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Profitability, Asset Quality and Capital Resilience in Nigeria's Banking Sector: Evidence From the 2023–2025 Recapitalisation Period

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Abstract

This study examines the profitability, asset quality and capital resilience in Nigerian banking sector between June 2023 and June 2025. It is a descriptive policy analysis on a sector basis. The secondary data sources relied were official Nigerian banking reports and CBN-reported financial soundness indicators and verified peer-reviewed studies which were analysed with descriptive statistical tools. The results show that in December 2024, the percentage of bad debts ranged from 3.90 to 5.76, while the company's return on assets rose quite a bit - first, from 1.61% in February 2023 to 3.44% by the end of the year 2024, then slightly declined to 3.20% in June 2025. Capital reserves reached an impressive level of 15.25% at the end of 2024 while the extension of credit eased in the spring of 2024. The data presented is mainly for illustration, not for establishing causal linkages. It indicates that stronger nominal profitability coexisted with asset-quality pressure because earnings were also supported by repricing, trading and other non-interest income, recoveries, balance-sheet expansion and inflation. The study recommends joint supervision of asset quality, capital adequacy, IFRS 9 provisioning, credit deployment and sectoral concentration risk.

Keywords: Asset Quality, Banking Sector Profitability, Capital Resilience, Nigeria, Non-Performing Loans, Recapitalization

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INTRODUCTION

The importance of credit risk management in the performance of the banking sector cannot be stressed enough, since deposit money banks convert short- and medium-term liabilities into credit exposures whose repayment is uncertain. Failure to assess borrowers properly, to monitor loans closely and to act quickly on troubled loans can turn earning assets into non-performing loans, raise impairment losses, and can lead to the loss of capital. However, a proper credit risk management system needs a proper credit risk environment, a disciplined credit risk granting system, a proper administration and monitoring system, and a strong system of credit risk control over exposures (Basel Committee on Banking Supervision [BCBS], 2025).

Nigeria is an important context for the study of these matters. The deposit money banks have seen high inflation, an exchange-rate adjustment, a tight monetary policy, increasing operating costs and a new recapitalisation programme. The monetary policy climate remained tight in 2024 and 2025, which enhanced returns on certain earning assets, and increased debt-service burden on households and firms (Central Bank of Nigeria [CBN], 2025). The dual effect has resulted in the fact that the increase in nominal bank earnings is not necessarily independent of the borrower's quality and future impairment risk.

Changes in banking-sector indicators are apparent on the surface. In September 2023, the ratio of impaired credit to total credit was 4.36 per cent, and 4.03 per cent in December 2023. It moved to 3.90 per cent in June 2024, 4.58 per cent in September 2024 and 4.50 per cent in December 2024 (Nigeria Deposit Insurance Corporation [NDIC], 2023a, 2023b, 2024a, 2024b). Non-performing loans subsequently reported by CBN and presented by China Economic Information Center (CEIC) were then found to be under pressure as they recorded 5.76 per cent of gross loans in June 2025, up from the relatively contained level recorded in 2024 (CEIC Data, 2025a).

There are several dimensions to the performance of the banking sector. Profitability indicators (return on assets, return on equity and profit before tax) indicate the results of earnings, whereas capital adequacy, loan-to-deposit ratio, asset quality and provisioning demonstrate the robustness of the results of earnings. Recent research done in Nigeria revealed that the interaction of the credit risk variables, liquidity variables and capital variable with profitability is significant but the direction and magnitude of the interaction depends on the period, banks characteristics and model specification (Natufe & Evbayiro-Osagie, 2023). Financial performance sustainability and disclosure also relate to the broader risk-management practices (Ogundele & Nzama, 2025).

The study has a policy perspective reflecting the fact that the observations are at the level of the banking sector. It looks at the relationship between profitability, the asset quality and the capital adequacy and credit deployment during the 2023-2025 recapitalisation and monetary-tightening cycle, not at the internal risk system of a single bank. It offers the most significant advantage of incorporating a profitability–asset-quality sustainability perspective that connects credit-risk governance, recognition of expected losses and recapitalisation under a single policy framework along with the principles of good corporate governance. (BCBS, 2025; CBN, 2024; IASB, 2014).

Statement of the Problem

Nigerian deposit money banks should have ample scope to increase productive credit by

carefully appraising credit applications, charge appropriate interest, closely follow-up every credit, ensure proper collateral and speedy recovery. In a well-functioning bank, these processes should ensure that assets are of an adequate quality, losses are reported in a timely manner, capital is preserved and there are sustainable returns. BCBS, 2025, requires these responsibilities to be at the heart of a sound banking system.

The truth is not all that simple. Borrowers face high interest rates, shocks to their sector, exchange rate fluctuations and inflation that can impact their ability to repay once the loan is approved. Meanwhile, official data indicate that nominal profitability has improved despite the varying levels of impaired credit ratio and a subsequent increase in June 2025, in parts of 2023 and 2024. The balance of improved profits and new asset quality concerns makes it hard to assess the health of the sector on the basis of profits alone (NDIC, 2024b).

The specific research problem is the absence of a clear recent industry-level explanation of how asset quality, capital adequacy and credit deployment moved alongside banking-sector profitability during Nigeria's recapitalisation and tight monetary-policy period. Aggregate official indicators cannot establish bank-level causality, yet they can reveal whether earnings, asset quality and resilience send mutually reinforcing or conflicting signals. The study addresses this problem by limiting its unit of analysis to the Nigerian banking sector and interpreting trends and co-movements within the institutional and macroeconomic context.

Objectives of the Study

The main objective of this study is to analyse the relationship among profitability, asset quality, capital resilience and credit deployment in Nigeria's banking sector during the 2023–2025 recapitalisation period. The specific objectives are to:

1. Examine the trend in non-performing loans or impaired credit and profitability indicators of the Nigerian banking sector between 2023 and 2025;
2. Assess the movement of capital adequacy and its implications for banking-sector resilience during the recapitalisation period;
3. Analyse the pattern of loan-to-deposit or net credit-to-deposit ratio as an indicator of credit deployment and risk appetite;
4. Explain why nominal profitability improved during periods of continuing asset-quality pressure; and
5. Eerive evidence-based policy and managerial implications for sustainable credit intermediation in Nigeria.

Research Questions

1. What trend is observable in non-performing loans or impaired credit and banking-sector profitability between 2023 and 2025?
2. How did capital adequacy move during the period, and what does the movement imply for banking-sector resilience?
3. What pattern is evident in loan-to-deposit or net credit-to-deposit ratio as an indicator of credit deployment?

4. Why did nominal profitability improve during periods in which asset-quality pressure persisted or increased?

5. What policy and managerial measures are required to strengthen sustainable credit intermediation in Nigeria?

LITERATURE REVIEW

Concept of Credit Risk Management

Credit risk management is an explicit function through which a bank recognizes measures estimates monitors controls and communicates the risk that a borrower/counterparty will not meet its contractual obligations. It is starting from pre-approval stages, ongoing review throughout restructuring, recovery or write-off or repayment (if any), includes the policy and processing of credit such as checking the borrower, assessment of cash flow, evaluation of the collateral, risk-based pricing, approval limit, portfolio review, early-warning trigger and independent review (BCBS, 2025).

Effective practice is not limited to collateral possession. Banks must examine repayment capacity, business model resilience, management quality, industry exposure and sensitivity to interest-rate, inflation and exchange-rate shocks. Nigerian evidence shows that capital adequacy, liquidity, loan-to-deposit ratio, non-performing loans and loan-loss provision are relevant components of the credit risk–performance relationship (Natufe & Evbayiro-Osagie, 2023).

Credit risk management also has an impact on financial reporting. The requirements of International Financial Reporting Standards 9 (IFRS 9) are that expected credit losses be estimated based on reasonable and supportable information concerning past events, current conditions and forecasts. The model is forward-looking, which means that loss expectations are subject to change when there is new information (International Accounting Standards Board [IASB], 2014). So, there is a relationship between credit administration and the recognition of accounting impairment costs: When credit quality deteriorates, credit administration costs increase; when credit quality improves, accounting impairment costs are reduced.

Banking Sector Performance

Banking sector performance is a measure of the overall profitability, efficiency, liquidity, solvency and stability of the banks which are licensed. It cannot be distilled down to a single profit number due to the importance of asset quality and capital/funding conditions to the sustainability of earnings. Return on assets (ROA) shows how efficiently the sector converts the value of its assets into value of its earnings and ROE shows the return from the value of the shareholders' funds. Profit before tax reflects the apparent earnings result, before tax (CEIC Data, 2025b).

Capital adequacy is a relationship between regulatory capital and risk-weighted assets. It is absorption capacity and not short-term profits. The loan-to-deposit or net credit-to-deposit ratio is a measure of how deposits are utilized in loans, and should be interpreted in conjunction with liquidity and asset-quality factors. These indicators are complementary in nature, in that, a high earning sector is not necessarily resilient simply because of its asset quality or capital (Ololade et al., 2023).

Nigeria's recent banking figures are testimony of this multidimensionality. Profit before tax grew from N1,079.10 billion in September 2024 to N1,534.48 billion, and return on assets rose from 3.36 per cent to 3.44 per cent in the same period. However, the rates of poor credit were 4.58% and 4.50% respectively (NDIC, 2024b). The combination is enough to make the importance of considering profitability and credit risk together evident.

Non-Performing Loans and Impaired Credit Ratio

Non-performing loans (NPLs) are loans that have been past due or where the principal or interest payments have become questionable. The non-performing loan ratio is a percentage of the gross loans and the ratio of impaired credit to total credit is reported on for the sector assessment by the NDIC. Both measures are asset-quality indicators since they reflect the percentage of the loans that may not produce the anticipated cash flow (CEIC Data, 2025a).

An increasing ratio has implications on the performance of the sector as a result of foregone interest income, increased impairment charges, recovery costs, extra management attention and capital consumption. Non-performing loans are typically correlated with poor financial performance, though there is generally a variation in the relationship across models and institutional settings (Kwashie et al., 2022). Non-performing loans and loan-loss provisions are also variables that explain bank performance based on Nigerian panel evidence (Natufe & Evbayiro-Osagie, 2023).

However, if the ratio is low, it should not be automatically assumed to be indicative of good performance. To lower NPLs, banks can cut back lending, sell or write down distressed assets or enjoy temporary recoveries. On the other hand, a rise in interest margins, foreign exchange income or non-interest income can lead to a rise in profitability of the net block while the NPLs may also increase. It is therefore important to take account of the quality, composition and timing of earnings.

Capital Adequacy

The capital adequacy ratio (CAR) measures regulatory capital relative to risk-weighted assets and reflects the capacity to absorb losses. Credit losses have a first impact on provisions and retained earnings and could ultimately reduce the level of regulatory capital. Thus, with strong capital, depositer confidence is built and intermediation and resiliency is maintained when borrowers are under stress. Regulatory capital to risk weighted assets is one of the financial soundness indicators for Nigeria (CEIC Data, 2025c).

In 2024, the CBN under the recapitalisation programme increased the minimum capital requirements to N500 billion for Commercial Banks, N200 billion for National Banks and N50 billion for Regional banks (CBN, 2024).

Capital adequacy can help the performance in the sense that it can mitigate solvency risk and thus help the bank to sustain credit losses without any disorderly contraction. However, capital is not a sure-fire path to quality earnings. But, if credit appraisal and portfolio monitoring are inadequate, a greater capital may just fuel increased risky exposures. There needs to be a seamless connection between capital planning and credit discipline.

Loan-Loss Provisioning and Expected Credit Loss

Loan-loss provisioning recognises allowances for expected losses on loans and other credit exposures that may not be fully recovered. IFRS 9 requires expected credit losses to be

estimated using information about past events, current conditions and reasonable forward-looking forecasts (IASB, 2014).

An increase in the expected credit-loss allowance generally results in an impairment expense that reduces current reported profit. Timely recognition prevents the overstatement of earnings and reduces the risk that delayed acknowledgement of credit deterioration will cause sudden future losses. The IFRS 9 project summary requires expected losses to be updated at each reporting date when new information changes the credit-risk assessment (IFRS Foundation, 2014).

Credit Deployment and Concentration Risk

Credit deployment is a measure of how much deposits and other funding is turned into loans. At a moderate ratio, the interest income and economic intermediation can be sustained, but at a high ratio, the growth of loans can lead to an increase in liquidity and credit risk. Appropriate level will depend on funding stability, sector composition, loan maturity and asset quality.

Concentration risk occurs when the exposures are concentrated to a small number of sectors, similar borrowers, geographic locations, and/or risk drivers. Loans that are individually sound and fit for their portfolio can be susceptible to a portfolio if many borrowers rely on the same commodity price, exchange rate, energy input or government payment stream. Therefore, credit risk management (BCBS, 2025) must include sector limits, stress testing and scenario analysis.

Conceptual Framework

As illustrated in Figure 1, the conceptual framework indicates that the performance of the sector is related to credit appraisal and monitoring and recovery, expected credit loss provisioning, capital adequacy and concentration control, which act on asset quality, risk absorption and continuity of credit intermediation. The framework also agrees that monetary policy, inflation, exchange-rate conditions, reserve requirements and recapitalisation will influence the willingness and ability of borrowers to repay the loans and the profits of banks.

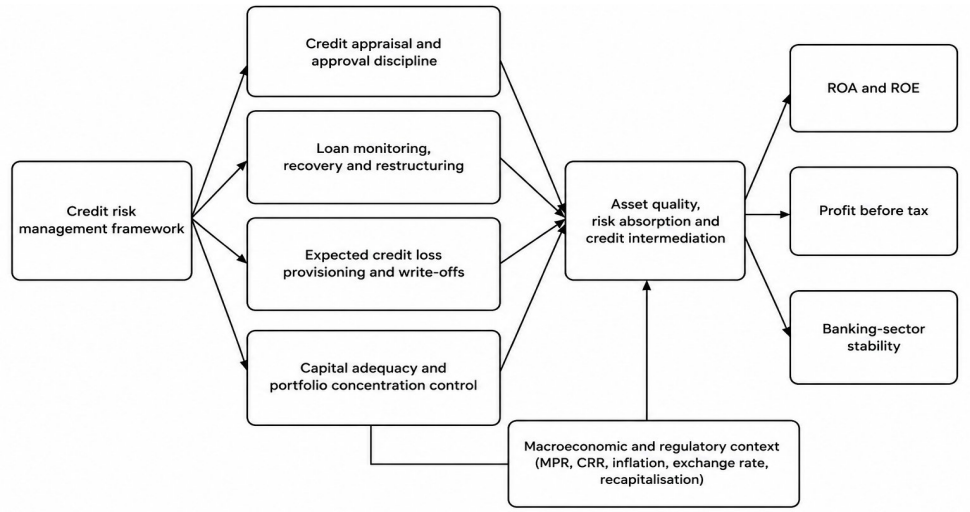


Figure 1: Conceptual Framework on Credit Risk Indicators and Banking Sector Performance

Source: Researcher's conceptualisation based on credit risk principles and expected credit loss guidance (BCBS, 2025; IASB, 2014).

Theoretical Review

The study adopts two complementary theoretical perspectives: information asymmetry and adverse selection, and the capital-buffer and financial-resilience perspective. Information asymmetry explains why careful borrower screening and continuing monitoring are necessary to protect asset quality (BCBS, 2025). The capital-buffer perspective explains how regulatory capital supports loss absorption and continuity of credit intermediation during periods of financial stress (CBN, 2024). The expected-credit-loss approach under IFRS 9 provides a supporting prudential and accounting framework for recognising credit deterioration; it is not treated as a substitute for these two theoretical perspectives (IASB, 2014).

Information Asymmetry and Adverse Selection Perspective

There is information asymmetry because borrowers generally have more information about the intentions, cash flows, and business risks than do the lenders. Financial analysis, credit history, site visit, collateral review, scoring and sector knowledge are ways in which banks narrow this information gap. Poor information can lead to negative selection if credit is allocated to borrowers who are not adequately matched by the decision to lend or borrow (BCBS, 2025).

Capital Buffer and Financial Resilience Perspective

The capital buffer thesis is that banks should not have to be immediately wound up or have their credit supply withdrawn because they suffer losses, but should be able to absorb them and keep going without loss of the right to remain solvent or to be wound up without notice. Poor credit quality can be negative for capital adequacy in the long run, as loans have risk weights and impairments will reduce earnings. A stronger buffer allows the sector to continue to be resilient in the face of crises and to continue with key intermediation functions (CEIC Data, 2025c).

This viewpoint is very relevant to the situation of Nigeria's recapitalisation. The policy is hoped to enhance shock absorption with it being dependent on the deployment of new capital. Recapitalisation with credit discipline will help boost resilience while recapitalisation without credit discipline may increase losses in the future (CBN, 2024).

Expected Credit Loss and Prudential Provisioning Perspective

The expected credit loss approach will force financial institutions to recognise losses before there is a point of no return. It incorporates the concepts of probability weighted outcomes and forward-looking data, thus linking macroeconomic expectations and individual and portfolio credit assessment (IASB, 2014).

Empirical Review

To assess the relevance of non-performing loans to financial performance, Kwashie et al. (2022) analyzed the non-performing loan of commercial banks in Ghana with different financial performance measures, and found that NPL was still relevant when financial performance measured as profits-to-capital ratio. The study is valuable because it made a combination of the credit risk variable and bank age, size and macroeconomic variables without assuming a single variable explanation.

Siddique et al. (2022) applied the dynamic panel method to the case of commercial banks in South Asia and found that non-performing loans had an adverse impact on the performance of commercial banks while the other bank-specific factors had a positive impact. Their conclusions support the case for considering credit risk in combination with efficiency, size and macroeconomic factors.

Nigerian deposit money banks over the period 2010-2021 were tested by Natufe and Evbayiro-Osagie (2023) by applying wide range of risk indicators. They included capital adequacy, liquidity, loan-to-deposit ratio, risk assets, non-performing loans, loan-loss provisions and bank size in their model. The study demonstrates that the credit risk management is not only multidimensional, but cannot be limited to the NPL ratio.

The result obtained from this study by Fadun and Silwimba (2023) showed that the financial performance of selected first tier Nigerian banks is not significantly influenced by credit risk management. Conversely, Ololade et al. (2023) documented that the credit risk and management quality were significant factors in their models of choice. The difference represents the sensitivity of the results to the banks chosen, the period and the method of estimation.

The discussion is extended by more recent evidence. Oyasor (2025) could relate credit-risk metrics with cost efficiency better than all profitability measures while Ogundele and Nzama (2025) related risk-management practices with the quality of disclosure of Nigerian banks. The study of the banks done by Oluwatuyi and Oyeniran (2026) revealed negative consequences of NPLs and LLP for the long-term. These studies demonstrate the relevance of credit risk and justify the extension of panels and the correct use of diagnostics to address questions of causality at the bank level.

METHODOLOGY

Research Design

The study used the ex-post facto, documentary and descriptive policy-analysis design. The design is appropriate in the ex-post facto design because the indicators already happened, and could not be manipulated. Study was carried out using the documentary analysis which made it possible to utilize regulatory and financial strength publications, and descriptive policy approach which aided interpretation of the figures in Nigeria's monetary and recapitalisation context (Saunders et al., 2023).

Unit of Analysis and Population

The unit of analysis is the banking sector in Nigeria. The population comprises of the licensed deposit money banks and the financial condition of the banks is reported by the NDIC and the financial soundness indicators derived from CBN.

Sources and Method of Data Collection

All the data used in the study were secondary data. Quarterly indicators were derived from the NDIC reports on financial condition and performance of the deposit money banks for the 2023/24 period between June and December. The data on non-performing loans, return on assets and capital adequacy were retrieved from the financial soundness pages of CEIC for June 2025 with the Central Bank of Nigeria as the reporting source.

For policy interpretation, the official publications of the CBN, including but not limited to bank recapitalisation and monetary policy, as well as revised Basel credit risk principles, materials on IFRS 9 and verified peer-reviewed studies published between 2022 and 2026 were utilised. Only sources were considered if the authorship, publication information and a stable link to the institution could be confirmed (including a DOI).

Method of Data Analysis

The study used descriptive statistics, trend analysis and a descriptive Pearson correlation matrix. Means, standard deviations, minima and maxima summarised the indicators. Trend charts displayed changes through time, while the correlation matrix described the direction and strength of pairwise co-movement among variables with available overlapping observations.

The correlation matrix is non-inferential. No p-values, hypothesis decisions or causal interpretations are attached to the coefficients because the sample is short, aggregate and contains missing values. The matrix is used only to organise the observed pattern. Policy-contextual synthesis then explains the pattern with reference to interest-rate repricing, capital strengthening, provisioning, non-interest income, inflation and sector concentration.

Analytical Framework and Variable Measurement

The study considers asset quality, capital adequacy, credit deployment, provisioning discipline, banking-sector performance and contextual macroeconomic factors as complementary indicators. Their definitions, measurement proxies and expected policy relationships are summarised in Table 1. Since the available observations are few and aggregated, the analysis cannot identify bank-specific behaviour, estimate fixed effects or establish causal relationships. The June 2025 CEIC data also introduce a reporting-platform transition from the NDIC series; consequently, changes are interpreted cautiously in the context of recognised financial-soundness reporting.

Table 1: Variable Definition and Measurement

Variable	Measurement or proxy	Expected policy relationship	Interpretive meaning
Asset quality	NPL or impaired credit as a percentage of gross or total credit	Generally negative with sustainable performance	Higher impaired credit can reduce interest recognition and increase provisions.
Capital adequacy	Regulatory capital to risk-weighted assets	Positive with resilience	Higher capital improves loss absorption, but must be productively deployed.
Credit deployment	LDR or NCDR	Non-linear or mixed	Moderate lending supports income; excessive or weakly screened lending raises risk.

Variable	Measurement or proxy	Expected policy relationship	Interpretive meaning
Provisioning discipline	Expected credit loss and impairment recognition	Negative for current profit; positive for long-run resilience	Timely recognition improves reporting quality and shock preparedness.
Banking-sector performance	ROA, ROE and PBT	Outcome indicators	Measures nominal profitability and returns but not asset quality by itself.
Contextual factors	MPR, CRR, inflation, exchange rate and recapitalisation	Can strengthen or weaken observed relationships	Affects pricing, borrower repayment, nominal earnings and capital needs.

Source: Researcher's compilation from official risk-management, financial reporting and banking-sector sources (BCBS, 2025; CBN, 2024, 2025; IASB, 2014).

DATA PRESENTATION AND ANALYSIS OF RESULTS

Presentation of Secondary Data

Table 2 presents the recent aggregate indicators used in the analysis. Blank cells show that the relevant observation was not available in the source accessed for that period; no values were estimated or fabricated.

Table 2: Credit Risk and Banking-Sector Performance Indicators, 2023–2025

Period	NPL/Impaired credit (%)	CAR (%)	ROA (%)	ROE (%)	PBT (N billion)	LDR/NCDR (%)
Jun-2023	4.14	11.27	1.61	20.89	756.02	65.20
Sep-2023	4.36	12.90	2.58	38.48	633.03	66.81
Dec-2023	4.03		3.15	49.13	1,241.46	63.54
Mar-2024	5.05	11.05	3.03	55.54	1,054.15	67.13
Jun-2024	3.90	12.52	3.66	61.56	1,514.90	63.63
Sep-2024	4.58	14.01	3.36	55.59	1,079.10	61.65
Dec-2024	4.50	15.25	3.44	55.56	1,534.48	60.32
Jun-2025	5.76	13.43	3.20			

Source: Researcher's compilation from NDIC quarterly reports and CBN-reported financial soundness indicators (CEIC Data, 2025a, 2025b, 2025c; NDIC, 2023a, 2023b, 2024a, 2024b).

The impaired-credit ratio ranged from 3.90 per cent to 5.05 per cent between June 2023 and December 2024. It declined from 5.05 per cent in March 2024 to 3.90 per cent in June 2024, then increased to 4.58 per cent in September 2024 and moderated to 4.50 per cent in December 2024. The June 2025 observation of 5.76 per cent indicates renewed pressure on aggregate asset quality (NDIC, 2024a, 2024b; CEIC Data, 2025a).

ROA rose from 1.61 per cent in June 2023 to 3.15 per cent in December 2023 and reached 3.66 per cent in June 2024. It stood above 3 per cent till June 2025. The pattern indicates that the company's nominal profitability was improved but it does not imply a steady improvement in credit risk.

The capital adequacy ratio increased from 11.27 per cent in June 2023 to 15.25 per cent in December 2024 before moderating to 13.43 per cent in June 2025. This shows strengthening aggregate loss-absorption capacity through late 2024, followed by some moderation; the ratio remains sensitive to movements in regulatory capital and risk-weighted assets.

Credit deployment stayed on a moderate level following March 2024. LDR or NCDR fell from 67.13 per cent in March 2024 to 60.32 per cent in December 2024. This may be due to a less aggressive approach to lending, increased deposits, balance-sheet changes or any of these factors.

Descriptive Statistics

As shown in Table 3, the mean impaired-credit ratio of 4.54 per cent had a relatively low standard deviation of 0.61 percentage point. The ratio was within a narrow band for a large part of the period with an extremely high ratio of 5.76 per cent in June 2025, hence the need for policy attention.

On average, the rate of return on assets (ROA) was 3.00 percent. It can be easily determined that the company's profit was at a very high level considering the changes (from June 2023 to June 2024) between the minimum and maximum. The average return on equity (ROE) stood at 48.11 percent, but the large standard deviation implies variations in the degree of return over the four quarters.

Table 3: Descriptive Statistics

Indicator	Observations	Mean	Std. Dev.	Minimum	Maximum
NPL/Impaired credit ratio (%)	8	4.54	0.61	3.90	5.76
CAR (%)	7	12.92	1.49	11.05	15.25
ROA (%)	8	3.00	0.65	1.61	3.66
ROE (%)	7	48.11	14.04	20.89	61.56
PBT (N billion)	7	1,116.16	345.93	633.03	1,534.48
LDR/NCDR (%)	7	64.04	2.53	60.32	67.13

Source: Researcher's computation from Table 2 (June 2023–June 2025).

The average capital adequacy ratio (CAR) was 12.92 per cent and the average loan-to-deposit ratio (LDR) or net credit-to-deposit ratio (NCDR) was 64.04 per cent. The indicators indicate that capital increased while the volume of credit was reduced toward the end of the period. The descriptive pattern does not specify cause-and-effect, but it does indicate an approach for policy interpretation.

Trend Analysis

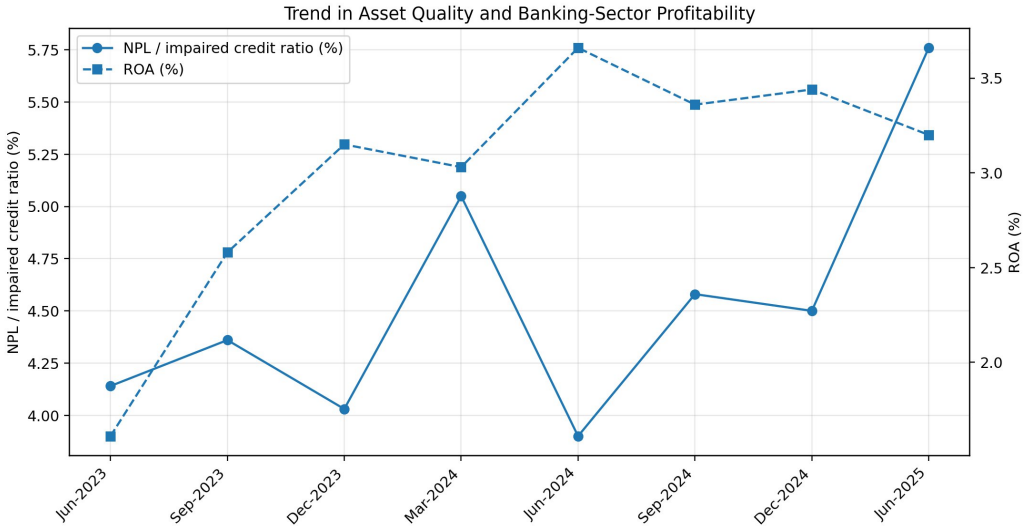


Figure 2: Trend in Asset Quality and Banking-Sector Profitability

Source: Researcher's computation from NDIC reports and CBN-reported financial soundness indicators (CEIC Data, 2025a, 2025b; NDIC, 2023a, 2023b, 2024a, 2024b).

The results of figure 2 indicate that NPL or impaired credit and ROA did not always change in opposite directions. ROA surged upwards from June 2023 to June 2024 and impaired credit wavered. The pattern suggests that profitability was being affected by other factors than the asset quality.

This positive asset quality trend, which occurred between March and June 2024, coincided with the peak ROA in the series. However, as of June 2025, the NPL ratio increased to 5.76 per cent and the ROA ratio fell to 3.20 per cent. This latter movement is in line with the worry that with continued deterioration profitability may be compromised, but this is not statistically substantiated by the brief series.

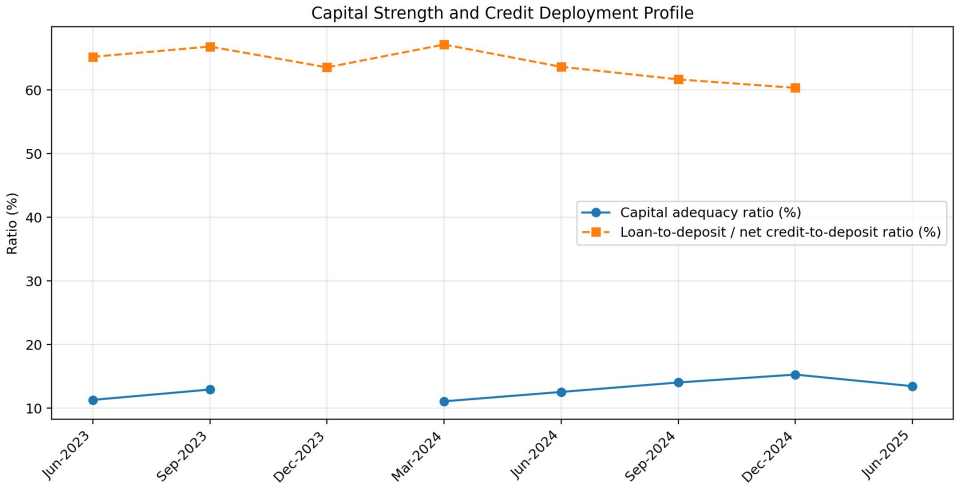


Figure 3: Capital Strength and Credit Deployment Profile
Source: Researcher's computation from NDIC reports and CBN-reported capital adequacy indicators (CEIC Data, 2025c; NDIC, 2023a, 2024a, 2024b).

As seen in Figure 3, the capital adequacy improved from March to December 2024 and LDR or NCDR worsened. The pattern indicates that the sector built up its capital buffer and become more conservative in using deposits for credit during a volatile time.

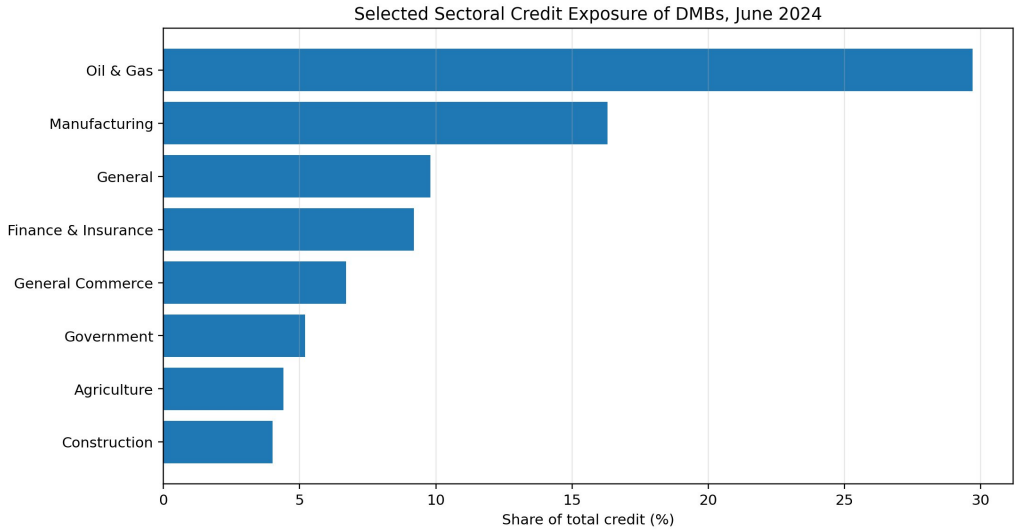


Figure 4: Selected Sectoral Credit Exposure of DMBs, June 2024
Source: Researcher's presentation from NDIC sectoral credit data (NDIC, 2024a).

The majority of selected sectoral exposures in June 2024 were in the oil and gas and manufacturing sectors, as seen in figure 4. Concentration in these sectors relates bank credit quality to oil prices and exchange-rate fluctuations, import costs and energy supply and demand. Individual borrower approval requirements are therefore not sufficient to require portfolio level stress testing.

Descriptive Correlation Analysis

Table 4 presents correlation coefficients that are merely descriptive of co-movement, and should not be interpreted as stable statistical relationships, due to the limited number of observations and missing values. It is important to note that the correlation between NPL and ROA is positive, but weak and should not be interpreted as a positive contribution of bad loans to profitability. Represents a brief period of time when asset quality was changing and other income sources were rising. The correlation of PBT with NPL is weak and negative, as would be expected given the association of poor credit with lower earnings.

Table 4: Descriptive Correlation Matrix

Correlation	NPL	CAR	ROA	ROE	PBT	LDR/NCDR
NPL	1.000	0.097	0.140	0.222	-0.170	0.200
CAR	0.097	1.000	0.564	0.414	0.493	-0.845
ROA	0.140	0.564	1.000	0.977	0.802	-0.524
ROE	0.222	0.414	0.977	1.000	0.766	-0.407
PBT	-0.170	0.493	0.802	0.766	1.000	-0.692
LDR/NCDR	0.200	-0.845	-0.524	-0.407	-0.692	1.000

Source: Researcher's computation from Table 2 (June 2023–June 2025), using pairwise available observations. Coefficients are descriptive and non-inferential.

CAR is positively associated with ROA, ROE and PBT in the available observations. This is consistent with the policy expectation that stronger capital supports resilience, but the coefficient does not prove that capital caused higher profitability. CAR is strongly negatively associated with LDR or NCDR because the periods of stronger capital coincided with moderated credit deployment.

ROA, ROE and PBT move closely together because they are related measures of sector profitability. The high correlations among them also show why a future bank-level regression should avoid placing highly overlapping dependent measures in the same model without careful specification.

Why Profitability Improved Despite Asset-Quality Pressure

The first explanation is called interest-rate repricing. The restrictive monetary policy adds to the yield of many earning assets, and gives banks flexibility to reprice loans and securities. This can increase the nominal return on interest income before the impact of financing costs shows up in borrowers' default. This policy setting can then be conducive to current income and to future credit stress (CBN, 2025).

Profits can also be achieved from trading and other non-interest income. The trading income grew from N357.04 billion to N1,089.33 billion, while the operating income went up from N2,428.43 billion to N2,837.24 billion between September and December 2024 (NDIC, 2024b). In an exchange-rate-adjustment environment, gains and losses due to fluctuations in foreign-currency positions also can impact reported income, but those gains and losses may be volatile and are not recurring credit quality.

Another channel is loan recoveries and growth in the balance sheet. Total assets rose to N160,596.96 billion, while recoveries jumped from N11.96 billion in September 2024 to N111.75 billion in December 2024. Similarly, profit before tax increased by 42.20 per cent to N1,534.48 billion during the same period (NDIC, 2024b). These are examples of the types of figures that would allow nominal profitability with asset-quality pressure still relevant in the context of cash collections, trading income and scale of the balance sheet.

Interpretation is also impacted by inflation. Income and assets are reported in nominal naira, and rapid changes in prices may increase nominal income and assets even if real profitability is increasing less rapidly. Analysts hence should be careful to distinguish between nominal earnings growth and risk-adjusted earnings growth and the inflation-adjusted growth.

Last but not least, more robust capital and provisioning discipline will help to shore up confidence and dampen the volatility of losses on credit. Expected loss recognition reduces current profit, but increases the reliability of the profit. The capital absorbs the unexpected loss. That is the reason why a sustainable-performance assessment should be based on profit, in combination with NPL, provisioning and capital indicators.

Policy Interpretation in the Recapitalisation Era

This recapitalisation programme alters the amount and risk level of money that banks can lend out. The higher capital base is able to handle larger transactions but also adds pressure to generate returns on the additional capital. However, if that pressure results in greater volumes of growth within a loan but not improved appraisal, then the future of NPLs could increase. The evaluation of the programme should therefore not be based on capital raised alone but

should also take into account the quality of the assets and concentration risk after capital were raised (CBN, 2024).

The evidence is found at the sector level and will support the coordinated supervision of capital, asset quality and credit growth. A bank can meet capital standards and yet issue substandard loans, and a bank that is conservative with its lending can meet asset quality standards but contribute less to productive intermediation. Prudential policy should promote well diversified and well monitored credits at a reasonable price.

DISCUSSION OF FINDINGS

Asset Quality and Banking-Sector Performance

The first is that, for the majority of 2023-2024, impaired credit was held in a fairly narrow band, rising by June 2025. The movement does not represent an estimated cause and effect, but rather a policy concern that is ongoing. This corresponds with evidence that NPLs can negatively impact performance by reducing income recognition, impairment costs and recovery costs (Kwashie et al., 2022).

This unfavorable relationship between NPL and ROA has not been demonstrated to be false due to the poor descriptive correlation in the short time series. Nigerian and comparative panel studies have employed significantly greater number of observations per bank year and mostly have found that credit risk has interactive relationship with profitability, capital, efficiency and macroeconomic variables (Natufe & Evbayiro-Osagie, 2023). The present result instead highlights the danger of drawing causal conclusions from a small aggregate dataset.

Capital Adequacy and Resilience

The second is that the capital adequacy of the aggregates got stronger towards December 2024 and was positively related to profitability measures in the descriptive matrix. This provides support for the interpretation of capital as a resilience buffer, but does not claim higher CAR led to increased ROA. The change in capital ratios can be due to asset reclassification, changes in risk-weighted assets, retained earnings or new capital.

Capital accumulation should be judged along with asset quality and earnings quality as this would have an impact on the recapitalisation programme. Although the introduction of new capital enhances shock absorption, the main thrust of sustainable performance would lie in the use of the new capital for proper credit pricing and monitoring, not in speedy risk accumulation (CBN, 2024).

Credit Deployment and Concentration Risk

The third result shows that the flow of credit to deposits was cooling at the end of 2024. The lack of liquidity and the pressure on credit in the short term may be due to this pattern and may also be indicative of reduced intermediation in the long term. It is not the policy question but the quality and distribution of lending that is the target of the smallest LDR.

The sectoral exposure profile reveals that exposure is concentrated in the oil and gas and manufacturing sectors. Such concentration can be a conduit for exchange-rate and commodity-price and energy-cost shocks to be spread to numerous borrowers concurrently.

Banks should thus use a combination of borrower-level appraisal, portfolio limits, stress-testing and early-warning indicators that are specific to certain sectors.

Profitability, Monetary Tightening and Earnings Quality

The fourth finding is that nominal profitability was also robust while asset quality was also deteriorating. It is analytically plausible since raising policy rates could lead to higher asset yields and higher borrower stress. Current profits may also be bolstered by non-interest and foreign-exchange income, recoveries, inflation and balance-sheet expansion (CBN, 2025).

This discovery reinforces the accounting-profitability/sustainable-performance divide. Stable asset quality and realistic expected loss provisions and sufficient capital support is more believable for strong ROA or PBT. Another aspect of disclosure that is relevant to risk-management is to inform the stakeholders of the source and the sustainability of the reported earning (Ogundele & Nzama, 2025).

Implications for Credit Risk Governance

The fifth finding is that performance of sectors should be regulated by an integrated framework and not individual ratios. The use of early-warning systems, concentration limits, recovery, expected loss, and capital planning and risk disclosures are complementary. A high capital adequacy ratio cannot compensate for poor underwriting, just as a low non-performing-loan ratio cannot justify inadequate lending to productive sectors.

This wholesome approach is backed by empirical studies. In the Nigerian context, credit, liquidity, capital, and management quality are found to have an impact on performance, and comparative analysis reveals differences in performance with the inclusion of bank size, efficiency, and macro-economic controls which are used to control the effects of other variables (Ololade et al., 2023). The study therefore uses official indicators as confirming indicators.

CONCLUSION

This study involved profitability, asset quality and capital resiliency in Nigeria's banking sector between the recapitalisation and monetary-tightening regime in the Nigerian banking sector between the period June 2023 to June 2025. The evidence is limited to seven or eight observations of the aggregate sector and the results are therefore descriptive (non-causal) rather than causal, meaning that they do not explain how a bank performs within their sector per se, but rather show evidence of their profitability.

The facts clearly indicate that profitability, asset quality, capital adequacy, and credit deployment were closely correlated, and thus must be interpreted together. Nominal profitability increased, impaired credit levels varied and later deteriorated, capital adequacy became more sound, and credit deployment weakened. These co-movements of earnings should not be viewed as fixed statistical relationships or causal effects, and were supported by interest-rate repricing, trading and other non-interest income, recoveries and balance-sheet growth and inflation.

The main finding is that return on assets, return on equity, or profit before tax is not enough to be used as indicators of the health of the banking sector. Sustainable performance relies on reasonable asset quality, sensible expected-credit-loss provisioning, sufficient and productive

capital deployment, and a contained sectoral concentration and transparent reporting of the earnings sources. The focus of the recapitalisation should thus be on the quality and strength of the lending that occurs after the capital injection, rather than the amount of capital raised (BCBS, 2025; CBN, 2024; IASB, 2014).

Recommendations

1. For the deposit money banks, the rising impaired-credit ratio to 5.76 per cent in June 2025 indicates a need for improved automated early-warning mechanisms for delayed repayments, violations of covenants, and frequent changes to accounts and sector-specific problems

2. Banks should connect the recapitalisation process with credit discipline. New capital should be allocated under strengthened underwriting, concentration limits and risk-adjusted return requirements rather than used to support indiscriminate asset growth.

3. The large exposure to oil and gas and manufacturing should be managed through sector limits, reverse stress tests and scenarios covering exchange-rate depreciation, energy-cost shocks, weaker demand and commodity-price movements.

4. Banks should maintain forward-looking expected-credit-loss provisioning and connect changes in sectoral credit risk to lending decisions. Deterioration in expected loss should prompt reviews of credit pricing, collateral, monitoring intensity and exposure limits (IASB, 2014).

5. Management and regulators need to differentiate between nominal profitability and sustainable earnings. The net interest margin, foreign exchange related incomes, fee incomes and recoveries and impairment write-backs should be reported in bank performance reviews.

Contribution to Knowledge

The most important contribution of the study is the profitability–asset-quality sustainability framework for Nigeria's recapitalisation period. The framework focuses on the importance of the nominal profitability, impaired credit, capital adequacy, credit deployment, provisioning and concentration as a suite of signals rather than individual ratios. It highlights a policy warning in the case of higher earnings coupled with a rise in impaired credit, since this can mask future provisioning and capital pressure.

The other aspect is methodological. The study demonstrates how a compact regulatory information structure can be used to inform transparent policy analysis not so much as a bank-level causal model. It fills the gap between Nigerian sector information and the credit-risk principles in Basel and IFRS 9 expected loss recognition framework, which is a structured approach of regulatory monitoring and bank-level panel research (BCBS, 2025; IASB, 2014).

Limitation and Further Research

The study is restricted in time series, observations are missing and two reporting platforms are used for different time periods. It is unable to detect any variations between banks or to understand the impact of internal governance on individual results.

Other studies should gather plausible annual-report data for a well-coordinated sample of banks in Nigeria and consider the size of the banks, bank cost efficiency, bank liquidity, bank loan loss provision, inflation, GDP growth and exchange-rate indicators. Dynamic panel methods might be suitable if profitability persistence or endogeneity are of concern.

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