

Determinants of Non-Performing Loan in Nigeria Banking Industry

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Abstract: *This study was carried out on determinants of non-performing loan in Nigeria banking industry. Between the periods of 1991-2021. The data was source from central bank of Nigeria statistical bulletin 2021. The variables were on doubtful debt, capital adequacy ratio, liquidity ratio and bad debt as independent variable, on return on asset as dependent variable. The data were sources from the annual report of the selected deposit money banks. Ordinary least square (OLS) method of analysis was used. Augmented dickey-fuller (ADF) test result was conducted to verify the unit root of the included variables. Error Correction Mechanism was adopted to correct for short run. The study found that, It was reveals that Doubtful debt has significant effect on the non-performing loan of commercial banks in Nigeria .It was noted also that Capital adequacy ratios has significant effect on the non-performing loan of commercial banks in Nigeria. Liquidity ratio has significant effect on the non-performing loan of commercial banks in Nigeria. The study recommends banks need to use prudent credit risk management procedure in order to ensure profitability and safe the bank form loss and crisis. banks should enhance their capacity in credit analysis and loan administration while the regulatory authority should pay more attention to banks' compliance to relevant provisions of the Bank and other Financial Institutions Act (1999) and prudential guidelines.*

Keywords: *Non-performing loan, doubtful debt, capital adequacy ratio, liquidity ratio and bad debt*

1.1 Introduction

Banks create money through lending. It is one of the most important functions of banks. No commercial bank can survive without lending since they make a lot of money out of it. To this end, many banks find themselves lending to investors and companies without doing a thorough background check Somoye, (2010). In the contemporary banking business, increasing Non-performing loans (NPLs), which is categorized into sub-standard, doubtful and losses are very critical but frequent issue in bank management. The situation of Non-performing loans is not only a challenge worldwide but also in Nigeria. The situation of rising Non-performing loans can damage the confidence of investors and might act as a contagion for financial malaise as it may drive away deserving loan borrowers out of the financial system. Non-performing loans may be described as portion of bank financial assets from which the bank is no longer receiving interest and/or installment payments as initially agreed (Bebeji, 2013).

Just as a healthy financial system promotes economic growth, a weak financial system grappling with non-performing loans (NPLs) and insufficient capital could undermine growth (Schumpeter (1969). In modeling credit, Zeng (2012) views loans to the economy as boosting total consumption and hence yielding a positive social utility, while NPLs are viewed as a source of financial pollution (Minsky, 2014,;) that negates social utility. Zeng identifies two economic implications of NPLs. Firstly, economic growth could decline if NPLs grow, causing resource allocation inefficiency. Secondly, capital requirements will increase as a result of the growth of NPLs as erosion of capital occurs due to funds being trapped in such entities, making it impossible for the banks to fund new, economically viable ventures. While the definition of non-performing loans (NPLs) is not uniform across countries, in the global financial stability report of the International Monetary Fund (IMF (2014) a general definition encompasses several formulations.

A loan is deemed to be non-performing if payments (principal and/or interest) due have not been paid for at least 90 days. The Bank of International Settlement (BIS) five-tier system of classification categorizes loans into five grades, namely, pass, special mention, substandard, doubtful and virtually lost, with the last three classified as NPLs. While the first category refers to a healthy loan, there may currently be no outstanding payments on a special mention loan, but a collections problem may be foreseen. However, the term impairment is used instead of non-performing by international accounting and banking standards. A major challenge confronting the banking sector in Nigeria is the prevalence of NPLs. This limits this sector's effectiveness in promoting economic growth (Boudriga, Taktak, Jellouli, 2010). Nigeria has experienced financial sector problems in the past and NPLs were identified as the main cause of these (Adeyemi, 2011;). While governments in Nigeria have acknowledged this problem, policy initiatives have failed to rein-in NPLs, which have continued to increase in absolute terms between 2011 and 2014 by about 122% in Nigeria. Therefore, this study focuses on the health of banking systems, paying special attention to NPLs vis-à-vis their long-term impact on economic growth in Nigeria, with a view to justifying the serious attention paid by the country's monetary authorities to the drivers of economic growth in Nigeria. The havoc that NPLs are capable of causing in relation to economic growth and social welfare (Barseghyan, 2010), particularly in Nigeria, is the core motivation of this study. Hence, our objective in this paper is to investigate the existence or absence of a long-run relationship between economic growth and non-performing loans in Nigeria.

1.2 Statement of the Problem

Issues of Nonperforming Loans (NPLs) gained increasing attentions in the past few decades. Poor loan management will contribute to NPLs. It is critical issue for every bank to manage bad loans. Many countries are suffering from Nonperforming Loans (NPLs) in which banks are unable to get profit out of loans (Petersson and Wadman, 2014). If the loan is well managed; it will increase the bank's profitability and sustainability in the future. However, if failed to do so, it will be the major threat to their survival (MacDonald, 2016). NPLs affect the bank's liquidity and profitability which are the main components for the overall efficiency of the bank. An increase in NPLs provision diminishes income. Again, mismatch of maturities between asset and liability create liquidity risk for the banks that deteriorate bank's overall credit rating including its image (Badar and Yasmin, 2013). Therefore, the determinants of NPLs should be given a due consideration because of its adverse effect on survival of banks. The adverse effect of NPLs is attributable to bank managers' adverse selection of its borrowers (Brownbridge, 2018). NPLs are determined by different factors such as level of GDP, inflation, unemployment, volume of deposit, return on equity, return on asset, capital adequacy, total loan, liquidity, bank size, excessive lending, interest rate and credit growth. These factors are studied by different researchers in different countries (Mileris(2012),

The figure of NPLs in the loan books of the domestic commercial banks operating in Nigeria increased to ₦41 billion during the last quarter of 2016 (CBN, 2016). Moreover, the figure of NPLs rose by 0.7% and the quality of assets held by banks decreased from 2.7% in June 2015 to 2.5% in September 2015. The central bank of Nigeria bailed some banks in the past due to poor performance majorly brought by NPLs. The problem of rising NPL may be attributed to inadequate or weak monitoring, controls and supervision on the part of banks, weaknesses of legal infrastructure, lack of effective lenders' recourse and poor debt recovery strategies (Adhikary, 2016). The havoc that NPLs are capable of causing in relation to economic growth and social welfare (Barseghyan, 2010), particularly in Nigeria, is the core motivation of this study. Hence, our objective in this paper is to investigate the existence or absence of a long-run relationship between economic growth and non-performing loans in Nigeria.

1.3 Objectives of the Study

The main objective is to critically examine the determinants of non-performing loan in Nigeria banking industry. The specific objectives of the study are to:

- i. Examine the effect of Doubtful debt on the profitability of commercial banks in Nigeria.
- ii. Determine the effect of capital adequacy ratio on the non-performing loan of commercial banks in Nigeria.
- iii. Investigate the degree to which liquidity ratio affects the non-performing loan of commercial banks in Nigeria.
- iv. Evaluate the effect of bad debt on the non-performing loan of commercial banks in Nigeria.

1.5 Research Hypotheses

The following null hypotheses were formulated that guide the objectives of the study and strengthen the analysis

Ho₁: Doubtful debt has no significant effect on the non-performing loan of commercial banks in Nigeria.

Ho₂: Capital adequacy ratios has no significant effect on the non-performing loan of commercial banks in Nigeria

Ho₃: Liquidity ratio has no significant effect on the non-performing loan of commercial banks in Nigeria.

Ho₄: Bad debt has no significant effect on the non-performing loan of commercial banks in Nigeria.

REVIEW OF RELATED LITERATURE

2.1 Theoretical Framework

This work is anchored on moral hazard theory

Moral Hazard Theory

Moral hazards refers to a condition leading to risk that results when a banks customer provides information that is misleading about its financial statements or his or her credit capacity, or has a hidden incentive to take risks that are unusual in an attempt to earn a profit before the contract settles. The bank customer who is the borrower may not enter into the contract with the bank in good faith, hence gives misleading information about his or financial status or credit capacity. The theory postulates that, the problem of moral hazard may result from information asymmetric between banks customer and the bank which makes it almost impossible to distinguish bad from good prospective borrowers (Richard (2011). Researchers have noted that moral hazard problem has led to overtime pilling up of NPLs (Bofondi & Gobbi, 2003). This theory underpins this study because efficient financial systems and financial intermediation requires accurate information about borrowers and the venture the credit are used for. More so, the moral hazard theory stated that the higher the nonperforming loan's the lower the financial performance and the higher the assets quality the higher the financial performance of banks and vice versa.

2.2 Empirical Review

Eniafe, (2020) examined impact of non-performing loan on bank performance in Nigeria a case study of selected deposit money banks. The fundamental role of Deposit money banks (Dmbs) is to act as intermediary between surplus unit (supply side) and deficit unit (demand side) of fund. Dmbs objectives are profitability, growth in assets and customer base. To achieve these Dmbs grant loans and advances to individuals, business organizations and government. Loan default could be rampant resulting from low quality of assets, high non-performing risk assets (credit risk) that may result in huge loan losses and thus reduction in bank profitability. This study investigates the impact of non-performing loans on Money deposit banks' performance in Nigeria. Hypotheses were set and data were sourced from secondary data. The study used the confirmed ECM model (via residual and least square method of analyses. The results revealed that non performing loans have impact Deposit Money Banks performance within the period of study; whereas, the impact of the individually independent variables (net interest margin and deposit to loan.) varied. The

study recommends, amongst others that, effective credit policy that is reflected in flexible tenure, restructuring of credit terms and conversion should be adopted in the Deposit Money banks. This policy could help reducing the tempo of nonperforming loan, such that as return on equity is increasing, the possibility of default would decline considerably.

Besmir & Muhamet (2021) examined the impact of non-performing loans on Kosovo banks' profitability over a time span of 2010 to 2019. The traditional profit theory was employed to formulate profit, measured by Return on Assets as a function of the ratio of Non-Performing Loans, Liquidity Risk, and Bank Size as control variables. We have employed multivariable linear regression to estimate the determination of the profit function. The results showed that the effect of non-performing loans on the profitability is statistically significant and shows that for each 1% increase in NPL, the Return of Assets decreases by 0.19%, holding other variables constant. The commercial banks in Kosovo, it is recommended following a balanced approach between portfolio growth and credit risk exposure.

Bishnu, (2020) examined the effects of non-performing loan on profitability of commercial banks in Nepal with panel data collected from twelve commercial banks of five years from 2013-2014 to 2017-2018 period with the total observations sixty. The multiple regression model has been used to analysis of the data. The Pooled ordinary least square model, fixed effect model and random effect model has been employed to analyzed profitability. The profitability measure by return on equity (ROE) taken as dependent variable whereas non-performing loan (NPL), capital adequacy ratio (CAR), liquidity (LIQ), size of banks (SIZE) and inflation (INF) were independent variables. The result of three different model revealed that the NPL, CAR, LIQ have significant and negatively associated with ROE. Similarly, the SIZE has significant and positive associate with ROE. The INF has positive but insignificant result with ROE. The study concluded that among study variable NPL, CAR, LIQ and SIZE have major role to determine profitability. The INF has does not significantly effect on Profitability. However, the effect of non-performing loan on profitability very strong. The bankers have sincerely take for the over 90 day's dues. It has rational effect of national economy also.

Arif, (2020) The Impact of Non-Performing Loans Towards Financial Performance of BPR in Central Java, the Role of Empathy Credit Risk. The lending activities of commercial banks are exposed to the risk of no- performing loan. Some individuals cannot repay fully while others are only able to repay a small portion of loans which ultimately results in NPL accumulation. This research proposed empathy credit risk approach as a derivation of spiritual leadership theory and agency theory used to reduce NPL. This study aims to examine the empathy credit risk model as an effort to overcome the problem of collectability in non-performing loans in improving the financial performance of BPR in Central Java. The population in this study was 260 leaders at the BPR in Central Java Province with a sampling method with a purposive sampling technique to obtain respondents as many as 150 BPR leaders. Data analysis using SEM AMOS shows the result that credit collectibility (business prospects, debtor performance, and ability to pay) have positive significant relationship with non-performing loans (NPLs). Non-performing loans have a negative significant effect on the financial performance of banks. Empathy credit risk moderates the influence of business prospects, debtor performance, and ability to pay with non-performing loans (NPLs).

Okoh, Inim & Idachaba (2019) examined the effect of Non-Performing Loans on the financial performance of commercial banks in Nigeria between the periods of 1985 to 2016. The study employed the multiple regression techniques to analyze data collated from the Central Bank of Nigeria (CBN) statistical bulletin and Nigeria Deposit Insurance Corporation (NDIC) publications for various years. The result of the study shows that Non-Performing Loans to Total Loans ratio (NPL/TLR) and Cash Reserve Ratio (CRR) had statistically negative significant effect on Return on Asset (ROA). These result shows that a high level of non-performing loans would reduce the financial performance of commercial banks in Nigeria. Consequently, the study recommends that the regulatory authorities in Nigeria should create and support an environment where commercial banks in Nigeria can have a strong risk management practices.

METHODOLOGY

3.0 Introduction

Methodology is a set of rules and procedures, upon which research is based and against which claims for knowledge and assumptions are evaluated for decision making. It can also be said to be the specification for collecting and analyzing the data necessary to solve the problem of the country. The ordinary least square shall be employed in obtaining the numerical estimates of the coefficient in different equation. The OLS is chooses because it poses some optimal properties, its computation is fairly simple and also an essential component of order estimation techniques. In demonstrating the ordinary least square method, the multiple linear regression analysis will be used.

3.1. Model Specification

A model is the representation of the basic features of an economic phenomenon. In order to identify the nature of relationship between non-performing and the Nigeria profitability of commercial bank in Nigeria, it is imperative to establish a model or paradigm for analysis, whereby the parameter estimates of profitability of commercial bank in Nigeria can be determined.

The study modified the work of Adedeji Olabisi & Babatolu (2018) who studied the effect of non-performing loan on the financial performance. The model is stated thus

$$ROE = F(NPLLR, NPLDR, CAR)$$

Where

ROE = Return on equity

NPLLR = Non-performing Loan to total Loan Ratio

NPLDR = Non-performing Loan to total Deposit Ratio

CAR = Capital Adequacy Ratio

The model was modified to enable us look at the topic from another dimension. Thus we state our modified model as:

$$NPL = (DOB, CAD, LIR, BAD)$$

Where

NPL = Non performing loan

DOB = Doubtful debt

CAD = capital adequacy

LIR = liquidity ratio

BAD= bad debt

The above equation can be restated in a functional form as;

$$BF = b_0 + b_1 DOB + b_2 CAD + b_3 LIR + b_4 BAD + \mu$$

Where;

B₀ = Autonomous or Intercept

B₁ = Coefficient of Parameter DOB

B₂ = Coefficient parameter CAD

B₃ = Coefficient of parameter LIR

B₃ = Coefficient of parameter BAD

U = Stochastic variable or error term

The above can restarted in it log form as

$$\text{Log NPF} = + b_1 \text{ DOB} + \text{log}b_2 \text{ CAD} + \text{Log}b_3 \text{ LIR} + \text{Log}b_4 \text{ BAD} + \mu$$

Where Log = logged values of the variables.

3.2 Method of Evaluation

Evaluation Based on Statistical Criteria

- i. Coefficient of multiple Regression (R^2): This is the summary measure that tells how well the sample line fits the data. It is a non- negativity and its limit are $0 < r^2 > 1$. An r^2 of zero means that there is no relationship between the regress and the repressor. (Guajarati, 2001).
- ii. T- Statistics.

This shows the significance of the parameter estimates. The obtained value of the t- ratio will be compared with the tabulated value.

The decision rule is that when the calculated value of t- statistics is greater than the table value at 5% level of significance and n- k degree of freedom; the null hypothesis is rejected and the alternative accepted.

iii. F- Statistics.

This measures the overall statistical significance of the entire regression plane. It aims at finding out if the entire influences of the explanatory variables do actually have any impact on the dependent variables. When the calculated F is more than the tabulated F at 5% level of significance and n-k degree of freedom, the null hypothesis is rejected and the alternative accepted.

3.2.1 Evaluation Based on Econometric Criteria

i. Auto correlation test:

The term auto correlation may be defined as correlation between members of a series of observation ordered in time (as in time series) or space (as in Cross sectional data). The classical model assumes that the disturbance term relating to any observation is not influenced by the disturbance term relating to any other observations. Autocorrelation can be caused by several factors such as specification bias, (excluded variable case), manipulation of data transformation and non- stationary of data and inconsistency of data. Autocorrelation is that developed by statistician Durbin and Nation. It is popularly known as the Durbin- Watson d- statistically.

ii. Co integration Test:

Two variables may be co-integrated if they have a long run equilibrium relationship between them. As Granger notes, “a test for co-integration can be thought as a test to avoid spurious regression situation”. In co-integration, the slope of the parameter is known as the co-integration parameter. Engle Granger and Augmented Engle Granger test are used in testing for co-integration. Co-integration deals with relationship amongst a group of variables (unconditionally) where each variable has a unit root.

iii. Error correction Mechanism:

Error correction mechanism is the systematic process by which a drift from equilibrium is prevented. It was first used by Sargan and later popularized by Engle and Granger. It corrects for disequilibrium. Granger presentation states that if two variables (x and y) are co-integrated, the relationship between them can be expressed as an error correction mechanism.

3.3 Sources of Data

Secondary data was collected from audited financial report of commercial bank, central bank of Nigeria annual report, Nigeria deposit insurance company annual report, and federal offices of statistics. The study spanned from 2013-2021. It is also noted that bank profitability is the dependent variables (y) while doubtful debt, capital adequacy, liquidity ratio, as well as bad debt

PRESENTATION AND ANALYSIS OF DATA

4.0 Introduction

This chapter concerns the presentation, evaluation and analysis of the regression result of the model postulated, as well the verification of the hypothesis of this work which is drawn from the objective of the study. According to Milton Friedman, a theory of hypothesis that is not verified by appeal to empirical credence may not be admissible as part of the scientific enquiry. The method used in this work is the Ordinary Least Square regression technique (OLS). The method was adopted because it possessed unique estimating properties such as unbiasedness, efficiency and consistency and when compared with other unbiased estimates, the OLS is said to possess the least or minimum variance. The data used in running this regression is displayed in the appendix.

4.1 Unit Root Testing

In regressing time series variables on another time series variables, one might obtain a high R^2 even though there is no meaningful relationship between the variables. This situation shows the problem of spurious or nonsense regression result, according to Gujariti (2007). The time series variables when used in their explosive form, often leads to spurious regression results and this misleads policy makers. In other not to obtain spurious result the variables were first tested for stationary by employing the augmented Dickey fuller test (ADF). A careful observation from the table 4.1 above, it reflects that none of the variables are stationary at level $I(0)$, but, loan and advances emerge stationary at 2nd difference, however, rest of the variable in the model become stationary at 1st difference $I(1)$. This therefore shows that the entire variables are stationary at the order of integration stated above and at 1% level of significance.

The summary of the results in Table 1 below shows an existence of unit root. Therefore the null hypothesis is accepted at 1st difference.

Table 4.1 Unit Root RESULT

Variables	ADF	Integration	Significance
NPF	-5.523197	I (1)	1%
DOB	-4.825398	1 (1)	1%
CAD	-2.955879	1 (1)	1%
LIR	-3.532539	1 (2)	1%
BAD	-3.593844	1 (1)	1%

Source: Computation using E-view 8.1 version.

4.2 Table Regression result

Variables	Coefficient	Std. error	T- statistics	Prob**
C	2.000092	3.298511	0.606362	0.5578
DOB	-0.400707	0.386944	-2.035569	0.0048
CAD	0.273428	0.381998	3.715784	0.0005
LIR	0.562196	0.267675	2.100292	0.0020
BAD	-0.000744	0.000975	-0.762532	0.4633

Source: Computation using E-view 8.1 version

R-Squared = 0.640484

Adjusted R² = 0.496678

F-Statistics = 9.453798

Durbin-Watson = 2.284319

4.2 Interpretation of the Result

The R-Squared, which is the co-efficient of determination or measure of goodness of fit of the model, test the explanatory power of the independent variables in any regression model. It test for the goodness of fit from our result $R^2 = 64\%$. This shows that our model displayed a good fit because the close R^2 is to 100% the higher the goodness of fit of the model hence, the explanatory variables can impact up to 64% out of the expected 100%, leaving the remaining 36% which would be accounted for by other variables outside the model as captured by the error term.

The f-statistics measures the overall significance of the explanatory parameters in the model. From our table 4.3 above the calculated value of the f-statistics is 9.453798, its probabilities is 0.005240 which is less than 0.05. We accept and state that there is a significance relationship between the variables. This means that the parameter estimates are statistically significant in explaining the relationship in the dependent variable.

The a’p priori criteria are determined by the existing general; theory and states the signs and magnitude of the variables. From the result above and from the coefficient column we find out that the doubtful debt has a negative relationship with bank profitability given its value as -0.400707 This is in not in conformity with our theoretical expectation. Capital adequacy has a positive relationship with bank profitability given its value as 0.273428. This is in conformity with our a’p priori expectation. Meanwhile liquidity ratio has a negative sign with its value as 0.652196, this conform to a’p priori expectation, because decreased in non-performing loan, increases bank profitability. Lastly, bad bebt is -0.000744, this shows it conform to a’p priori criteria

The t-statistics helps in measuring the individuals’ statistical significance of the parameters in the model. From the result report above and using the probability test we find out that doubtful debt is statistically significant at 5% level of significant. Capital adequacy is 3.715784 this show that it is statistically significance at 1% level of significant .Again observed from regression result, liquidity ratio is statistically significant at 1% level of significance, this implies that it help in non-performing loan which result to increase in bank profitability in Nigeria. Lastly bad debt is individually statistically insignificant; this implies that it has not contributed much in bank non-performing loan in Nigeria.

The Durbin-Watson is used to measure the presence or otherwise of auto-correlation in the model. If there is auto-correlation in the model, it implies that it has lost its predictive power. From the report in table 4.2 above, our Durbin-Watson statistics is 2.2. This implies that there is no positive serial auto-correlation between the explanatory parameters of the model because the closer our DW estimates is to 2 than zero, the absence of auto correlation in our model. Consequently, our estimates can be relied upon for making predictions and inferences.

4.3 Hypothesis Testing

The hypothesis is tested on the basis of statistical analysis.

Hypothesis One

Ho₁: Doubtful debt has no significant effect on the non-performing loan of commercial banks in Nigeria.

From the regression result, we discover that in the t-statistics column the value for Doubtful debt is -2.035569 while its probability is 0.0048. Since its probability is less than 0.05% desired level of significance, we accept the alternative hypothesis and reject the null hypothesis, which states that Doubtful debt has significant effect on the non-performing loan of commercial banks in Nigeria.

Hypotheses Two

Ho₂: Capital adequacy ratios has no significant effect on the non-performing loan of commercial banks in Nigeria

It was discovered from the t-statistics Column that Capital adequacy ratios value is 3.715784 while its probability is 0.0005. Since its probability is greater than 0.05-desired level of significance, we accept the alternative hypothesis and reject the null hypothesis, we therefore conclude in favour of alternative hypothesis, which state that Capital adequacy ratios has significant effect on the non-performing loan of commercial banks in Nigeria

Hypotheses Three

Ho₃: Liquidity ratio has no significant effect on the non-performing loan of commercial banks in Nigeria.

From the regression result, we discover that in the t-statistics column the value for Liquidity ratio is 2.100292 while its probability is 0.0000. Since its probability is higher than 0.05% desired level of significance, we reject the alternative hypothesis and accept the null hypothesis, which states that Liquidity ratio has significant effect on the non-performing loan of commercial banks in Nigeria

Hypotheses Four

Ho₄: Bad debt has no significant effect on the non-performing loan of commercial banks in Nigeria.

It was discovered from the t-statistics Column that Bad debt value is -0.762532 while its probability is 0.4633. Since its probability is less than 0.05-desired level of significance, we accept the null hypothesis and reject the alternative hypothesis, we therefore conclude in favour of null hypothesis, which state that Bad debt has no significant effect on the non-performing loan of commercial banks in Nigeria.

5.0 SUMMARY, RECOMMENDATION, AND CONCLUSION

5.1 Summary of the Findings

The following findings were made that

1. It was revealed that Doubtful debt has significant effect on the non-performing loan of commercial banks in Nigeria.
2. It was noted also that Capital adequacy ratios has significant effect on the non-performing loan of commercial banks in Nigeria
3. Liquidity ratio has significant effect on the non-performing loan of commercial banks in Nigeria.
4. Bad debt has no significant effect on the non-performing loan of commercial banks in Nigeria

5.2 Conclusion

The study has shown that the explanatory variables have significant impact on return on assets (ROA) and return on equity (ROE). The relationship between the dependent variables and the explanatory variables is indicated by the coefficient of each of the explanatory variables. A unit increase in the ratio of non-performing loans to loans & advances and loan loss provision to loans & advances respectively will decrease bank performance. However, the ratio of loans & advances to total assets showed a positive relationship though it is not significant. Given the above findings, the researcher concludes that the effects of non-performing loans on Banks cannot be underestimated and poses a fundamental threat to the very existence of the Banks as corporate business entities. Based on the findings of this research work, the researcher recommends the need to strengthen supervision of banks by the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) to prevent a sharp buildup of NPLs in the future; Banks should maintain high credit standards while the Apex Bank and other regulatory agencies should maintain high surveillance on banks' credit operations; Banks should collect and perfect all collaterals which are used for obtaining loans. The collateral should be more than the value of loan approved, in case of default.

5.3 Recommendation

i) The analysis finds that doubtful debt affects profitability of the commercial banks negatively. Therefore, banks need to use prudent credit risk management procedure in order to ensure profitability and save the bank from loss and crisis.

ii) Based on our findings, it is recommended that capital adequacy in Nigeria banks should enhance their capacity in credit analysis and loan administration while the regulatory authority should pay more attention to banks' compliance to relevant provisions of the Bank and other Financial Institutions Act (1999) and prudential guidelines.

iii) The liquidity ratio should be completely managed by the management in addition to determinants other than bank profitability. Efforts to be made by the bank management to manage NPLs and

increase operational efficiency is to organize the structure of funding sources to improve low-cost funds, giving credit to the productive sectors.

iv).Reduction of bad debt. The character and financial statement of the borrower must be properly studied. The Central Bank of Nigeria should re-introduce interest rate regulation on banks. Banks should be making public the names of bad and doubtful debtors (by compilation of bad debtors' black book in banks).

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