado, 2025).

This study aims to critically assess the impact of credit risk management on the stability of the banking system in Nigeria. By meticulously examining the extent to which effective credit risk practices bolster the resilience of the financial system, the research intends to provide empirical insights drawn from a comprehensive analysis of Nigerian banks. Furthermore, the study seeks to identify and dissect key risk indicators that contribute to the broader understanding of credit risk dynamics, while also evaluating the pivotal role of regulatory oversight in reinforcing sound banking practices. The ultimate goal is to furnish policy recommendations that enhance

financial stability and fortify the banking sector against potential disruptions (Enekwe, Okonkwo, & Nweze, 2023).

In addressing these pressing concerns, the research contributes significantly to the larger discourse on financial stability, particularly within developing economies like Nigeria. It aims to offer valuable insights and pragmatic solutions that are critical for risk managers, financial regulators, and banking professionals navigating the complex and rapidly evolving financial landscape. As the banking sector adapts to new challenges and uncertainties, a robust understanding of credit risk management will be essential in safeguarding not only the integrity of financial institutions but also the broader economic prosperity of the nation (Kun & Duo, 2014). According to Apochi and Baffa (2022), despite ongoing reforms and regulatory efforts by the Central Bank of Nigeria (CBN) to stabilize the banking sector, Nigerian banks continue to grapple with challenges related to credit risk management. High levels of non-performing loans (NPLs), inadequate credit assessment procedures, and weak enforcement of lending standards have exposed the sector to recurring financial instability. These challenges raise critical concerns about the effectiveness of current credit risk practices and their role in sustaining banking system stability. While the relationship between credit risk and bank outcomes has been widely examined, limited attention has been given to how specific indicators such as the loan-to-deposit ratio and provision for doubtful debts influence bank stability. Existing studies often treat credit risk using broad or composite measures, thereby overlooking the distinct and potentially divergent effects of these key indicators. The loan-to-deposit ratio, which reflects banks' liquidity risk and lending aggressiveness, and provisions for doubtful debts, which capture expected credit losses, are rarely analyzed jointly in relation to stability. Moreover, prior research tends to emphasize profitability rather than stability, leaving a gap in understanding how these variables affect the resilience of banks to financial distress. In the Nigerian context, empirical evidence remains scarce and fragmented, particularly for listed deposit money banks, which play a critical role in the financial system. Therefore, a focused investigation of these credit risk indicators is necessary to provide deeper insights into their implications for bank stability.

The stability of deposit money banks has become a critical concern in both developed and emerging economies, particularly in the aftermath of recurring financial crises and rising non-performing loans. In Nigeria, listed deposit money banks play a pivotal role in financial intermediation, economic growth, and the overall stability of the financial system. However, increasing exposure to credit risk arising from loan defaults, poor credit appraisal, and macroeconomic volatility continues to threaten their soundness and resilience. Credit risk indicators such as non-performing loan ratio, loan loss provisions, and loan-to-deposit ratio have therefore gained significant attention as key determinants of bank stability. Understanding how these indicators influence the stability of listed deposit money banks in Nigeria is essential for regulators, investors, and policymakers seeking to strengthen the banking sector and ensure sustainable financial performance. Moreover, the economic volatility in Nigeria, driven by fluctuating oil prices, exchange rate instability, and inflation, further exacerbates the exposure of banks to credit defaults (Ejem et al., 2023). While various studies have examined financial

performance and regulatory compliance, there is a limited body of empirical research specifically assessing how credit risk management practices directly influence the stability of banks in the Nigerian context. This necessitates a comprehensive analysis to evaluate whether existing credit risk management frameworks are adequate to safeguard the banking system. Addressing this problem is essential for enhancing the resilience of financial institutions and ensuring long-term economic growth in Nigeria.

Several of study examine the credit risk management on banking system stability in both developing and developed economy but the results is still characterize with mixed findings or dearth outcome for example (Odebode et al., 2024; ungo et al., 2024; Ozili et al., 2023; Amodu & Onuora, 2023; Ajudua, 2023; Samuel et al., 2023; Adeleke & Awodumi 2018). They also claimed that credit risk is the most serious threat to a bank's financial stability and the leading cause of banking system failure. In line with the above rationale, the study focused on the loan-to-deposit ratio and provision for doubtful debt. The following hypotheses were formulated alternative form; there is significant relationship between loan to deposit ratio and loan provision for doubtful debt on banking system stabilityof listed deposit money banks in Nigeria.

2.0 Literature Review

Credit risk management is essential for all businesses, particularly banks that deal with large volumes of cash resources. Lending constitutes the primary income-generating activity of banks, and the fundamental principle guiding lending operations is the management and mitigation of risk by evaluating a borrower's capacity and willingness to repay the borrowed funds. A key initial stage in credit risk management involves assessing the probability of default, which is commonly done by examining the borrower's past credit behavior and income level (Hillson, 2014). Credit management policies, on the other hand, assist financial institutions and credit departments in the extension of credit privileges governed by rules and guidelines established by top management, and every credit granted attracts interest in the banking industry, making bank lending operations risky but profitable. Effective, strategic credit and liquidity management is essential to limit this inherent risk in banking activities, resulting in more frequent gains (Kargi, 2011). It's also worth noting that a bank's policy judgments on the sort and number of loans it will issue, as well as who it will lend to and under what terms and conditions, all require solid policy decisions.

Measurement of Credit Risk Management

The effectiveness of credit risk management in banks is commonly evaluated using key financial ratios that reflect the quality of loan portfolios and the level of risk exposure. These indicators provide insights into how well banks manage their credit activities and maintain financial stability. Among the most widely used measures are the non-performing loan ratio, loan-to-deposit ratio, and debt-to-equity ratio (Saunders & Cornett, 2018).

In the Nigerian banking context, commonly used indicators include the non-performing loan ratio, loan-to-deposit ratio, and debt-to-equity ratio. Each of these metrics captures a different

dimension of credit risk. The non-performing loan ratio reflects the quality of the loan portfolio, the loan-to-deposit ratio indicates the extent of lending relative to available funds, and the debt-to-equity ratio shows the bank's financial leverage and capacity to absorb losses. Together, these indicators provide a comprehensive framework for evaluating credit risk management practices and their impact on bank stability.

The non-performing loan ratio

The non-performing loan ratio is one of the most important indicators of credit risk in the banking sector. It measures the proportion of loans that are in default or close to being in default relative to total loans and advances (Ajayi & Ajayi, 2017). A high NPLR indicates poor credit quality and ineffective credit risk management, as it reflects a larger share of loans that are not generating income for the bank. Conversely, a low NPLR suggests better loan performance and stronger credit monitoring systems. In Nigeria, the NPLR is closely monitored by regulators as it directly impacts bank stability and investor confidence (Bhattarai, 2016). The ratio serves as a key benchmark for assessing the health of the banking sector. High levels of non-performing loans in the past have contributed to banking crises in Nigeria, underscoring the importance of maintaining strict credit risk controls and robust loan recovery mechanisms.

Loan-to-deposit ratio

The loan-to-deposit ratio measures the proportion of a bank's loans relative to its total deposits. It indicates how much of the deposit base is being utilized for lending activities. While a higher LDR may suggest increased income generation through lending, it also exposes banks to higher credit risk and liquidity challenges Ugwu and Agada (2024). On the other hand, a very low LDR may indicate underutilization of resources. Therefore, maintaining an optimal LDR is essential for balancing profitability and risk, ensuring that banks remain liquid while effectively managing credit exposure.

In Nigeria, the Central Bank of Nigeria has at various times set minimum or target LDR thresholds to encourage lending to the real sector of the economy. However, banks must balance this requirement with prudent risk management to avoid excessive credit exposure. An optimal LDR reflects a balance between risk and return, ensuring that banks remain both profitable and financially stable.

Debt-to-Equity Ratio

Debt-to-equity ratio assesses the level of a bank's financial leverage by comparing its total liabilities to shareholders' equity. Although commonly used to measure financial structure, it also has implications for credit risk management (Chukwu et al., 2023). A high DER indicates that a bank relies heavily on borrowed funds, which may increase its vulnerability to financial distress, especially in periods of high loan defaults. A lower DER suggests a stronger capital base and greater capacity to absorb losses arising from credit risk. Thus, maintaining a balanced capital structure is essential for effective risk management.

Concept of Credit risk management

Credit risk management refers to the implementation of policies, procedures, and analytical tools to assess the creditworthiness of borrowers, set lending limits, and ensure proper loan recovery mechanisms (Miller, 2018). Effective credit risk management integrates risk assessment models, internal controls, and regulatory guidelines to minimize default risk and safeguard bank assets. In the Nigerian context, this concept is particularly important due to the dynamic economic environment and varying levels of borrower reliability.

Importance of credit risk management

Credit risk management is essential for the survival and growth of deposit money banks. First, it helps in maintaining asset quality by reducing the incidence of non-performing loans. Second, it enhances profitability, as fewer loan defaults translate into higher interest income and lower provisions for bad debts. Third, it promotes financial stability by ensuring that banks can absorb losses and continue operations during economic downturns. Additionally, effective credit risk management boosts investor confidence and strengthens regulatory compliance. In Nigeria, where the banking sector plays a pivotal role in economic development, sound credit risk practices are crucial for sustaining trust, encouraging investment, and supporting overall economic growth.

Empirical review

Law-Biaduo et al., (2024) examined the relationship between credit risk management and performance. Credit risk indicators were utilized in the study, the findings revealed that effective credit risk management significantly improves the financial performance of banks, particularly through the reduction of non-performing loans and better capital management. The study concluded that strengthening credit appraisal and monitoring mechanisms enhances both profitability and stability of deposit money banks in Nigeria. While the study concludes that credit risk management enhances both profitability and stability, the empirical analysis relies solely on return on equity (ROE) as a proxy for performance, without incorporating any direct measure of bank stability such as Z-score or insolvency risk indicators. This results in an overgeneralization of findings, as profitability does not necessarily equate to financial stability.

Ugwu and Agada (2024) investigated the effect of credit management on the financial performance of deposit money banks in Nigeria using secondary data obtained from annual reports of listed banks. The study adopted an ex-post facto research design and applied regression analysis to evaluate the relationship between credit risk variables and return on assets. The results showed that non-performing loan ratio has a significant negative effect on bank performance, while effective credit management practices contribute positively to financial stability. The study emphasized that improved loan monitoring and risk control measures are essential for minimizing default risk and enhancing the overall efficiency of the banking sector.

Similarly, Olajide et al., (2023) examined the relationship between credit risk management and performance. The study found that non-performing loans and expected credit loss provisions

significantly influence bank performance, particularly return on assets. The findings indicate that poor credit risk management practices reduce profitability and threaten the financial health of banks. Although the study highlights the significance of non-performing loans and expected credit loss provisions, it adopts a relatively narrow perspective on credit risk indicators. Key variables such as the loan-to-deposit ratio, which reflects liquidity risk and lending behavior, are not considered. This omission limits a comprehensive understanding of how different dimensions of credit risk jointly influence banking outcomes.

Chukwu et al., (2023) examined the relationship between credit risk management and performance. The study revealed that persistent loan delinquencies and high levels of non-performing loans significantly affect bank performance despite regulatory efforts. The author concluded that effective credit policies and stronger regulatory supervision are necessary to reduce bad loans and enhance banking sector stability.

Bencharles and Nwankwo (2021) examined the influence of credit risk management on deposit money bank stability and the role of corporate governance in moderating effect. The study was conducted for the period of 11 years (2009-2019), with a sample of twelve (12) deposit money banks. Statistical and empirical tests were run using annual data from sampled banks. The panel least square approaches of the pooled model, random effect (REM), and fixed effect model (FEM) were used for empirical testing, while descriptive statistics, unit root tests, and co-integration tests were used for statistical testing. Similarly, Ajayi and Myoneke (2020) investigated the influence of credit risk on bank profitability in Nigeria. The researchers used OLS to evaluate data from 2012 to 2018. The findings revealed a substantial link between credit risk (capital adequacy and nonperforming loans) and bank performance.

Theoretical Framework

The study focuses on commercial loan theory and shift ability theory. This study is underpinned by the Commercial Loan Theory and the Shiftability Theory, both of which provide a theoretical foundation for understanding liquidity management in deposit money banks. The Commercial Loan Theory posits that banks can maintain adequate liquidity by granting short-term, self-liquidating loans that are expected to be repaid within a short period. The loan-to-deposit ratio serves as a critical indicator of lending aggressiveness relative to deposit mobilization.

Commercial Loan Theory

The Commercial Loan Theory, also known as the Real Bills Doctrine, is one of the earliest theories of banking and credit management. The theory posits that banks should primarily grant short-term, self-liquidating loans that are used to finance real economic activities such as trade and production. These loans are expected to be repaid from the proceeds generated by the underlying business transactions, thereby reducing the likelihood of default (Bencharles & Abubakar, 2020). The central argument of the theory is that if banks restrict their lending to short-term commercial activities such as inventory financing, trade credit, and working capital loans the risk of non-repayment will be minimized. This is because such loans are tied to the

movement of goods and services, ensuring a continuous flow of income that supports repayment. As a result, the theory emphasizes liquidity, safety, and low credit risk as key objectives of banking operations.

The Shift Ability Theory

Moulton's shiftability theory emphasizes that commercial banks hold a significant portion of assets that can be quickly transferred to other banks without loss of capital. This concept is closely related to the commercial loan theory. However, the theory diverges from commercial loans when banks shift their focus from self-liquidating bills to more liquid assets, such as government securities, that can be easily sold or transferred to another institution (Motim et al., 2012). From this perspective, banks should maintain short-term marketable investments that can be promptly liquidated when cash is needed. Additionally, banks are required to hold assets that can be quickly transferred to the central bank during liquidity crises. Overall, the shiftability hypothesis holds validity in explaining how banks manage liquidity risk through readily transferable assets.

3.0 Methodology

The chapter explained the research, population and sample techniques, measurement of variables and model specifications. The study adopted quantitative research design, which incorporated statistical and economic models. The data is panel in nature or longitudinal because it covers a period of 10 years (2011-2021). The population of the study will consist of all the deposit money banks quoted on the Nigeria Stock Exchange as at 31st December 2021. The study sample focused banks that are listed within the study period which result in 11 deposit money banks. The data used for the study is secondary, which was retrieved from the annual financial statements of sampled Deposit Money Banks (DNBs) in Nigeria. The dependent variable is banking system stability, which will be measured Loan to Deposit Ratio (LTDR), and Provision for Doubtful Debt (PDD), and the dependent variable is liquidity ratio.

Model Specification

The model below represents the regression model to be used for the analysis. The model will explain the relationship between credit risk management and banking system stability. Models will be represented as follows:

$$Y = a + \beta_0 + Xit \dots\dots\dots (i)$$

$$LR = \beta_0 + \beta_1 LDR + B_2 PDD + \mu_i \dots\dots\dots (ii)$$

Where:

LR= Liquidity ratio

LDR= Loan to deposit ratio

PDD=provision for doubtful debt

β_0 = intersect term

μ_i = error term

β_1 - β_4 =Regression coefficient to be determined

Y = Dependent variable

X = Independent variable

a = constant
 i = number of firm under observation
 t = time

Table 1
Measurement of variables

Variables	Measurement	Source
Dependent variable		
Banking system stability		
Liquidity ratio (LR)	Security to total asset (SA) Deposit to total asset (DA) Loan to deposit (LD)	Odawo et al (2019) Vira et al., (2023)
Independent variables		
Credit risk management		
Loan to deposit ratio	Total loans divided by total deposits times 100%	Mahdi Attia jubouri (2018) Vira et al., (2023)
Provision for doubtful debt	Ratio of provision for doubtful debt divided by actual bad debt times 100%	Olaye and fajuyagbe (2017) Vira et al., (2023)

Source: Researcher’s compilation, 2025.

Data Presentation and Analysis

This chapter explained the data presentation and analysis between the explanatory variables and dependent variables.

Descriptive Statistics

Table 2
Descriptive Statistics

Statistic	LR	LLDR	LPDD
Mean	0.6037	3.5679	10.9044
Median	0.6437	4.1818	10.9577
Maximum	1.1739	s 4.7655	12.2482
Minimum	-0.1064	-7.0848	7.3516
Std. Dev.	0.2775	2.2629	0.6296
Skewness	-0.8177	-3.7075	-2.0771
Kurtosis	3.3512	15.8796	11.8057
Jarque-Bera	12.710	975.5021	426.6011
Probability	0.0017	0.0000	0.0000
Observations	110	110	110

Source: Author’s computation using EViews Version 12.

Table 2 presents the mean values of the liquidity ratio, loan-to-deposit ratio, and provision for doubtful debts are all positive, indicating that these variables exhibited growth over the sample period. The analysis further showed that the loan-to-deposit ratio has the highest standard deviation of 2.26, suggesting that it experiences greater variability compared to the other variables. Conversely, the liquidity ratio has the lowest standard deviation of 0.27, implying it is less volatile relative to the other variables in the model.

Additionally, the distributions of the liquidity ratio, loan-to-deposit ratio, and provision for doubtful debts are all negatively skewed, meaning that most of the observations for these variables are concentrated toward the lower end of the scale. The descriptive statistics also show that the kurtosis values for all variables exceed 3.00, indicating that the series deviate from normality. This non-normality is further confirmed by the Jarque-Bera test, whose probability values are statistically significant at the 1% level.

Table 3, Correlation Analysis of the Models

Variables	LR	LLDR	LPDD
LR	1.0000		
LLDR	0.7592	1.0000	
LPDD	0.1085	-0.0003	1.0000

Source: Author’s computation using EViews Version 12.

Table 3 presents the correlation analysis indicates the presence of multicollinearity among variables. Multicollinearity can lead to unexpected effects, causing parameter estimates to deviate from theoretical expectations. Generally, when two or more variables have a bivariate correlation of 0.7 or higher, they should not be included in the same model, as their coefficients may be interdependent. From another perspective, multicollinearity is considered to exist only when the correlation coefficient exceeds 0.95.

In this study, the correlation results show that the loan-to-deposit ratio and provision for doubtful loans are positively correlated with the liquidity ratio, with correlation coefficients of 0.75 and 0.10, respectively. This suggests that increases in these variables are associated with improvements in liquidity over the sample period. It also indicates that effective credit risk management contributes to enhancing the financial stability of deposit money banks in Nigeria. Overall, there is no evidence of severe multicollinearity among the variables, as none of the correlation coefficients exceed 0.9, making the variables suitable for inclusion in the analytical model.

Panel Estimation Results

The results of Fixed effect and Random Effect Regressions

Dependent Variable: Liquidity Ratio

Variable	Fixed Effect Regression		Random Effect Regression	
	Coefficient	Std. Error	Coefficient	Std. Error
LLDR	0.1011***	0.0090	0.0979***	0.0082
LPDD	0.0229	0.0331	0.0375	0.0301
C	0.1944	0.3952	0.0482	0.3673

Hausman Test = 4.53 (0.3392), Het = 4.50 (3535), Nom = 0.12 (0.9389)

Note: *** indicating significant at 1% level, Het represents test for heteroscedasticity and Nom denotes test for normality.

Source: Author’s computation using EViews Version 12.

The results of the fixed effect and random effect regressions show that the Hausman test was used to determine the most appropriate estimator for this study. According to the decision rule, if the probability value of the Hausman test’s chi-square statistic is less than 0.05 (5%), the fixed effect model is preferred; otherwise, the random effect model is more suitable. In this study, the Hausman test yielded a probability value of 0.3392, which is greater than 0.05, indicating that the random effect model is the more appropriate estimator. Consequently, the interpretation of the results is based solely on the random effect regression.

The regression findings reveal a positive and statistically significant relationship between the loan-to-deposit ratio and the liquidity ratio of deposit money banks in Nigeria at the 1% significance level. Specifically, a 1% increase in the loan-to-deposit ratio is associated with approximately a 0.097% increase in liquidity among the sampled banks. This result suggests that credit risk management, as measured by the loan-to-deposit ratio, contributes to enhancing the liquidity and overall stability of the Nigerian banking system.

5.0 Conclusions and Recommendations

This chapter focused on the conclusion and recommendations in line with objectives of the study and findings. The findings of this study reveal that the loan-to-deposit ratio has a significant positive effect on the liquidity ratio of deposit money banks in Nigeria, indicating that effective credit risk management through efficient lending practices contributes to enhanced liquidity and overall stability of the banking sector. Conversely, the provision for doubtful debts does not have a significant impact on the liquidity ratio, suggesting that while provisions are necessary for mitigating potential credit losses, they have a limited direct influence on the liquidity position of banks. Overall, these results highlight that prudent management of loan portfolios is more critical for ensuring the financial stability of deposit money banks than the mere level of loan loss provisions.

Recommendations

The recommendations is based on the above conclusions:

- i. Enhance Loan-to-Deposit Management: Since the loan-to-deposit ratio significantly improves bank liquidity, deposit money banks should implement policies and strategies that optimize this ratio. Banks should focus on efficient lending practices that balance loans granted with deposits mobilized. This approach will strengthen liquidity and contribute to the stability and resilience of the Nigerian banking sector.
- ii. Review Provision for Doubtful Loans: Given that provisions for doubtful debts were found to have an insignificant effect on liquidity, banks should critically review their current policies on managing non-performing loans. By improving the assessment, monitoring, and recovery processes, banks can ensure that provisions are effectively utilized to support credit risk management and enhance the long-term stability of the financial system.

References

- Adeleke, A. M., & Awodumi, O. B. (2018). A bound testing analysis of bank credit supply determinants in Nigeria. *Review of Innovation and Competitiveness*, 4(1), 5–26. <https://doi.org/10.32728/ric.2018.41/1>
- Ajayi, L. B., & Ajayi, F. I. (2017). Effects of credit risk management on performance of deposit money banks in Nigeria. *International Journal of Research in Management & Business Studies*, 4(3), 50–55.
- Ajudua, E. I. (2023). Deposit money bank credit and the Nigerian economic growth: An empirical analysis. *Economic Insights Trends and Challenges*, 2023(2), 1–10. <https://doi.org/10.51865/eitc.2023.02.01>
- Amodu, O. A., & Onuora, J. K. J. (2023). Credit risk management and market performance of quoted deposit money banks in Nigeria. *IIARD International Journal of Banking and Finance Research*, 9(3), 33–53.
- Apochi, J. G., & Baffa, A. M. (2022). Credit risk and financial performance of deposit money banks in Nigeria: Moderating role of risk management committee. *European Journal of Accounting, Auditing and Finance Research*, 10(10), 98–115. <https://doi.org/10.37745/ejaafr.2013/vol10n1098115>
- Bencharles, K. O., & Nwankwo, C. D. (2021). Credit risk management and deposit money banks stability in Nigeria: Does good corporate governance matter? *Research Journal of Finance and Accounting*, 12(16), 1–14.
- Bhatt, T. K., Ahmed, N., Iqbal, M. B., & Ullah, M. (2023). Examining the determinants of credit risk management and their relationship with the performance of commercial banks in Nepal. *Journal of Risk and Financial Management*, 16(4), Article 218.
- Ejem, C. A., Okore, C. S., Samuel, C., & Effe-Nnamdi, A. C. (2023). Credit risk management and deposit money banks' performance in Nigeria. *IIARD International Journal of Banking and Finance Research*, 9(4), 1–22.
- Enekwe, C. I., Okonkwo, O. G., & Nweze, A. U. (2023). Credit risk management and financial

- performance of deposit money banks in Nigeria. *International Journal of Finance & Banking Studies*, 12(1), 78-90.
- Fadun, O. S., & Silwimba, P. (2023). Does credit risk management impact the financial performance of commercial banks? *International Journal of Business Ecosystem & Strategy*, 5(2), 55–66.
- Farhat, C. (2023). Determinants of banking sector development in developing and emerging economies: *Unveiling the role of economic growth, trade openness, and financial liberalization*. *Banks and Bank Systems*, 18(3), 177–191.
- Gumel, B. I., & Ayinuola, T. F. (2023). The nexus between liquidity and credit risks and their impact on bank stability in Nigeria. *Asian Journal of Economics, Business and Accounting*, 23(11), 15–2
- Iwedi, M. B., & Onuegbu, A. E. (2023). Capital regulatory policy and non-performing loans of commercial banks in Nigeria. *African Journal of Accounting and Financial Research*, 6(2), 55–70. <https://doi.org/10.52589/ajaf-ay3u21yy>
- Javadi, S., & Osah, T. (2024). Credit risk correlation and the cost of bank loans. *Financial Management*, 53(2), 795–832. <https://doi.org/10.1111/fima.12467>
- Jubouri, M. A. (2018). The impact of credit risk management in financial market indicators—Analytical study in the Iraqi market for securities. *Journal of Financial Risk Management*, 7(3), 254–268. <https://doi.org/10.4236/jfrm.2018.73016>
- Jungo, J., Madaleno, M., & Botelho, A. (2024). The role of financial inclusion and institutional factors on banking stability in developing countries. *International Journal of Development Issues*, 23(2), 361–377. <https://doi.org/10.1108/IJDI-09-2023-0233>
- Kamar, K. (2017). Analysis of the effect of return on equity (ROE) and debt to equity ratio (DER) on stock price on cement industry listed in Indonesia Stock Exchange (IDX) in the year of 2011–2015. *IOSR Journal of Business and Management*, 19(5), 66–76.
- Kun, Q., & Duo, M. (2014). Credit risk management of commercial bank. *Journal of Chemical and Pharmaceutical Research*, 6(5), 1784–1788.
- Law-Biaduo, I. E., Nnamdi, K. C., & Fort-Edward, U. U. (2024). Credit risk management and performance of selected deposit money banks in Nigeria. *Asian Journal of Economics, Business and Accounting*, 24(12), 277–287.
- Machado, P. L. (2025). Global financial orders and credit rating agencies: Disruptions and adaptations. *Brazilian Journal of Political Economy*, 45(1), 1–20.
- Mäkinen, M. (2021). Does a financial crisis change a bank's exposure to risk? A difference-in-differences approach. *SSRN Electronic Journal*, 1–30.
- Mulugeta, T. (2016). A comparative study on the financial performance of commercial banks in Ethiopia An application of CAMEL model [Master's thesis, Addis Ababa University].

- Munangi, E., & Sibindi, A. B. (2020). An empirical analysis of the impact of credit risk on the financial performance of South African banks. *Academy of Accounting and Financial Studies Journal*, 24(3), 1–15.
- Ngo, T., & Phung, Q. (2020). The effect of non-performing loans on profitability of commercial banks: *Case of Vietnam*. *Accounting*, 6(3), 373–386.
- Odawo, G. O., et al. (2019). Effects of credit risk management on performance of banks in Kenya. *Archives of Business Research*, 7(2), 59–71.
- Odebode, O. D., Ishiobor, B. O., & Ezi, C. T. (2024). Effects of non-performing loans on return on assets of selected commercial banks in Nigeria. *International Journal of Advanced Economics*, 6(2), 12–25. <https://doi.org/10.51594/ijae.v6i2.768>
- Ozili, P. K., Oladipo, O., & Iorember, P. T. (2023). Effect of abnormal increase in credit supply on economic growth in Nigeria. *African Journal of Economic and Management Studies*, 14(4), 583–599.
- Samuel Ufom Okon. (2023). The impact of credit bureau on the non-performing loans situation in the Nigerian banking landscape. *International Journal of Innovative Research and Development*, 12(5).
- Sani, I. A., Lawal, Y. D., & Ome, W. E. (2022). Monetary policy volatility and performance of banking industry in Nigeria. *Malaysian Management Journal*, 26, 169–189.
- Scannella, E., & Polizzi, S. (2021). How to measure bank credit risk disclosure? Testing a new methodological approach based on the content analysis framework. *Journal of Banking Regulation*, 22(1), 73–95.
- Sebayang, P. (2020). The impact of the capital adequacy ratio, non-performing loan against to return on equity (Case study private bank in Indonesia). SHS Web of Conferences, 76, Article 01035.
- Subramanian, R. K., & Kumar Kattumannil, D. S. (2022). Commercial banks, banking systems, and Basel recommendations. *Event- and Data-Centric Enterprise Risk-Adjusted Return Management*, 1–84. https://doi.org/10.1007/978-1-4842-7440-8_1
- Ugwu, C. U., & Agada, A. E. (2024). Credit management and financial performance: Evidence from deposit money banks in Nigeria. *International Journal of Business Management*, 7(5), 56–71.
- Ulzanah, A. A., & Murtaqi, I. (2015). The impact of earnings per share, debt to equity ratio, and current ratio towards the profitability of companies listed in LQ45 from 2009 to 2013. *Journal of Business and Management*, 4(1), 18–27.
- Vira Ayustina, Chalid Imran Musa, Nurman, Anwar, & Ahmad Ali. (2023). The effect of non-performing loan (NPL) and loan to deposit ratio (LDR) return on assets (ROA) in PT. Bank Sulselbar. *Economics and Business Journal (ECBIS)*, 1(3), 215–224.