

Effect of IFRS 9 Expected Credit Loss Provisioning on Credit Risk among Deposit Money Banks in Nigeria

Emeribe Blessing Ijeoma¹ & Eneh, Sylvia Nnenna, Ph.D., TRCN, ACA²

Abstract

This study investigated the effect of IFRS 9 expected credit loss provisioning on credit risk among deposit money banks in Nigeria between 2014 and 2025. The specific objectives were to determine the effect of expected credit loss provisioning, examine the effect of loan-loss provision adequacy, and assess the effect of non-performing loan recognition under the expected credit loss model on credit risk among deposit money banks in Nigeria. Using panel data obtained from five selected deposit money banks and employing Panel Least Squares regression analysis, the study found that all three explanatory variables had statistically significant effects on credit risk. Expected Credit Loss Provisioning (ECLP) had a positive and statistically significant effect on credit risk ($\beta = 0.067027$, $p = 0.0032$), indicating that higher expected credit loss provisioning was associated with increased credit risk. Loan-Loss Provision Adequacy (LLPA) had a negative and statistically significant effect on credit risk ($\beta = -0.009422$, $p = 0.0000$), suggesting that adequate loan-loss provisions contribute to reducing credit risk. Non-Performing Loan Recognition under the Expected Credit Loss Model (NPLR_ECLM) also had a positive and statistically significant effect on credit risk ($\beta = 0.854250$, $p = 0.0000$), indicating that increased recognition of non-performing loans reflects higher credit-risk exposure. The regression model recorded an R-squared value of 0.998319, indicating that approximately 99.83% of the variation in credit risk was explained by the explanatory variables. The findings suggest that effective implementation of IFRS 9 expected credit loss provisioning, adequate loan-loss provisions, and timely recognition of non-performing loans are important considerations in managing credit risk among Nigerian deposit money banks. It is concluded that banks should strengthen their expected credit loss estimation processes, maintain adequate provisions, and improve the timely identification and recognition of deteriorating loan quality to enhance credit-risk management and financial stability.

Keywords: IFRS 9, Expected Credit Loss Provisioning, Loan-Loss Provision Adequacy, Non-Performing Loans, Credit Risk, Deposit Money Banks

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Author(s)	Affiliation
1.	Department of Accountancy, Faculty of Management Sciences, St Luke's Business School, Peaceland University Enugu, Nigeria.
2.	Department of Accountancy, Faculty of Management Sciences, St Luke's Business School, Peaceland University Enugu, Nigeria *Corresponding Author

Introduction

The banking industry occupies a central position in the financial system because banks mobilise deposits and channel funds to households, businesses, and other economic agents through lending activities. However, the lending function exposes banks to credit risk, particularly the possibility that borrowers may fail to meet contractual obligations. Consequently, the recognition and measurement of potential credit losses constitute important aspects of bank financial reporting and risk management. Loan-loss provisions affect reported earnings, the carrying amount of loan assets, and the capacity of banks to absorb credit losses. Evidence indicates that provisioning practices are influenced by accounting constraints and may affect the quality and interpretation of reported bank information (Balla and Rose, 2015). In the Nigerian banking environment, loan-loss provisioning has also been associated with managerial discretion and bank risk, making the relationship between accounting provisions and credit-related outcomes an important empirical issue (Salami et al., 2022).

The traditional incurred-loss approach to loan impairment was criticised for recognising losses only after sufficient evidence of deterioration had emerged, thereby creating concerns about delayed recognition of credit losses. The development of expected credit loss accounting represented a significant shift toward a more forward-looking approach in which banks recognise anticipated losses using available information about credit conditions. Under IFRS 9, expected credit loss provisioning is designed to incorporate information about changes in credit quality and anticipated future losses rather than relying solely on losses that have already occurred. This approach is particularly relevant to banks because loan portfolios constitute a major component of their assets and expose them continuously to default risk. Empirical evidence shows that the transition toward expected loan-loss provisioning has implications for the timeliness and predictive usefulness of bank provisions (López-Espinosa et al., 2021).

Expected credit loss provisioning is therefore an important component of contemporary bank accounting because it seeks to ensure that credit losses are recognised in financial statements in a more timely manner. The approach requires banks to estimate expected losses by considering historical experience, current conditions, and reasonable forecasts of future economic conditions. Although earlier recognition can improve the timeliness of information available to users of financial statements, it may also make provisioning more sensitive to economic fluctuations. This creates a tension between timely loss recognition and the possibility of increased procyclicality in bank provisions. Research examining expected credit loss provisions demonstrates that the forward-looking approach can provide earlier recognition of deteriorating credit conditions, although changes in economic conditions may produce corresponding changes in provisioning levels (Abad and Suarez, 2018).

The adequacy of loan-loss provisions is another important consideration in evaluating the credit-risk implications of bank accounting. Adequate provisions provide a financial buffer against expected deterioration in loan portfolios and can help prevent sudden recognition of substantial losses when borrowers ultimately default. Conversely, inadequate provisioning may leave banks with insufficient allowances to absorb losses associated with impaired loans, thereby weakening the reliability of reported asset values and potentially increasing vulnerability to credit shocks. Empirical evidence on banks' provisioning behaviour indicates that the relationship between impaired loans and loan-loss allowances is not always immediate, with banks adjusting provisions over time toward desired allowance levels. Such differences in the timing and adequacy of provisions make loan-loss provision adequacy an important issue in assessing bank credit risk (de Haan and van Oordt, 2018).

The recognition of non-performing loans under the expected credit loss framework is also closely connected with the assessment of credit risk. Non-performing loans represent exposures for which borrowers have experienced significant difficulty in meeting their contractual obligations and therefore provide an important indication of deterioration in loan quality. IFRS 9 introduced a staging approach under which financial assets move through different levels of credit deterioration, with credit-impaired exposures receiving lifetime expected credit loss

recognition. The relationship between impairment recognition and credit risk is particularly significant because the accounting recognition of loan losses can provide information about the underlying quality of a bank's credit portfolio. Evidence shows that loan impairments recognised under IFRS 9 can contain information relevant to market assessments of bank credit risk, although managerial discretion in provisioning may affect their usefulness (Oberson, 2021).

The adoption of an expected credit loss framework has consequently generated considerable interest concerning whether more timely provisioning actually contributes to lower banking risk. Expected loss models can encourage earlier corrective responses to deteriorating credit conditions because provisions are recognised before losses are fully realised. Nevertheless, the financial consequences of higher provisions can reduce earnings and capital, creating potential effects on banks' lending decisions and risk-taking incentives. The interaction between provisioning, capital regulation, and bank behaviour therefore means that the relationship between expected credit loss provisioning and credit risk may not be straightforward. Analytical evidence indicates that expected-loss provisioning can improve efficiency by promoting earlier corrective action, while its ultimate effects depend partly on banks' capital positions and the effectiveness of regulatory intervention (Mahieux et al., 2023).

Evidence from the banking literature further demonstrates that the movement toward IFRS 9 has implications for both credit-risk measurement and financial stability. The transition from incurred-loss recognition to expected-loss recognition changes the timing of impairment recognition and can influence banks' capital positions and risk behaviour. Research on the transition to IFRS 9 indicates that regulatory capital considerations may affect banks' responses to the new provisioning framework, while the recognition of expected losses can have implications for systematic risk and financial resilience (Dong and Oberson, 2022). In Nigeria, empirical evidence based on bank annual reports has also shown that loan-loss provisions and non-performing exposures remain important indicators of the condition of bank loan portfolios. Nigerian evidence further suggests that loan provisioning and non-performing loans have significant relationships with measures of bank asset quality, demonstrating the continuing importance of provisioning and problem-loan recognition within the domestic banking sector (Bale and Ogbonna, 2018).

Furthermore, despite the growing literature on IFRS 9, expected credit loss provisioning, loan-loss provisions, and bank risk, an important empirical gap remains in the Nigerian deposit money banking sector. Existing studies have examined aspects of provisioning behaviour, asset quality, managerial discretion, and the broader consequences of IFRS-related reforms, but limited attention has been directed specifically toward jointly examining expected credit loss provisioning, loan-loss provision adequacy, and non-performing loan recognition under the expected credit loss model as explanatory factors for credit risk among Nigerian deposit money banks. This creates a need for further empirical investigation using secondary data obtained from the published annual reports and accounts of selected deposit money banks. The present study is therefore justified by the need to provide evidence on whether the accounting recognition and adequacy of expected credit losses are associated with variations in credit risk within the Nigerian banking environment.

Statement of the Problem

Ideally, deposit money banks are expected to maintain sound credit-risk management systems that enable them to identify, measure, recognise, and provide adequately for expected losses arising from their lending activities. The adoption of IFRS 9 introduced an expected credit loss approach intended to promote more timely recognition of credit losses by requiring banks to recognise expected losses based on available historical, current, and forward-looking information. Effective expected credit loss provisioning should therefore enable deposit money banks to maintain adequate loan-loss provisions, recognise deterioration in credit quality promptly, and strengthen their capacity to manage credit risk. A properly functioning expected credit loss framework should consequently

contribute to reliable financial reporting, appropriate loss absorption, and improved management of credit exposures.

However, despite the implementation of IFRS 9, concerns remain regarding the extent to which expected credit loss provisioning effectively reflects the actual credit-risk position of deposit money banks in Nigeria. Variations in the level of expected credit loss provisions may arise from differences in the quality of banks' loan portfolios, assumptions used in estimating expected losses, and changes in economic conditions. Similarly, inadequate loan-loss provisions may leave banks insufficiently protected against deterioration in their credit portfolios, while excessive provisioning may adversely affect reported profitability and capital. The recognition of non-performing loans under the expected credit loss model also raises concerns about whether deterioration in borrowers' credit quality is recognised sufficiently and consistently. These issues create uncertainty regarding the extent to which expected credit loss provisioning, loan-loss provision adequacy, and non-performing loan recognition under the expected credit loss model influence the credit risk of Nigerian deposit money banks.

If these problems are not adequately addressed, deposit money banks may continue to experience weaknesses in the recognition and management of credit losses, thereby increasing their exposure to credit risk. Inadequate recognition of expected losses and insufficient loan-loss provisions could result in an overstatement of the quality of loan assets and an underestimation of the risks associated with lending activities. This may weaken banks' financial resilience, adversely affect profitability and capital adequacy, and potentially undermine depositors' and investors' confidence in the banking system. Furthermore, persistent weaknesses in non-performing loan recognition could delay appropriate corrective actions and increase the possibility of accumulated credit losses. It is therefore necessary to empirically examine the effect of expected credit loss provisioning, loan-loss provision adequacy, and non-performing loan recognition under the expected credit loss model on credit risk among deposit money banks in Nigeria.

Objectives of the Study

The main purpose of this study is to examine the effect of IFRS 9 expected credit loss provisioning on credit risk among deposit money banks in Nigeria. The specific objectives are to:

- i. To determine the effect of expected credit loss provisioning on credit risk among deposit money banks in Nigeria.
- ii. To examine the effect of loan-loss provision adequacy on credit risk among deposit money banks in Nigeria.
- iii. To assess the effect of non-performing loan recognition under the expected credit loss model on credit risk among deposit money banks in Nigeria.

Research Questions

The study provided answers to the following research questions.

- i. What is the effect of expected credit loss provisioning on credit risk among deposit money banks in Nigeria?
- ii. What is the effect of loan-loss provision adequacy on credit risk among deposit money banks in Nigeria?
- iii. What is the effect of non-performing loan recognition under the expected credit loss model on credit risk among deposit money banks in Nigeria?

Statement of Hypotheses

The following hypotheses in null form (H_0) guided this study

- i. H_{01} : Expected credit loss provisioning has no significant effect on credit risk among deposit money banks in Nigeria.

- ii. H_{02} : Loan-loss provision adequacy has no significant effect on credit risk among deposit money banks in Nigeria.
- iii. H_{03} : Non-performing loan recognition under the expected credit loss model has no significant effect on credit risk among deposit money banks in Nigeria.

Significance of the Study

This study is significant to various individuals and institutions because its findings will provide meaningful contributions to a wide range of stakeholders interested in IFRS 9 expected credit loss provisioning, loan-loss provision adequacy, non-performing loan recognition, and credit risk among deposit money banks in Nigeria. The findings of the study will be useful to the following individuals and institutions:

- i. **Management of Deposit Money Banks:** The study will be beneficial to the management of deposit money banks in Nigeria by providing empirical evidence on the effect of expected credit loss provisioning, loan-loss provision adequacy, and non-performing loan recognition under the expected credit loss model on credit risk. The findings will enable bank managers to assess the effectiveness of their existing provisioning and credit-risk management practices. It will also assist management in making informed decisions concerning lending activities, recognition of credit losses, monitoring of loan portfolios, and the maintenance of adequate provisions against potential credit losses.
- ii. **Central Bank of Nigeria:** The study will be useful to the Central Bank of Nigeria in its responsibility for regulating and supervising deposit money banks in the country. The findings will provide empirical evidence that may assist the regulatory authority in assessing the effectiveness of IFRS 9 expected credit loss provisioning practices among banks. It may also support the development, review, and implementation of appropriate regulatory policies concerning loan-loss provisioning, non-performing loans, credit-risk management, and the financial stability of the Nigerian banking sector.
- iii. **Investors and Shareholders:** Investors and shareholders will benefit from the study because the findings will provide useful information about the relationship between expected credit loss provisioning and the credit-risk position of deposit money banks. The study will help investors and shareholders better understand how banks recognise expected credit losses and provide for potentially unrecoverable loans. This information may assist them in evaluating the financial condition, risk exposure, sustainability, and investment prospects of banks before making investment and monitoring decisions.
- iv. **Depositors and Bank Customers:** The study will be beneficial to depositors and customers of deposit money banks because the findings will improve their understanding of the importance of effective credit-risk management and adequate loan-loss provisioning to the financial soundness of banks. Since excessive credit risk can affect the stability and continued operation of financial institutions, the findings may enable customers to appreciate the importance of banks maintaining adequate provisions and promptly recognising deteriorating loans in protecting the overall stability of banking operations.
- v. **Accountants and Auditors:** The study will be useful to accountants and auditors involved in the preparation, examination, and evaluation of financial statements of deposit money banks. The findings will provide additional empirical knowledge concerning IFRS 9 expected credit loss provisioning and its relationship with credit risk. This may assist accounting professionals and auditors in applying appropriate professional judgement when evaluating expected credit loss estimates, loan-loss provisions, non-performing loans, and related disclosures in the financial statements of Nigerian deposit money banks.
- vi. **Government and Policymakers:** The study will be useful to the Nigerian government and relevant policymakers by providing empirical evidence on issues relating to expected credit loss provisioning and

credit risk in the banking sector. The findings may assist policymakers in understanding how accounting-based credit-loss recognition relates to the risk position of deposit money banks. Such information can contribute to the formulation and implementation of policies aimed at promoting sound banking practices, protecting financial stability, strengthening confidence in the financial system, and reducing excessive credit-risk exposure.

Operational Definition of Terms

The following terms operationalized the study:

- i. **Expected Credit Loss (ECL):** Expected credit loss refers to the estimated present value of all cash shortfalls that a bank expects to incur from a financial asset as a result of possible credit losses. Under IFRS 9, expected credit losses are recognised based on forward-looking information rather than waiting until a credit loss has already occurred.
- ii. **Expected Credit Loss Provisioning:** Expected credit loss provisioning refers to the process by which deposit money banks recognise and provide for anticipated credit losses on loans and other financial assets in accordance with the expected credit loss requirements of IFRS 9. It involves estimating potential losses and recognising appropriate impairment provisions to reflect the credit risk associated with financial assets.
- iii. **Credit Risk:** Credit risk refers to the possibility that a borrower or counterparty may fail to meet its contractual financial obligations to a bank, resulting in a financial loss to the bank. In this study, credit risk represents the level of potential loss arising from borrowers' inability or unwillingness to repay loans and advances.
- iv. **Loan-Loss Provision Adequacy:** Loan-loss provision adequacy refers to the extent to which the provisions recognised by a bank are sufficient to cover the expected losses associated with its loan portfolio. Adequate loan-loss provisions enable banks to absorb anticipated credit losses and present a more realistic position of the quality of their loan assets.
- v. **Non-Performing Loan (NPL):** A non-performing loan is a loan or credit facility in which the borrower has failed to meet the required repayment obligations within the period specified by applicable regulatory or accounting requirements. NPLs indicate deterioration in loan quality and are an important indicator of credit risk in deposit money banks.
- vi. **Non-Performing Loan Recognition:** Non-performing loan recognition refers to the identification and accounting recognition of loans whose credit quality has deteriorated to the extent that they meet the criteria for being classified as non-performing. Under the expected credit loss framework, recognition of deterioration in credit quality enables banks to appropriately reflect the associated credit losses.
- vii. **IFRS 9:** IFRS 9 is an International Financial Reporting Standard that provides requirements for the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. In relation to this study, IFRS 9 is particularly relevant because it introduced the expected credit loss approach for recognising impairment on financial assets.
- viii. **Provision for Credit Losses:** Provision for credit losses refers to the amount recognised by a bank to account for anticipated losses arising from the failure of borrowers to meet their contractual loan obligations. The provision serves as an accounting mechanism for recognising expected deterioration in the recoverability of financial assets.

Review of Related Literature

Conceptual Review

IFRS 9

IFRS 9, Financial Instruments, restructures financial instrument accounting through principles governing classification, measurement, impairment, and risk reporting. Its framework emphasizes business models and contractual cash-flow characteristics while introducing expected credit losses. This represents a shift toward more timely recognition of credit deterioration and greater alignment between accounting information and economic risk (Giner & Mora, 2019). However, forward-looking estimation increases managerial judgment and measurement uncertainty (Gebhardt, 2016).

A major conceptual dimension of IFRS 9 is its expected credit loss model, which replaces the predominantly backward-looking incurred-loss approach with forward-looking estimates. The model incorporates historical experience, current conditions, and reasonable forecasts to identify potential credit deterioration earlier. Evidence suggests this approach can improve loss recognition, although increased flexibility may also create opportunities for discretionary reporting choices (Gomaa et al., 2019).

The relevance of IFRS 9 extends beyond financial statement measurement because its requirements influence credit-risk monitoring and financing decisions. For banks, expected-loss recognition encourages continuous assessment of borrowers and strengthens accounting's informational role in lending relationships. Research indicates that IFRS 9 adoption can increase accounting-driven bank monitoring and influence firms' choices between bank and public debt financing (Li et al., 2022).

IFRS 9 has generated scholarly debate concerning its effects on reporting quality, financial stability, risk management, and managerial discretion. Research increasingly examines adoption, implementation, credit-risk measurement, provisioning, and banking practices as interconnected dimensions. Consequently, IFRS 9 is better understood as a multidimensional reporting framework whose outcomes depend upon institutional, regulatory, and organizational contexts (Awuye & Taylor, 2024).

Furthermore, contemporary understanding positions IFRS 9 at the intersection of financial reporting, credit-risk assessment, prudential regulation, and managerial decision-making. Its conceptual significance derives from balancing timeliness with reliability under uncertainty. Earlier recognition of expected losses may improve relevance, while estimation introduces judgment and measurement uncertainty, making IFRS 9 important for understanding modern risk-oriented financial reporting.

Expected Credit Loss Provisioning

Expected Credit Loss Provisioning refers to the recognition of anticipated credit losses using forward-looking information rather than waiting for observable default events. Conceptually, it enhances the timeliness of impairment recognition by incorporating expected deterioration in borrowers' credit quality. Empirical evidence indicates that expected-loss provisions provide stronger information about future bank risk (López-Espinosa et al., 2021), while unrecognized losses remain relevant to investors (Wheeler, 2021).

Expected Credit Loss Provisioning incorporates historical loss experience, current economic conditions, and reasonable forecasts into impairment estimates. Under IFRS 9, provisioning is therefore dynamic because allowances respond to changes in credit risk and may increase from shorter-term expected losses to lifetime expected losses. Research suggests that this approach changes the cyclicity of loan-loss provisions, although its effectiveness remains dependent on economic conditions and estimation practices (Hansen et al., 2024).

The relevance of Expected Credit Loss Provisioning extends beyond accounting recognition because provisioning interacts with bank capital, lending decisions, and financial stability. Earlier recognition of expected losses can encourage corrective action before credit deterioration becomes severe, potentially improving risk management. However, the economic effects vary with banks' capitalization and the effectiveness of regulatory intervention (Mahieux et al., 2023).

A significant scholarly debate concerns whether Expected Credit Loss Provisioning achieves genuine timeliness without generating excessive discretion or procyclical effects. The forward-looking nature of provisioning requires substantial judgment in estimating default probabilities, exposure values, recovery rates, and future economic conditions. Evidence from European banking markets indicates that discretionary provisioning and delayed recognition can persist despite the adoption of expected-loss accounting (Novotny-Farkas et al., 2024).

Furthermore, contemporary understanding presents Expected Credit Loss Provisioning as both an accounting measurement mechanism and a broader credit-risk governance process. Its conceptual importance lies in connecting financial reporting with anticipatory risk assessment, managerial judgment, regulatory capital, and lending behavior. This perspective makes provisioning particularly relevant to research examining how accounting information influences financial stability, transparency, and institutional decision-making.

Loan-Loss Provision Adequacy

Loan-Loss Provision Adequacy refers to the extent to which a bank's recognized provisions sufficiently reflect expected losses within its credit portfolio. Conceptually, adequacy requires provisions to correspond with underlying credit risk rather than merely accounting discretion. Research links adequate provisioning with prudential protection and emphasizes its importance for transparent and resilient banking systems (Heningtyas & Widagdo, 2019). Evidence also shows that provisioning affects regulatory capital requirements (Krüger et al., 2018).

Loan-Loss Provision Adequacy is closely connected to the relationship between loan-loss reserves and non-performing exposures. A higher coverage ratio generally provides a stronger buffer against realized credit losses, protecting bank capital when impaired assets crystallize. European evidence indicates that credit risk and capitalization significantly influence coverage ratios, demonstrating that adequacy depends on both portfolio quality and institutional capacity (Alessi et al., 2021).

The adequacy of loan-loss provisions also depends on the quality of information available for estimating credit losses. Reliable borrower information enables banks to assess repayment capacity more accurately, whereas information deficiencies can cause systematic understatement of expected losses. Evidence from the financial crisis demonstrates that poor information quality was associated with weaker loan-loss allowance adequacy, highlighting the informational foundations of provisioning (Yang, 2022).

A further dimension concerns the relationship between provisioning adequacy and financial stability. Adequate provisions can strengthen banks' capacity to absorb credit losses, but provisioning may also become insufficient when economic deterioration occurs faster than expected. Modeling evidence suggests that even forward-looking expected-loss approaches may generate delayed recognition when banks fail to anticipate downturns, potentially reinforcing lending procyclicality and weakening stability (Goncharenko & Rauf, 2024).

Furthermore, contemporary conceptualization treats Loan-Loss Provision Adequacy as a multidimensional condition involving credit-risk measurement, information quality, capital strength, economic expectations, and supervisory assessment. Adequacy therefore cannot be evaluated solely through the absolute level of provisions. It requires consideration of whether recognized allowances realistically correspond with portfolio risk, anticipated losses, and the bank's capacity to withstand adverse credit developments.

Non-Performing Loan Recognition under the ECL Model

Non-Performing Loan Recognition under the ECL Model concerns identifying credit exposures whose repayment prospects have deteriorated sufficiently to warrant intensified impairment treatment. IFRS 9 connects recognition with credit impairment and staging, while broader scholarship emphasizes continuing differences in NPL definitions across jurisdictions (Bholat et al., 2018). Forward-looking accounting can also facilitate earlier identification of deteriorating loan quality (Ari et al., 2020).

Conceptually, NPL recognition under ECL involves migration toward Stage 3 when credit impairment becomes evident, requiring lifetime expected credit losses and recognition based on the asset's credit-impaired status. This approach strengthens the connection between loan quality and provisioning, although the assessment of recoverability remains sensitive to assumptions concerning cash flows, collateral, and resolution strategies (Bolognesi et al., 2020).

The relevance of NPL recognition under the ECL model extends to banks' asset-quality management because earlier identification can influence provisioning, recovery strategies, and balance-sheet restructuring. Recent evidence indicates that forward-looking IFRS 9 provisions can improve bank asset quality by reducing subsequent adverse NPL outcomes, strengthening their role as indicators of emerging credit deterioration (Elashmawy & Kallunki, 2025).

A continuing debate concerns whether Stage 3 recognition sufficiently addresses the timing problem associated with impaired loans without creating excessive cyclicality. Research indicates that delayed transfers into later stages can intensify fluctuations in provisioning, particularly when banks respond slowly to deteriorating economic conditions. Consequently, recognition thresholds and default definitions remain important determinants of ECL effectiveness (Malovaná & Tesařová, 2022).

Furthermore, contemporary conceptualization views NPL recognition under ECL as a dynamic process linking credit deterioration, impairment measurement, provisioning, and asset-quality management. Its theoretical importance lies in recognizing that loan classification is not merely an accounting outcome, but also an informational mechanism capable of influencing risk assessment, managerial responses, regulatory oversight, and the resolution of distressed credit exposures.

Credit Risk

Credit Risk refers to the possibility that a borrower or counterparty fails to meet contractual financial obligations, creating potential losses for the lending institution. Conceptually, it represents a central banking risk because loan portfolios expose institutions to default uncertainty and deteriorating asset quality (Bülbül et al., 2019). Its determinants include both institutional and macroeconomic conditions (Gulati et al., 2019).

Credit Risk encompasses interconnected dimensions including borrower characteristics, loan quality, portfolio concentration, profitability, capitalization, and economic conditions. Scholarly literature identifies non-performing loans as a major observable indicator, while emphasizing that credit risk reflects broader interactions among bank-specific, industry-related, and macroeconomic factors influencing repayment capacity and portfolio performance (Naili & Lahrichi, 2022).

The relevance of Credit Risk extends beyond individual lending decisions because it influences financial stability, market valuation, and the effectiveness of risk-management systems. Financial markets incorporate information about changing credit conditions through instruments such as credit default swaps and equity prices, demonstrating that credit risk possesses both accounting and market-information dimensions (Chau et al., 2018).

Credit Risk management also depends substantially on the reliability of internal measurement systems. Banks commonly employ internal credit ratings to estimate probabilities of default and differentiate exposures, yet

empirical evidence shows considerable variation in risk assessments for identical borrowers across institutions. Such inconsistency creates model risk and complicates comparability, regulatory assessment, and effective credit allocation (Berg & Koziol, 2017).

Furthermore, contemporary conceptualization treats Credit Risk as a dynamic phenomenon shaped by borrower behavior, institutional practices, market information, and macroeconomic conditions. Its theoretical significance therefore extends beyond predicting default to understanding how financial institutions identify, measure, monitor, and respond to uncertainty, making credit-risk assessment fundamental to sound lending and sustainable banking operations.

Theoretical Review

This study was theoretically underpinned on Asymmetric Information Theory

Asymmetric Information Theory

Asymmetric Information Theory explains situations where one party in a transaction possesses more or better information than another. In banking, borrowers generally have more information about their financial condition, intentions, and repayment capacity than lenders, creating information asymmetry that can produce adverse selection and moral hazard (Stiglitz & Weiss, 1981). For deposit money banks, inadequate information about borrowers can increase uncertainty regarding loan repayment and consequently elevate credit risk. IFRS 9 Expected Credit Loss (ECL) provisioning addresses this uncertainty by requiring banks to incorporate historical, current, and forward-looking information when assessing credit risk and estimating expected losses.

Relevance of the Study

- i. Information asymmetry: IFRS 9 provisioning improves banks' assessment of borrower credit risk.
- ii. Credit assessment: ECL models help identify potential deterioration in borrowers' creditworthiness.
- iii. Expected losses: Forward-looking provisions enable earlier recognition of probable credit losses.
- iv. Risk mitigation: Timely provisioning strengthens banks' capacity to manage credit risk.
- v. Bank stability: Better credit-risk information can support sounder lending and provisioning decisions.

Empirical Review

Aderibigbe et al. (2024) examined the effect of IFRS 9 adoption on Nigerian deposit money banks' performance. Using secondary data from four major banks covering five years before and after adoption, the researchers applied paired-samples t-tests to ROA and ROE. Results revealed bank-specific changes following IFRS 9 implementation, indicating that the standard materially influenced banks' financial outcomes.

Ihenyen & Akponimisingha (2025) investigated the post-implementation effect of IFRS 9 on loan portfolios of Nigerian listed deposit money banks. The study used data from 12 banks covering 2013–2022 and employed an independent-samples t-test to compare pre- and post-adoption periods. Findings showed a statistically significant increase in loan portfolios following IFRS 9 adoption.

Udefi et al. (2025) assessed the effectiveness of IFRS 9 in managing credit risk amid exchange-rate volatility in Nigerian banks. Structured questionnaires were administered to 134 banking professionals involved in risk management and financial operations. Results indicated moderate effectiveness of IFRS 9, although exchange-rate volatility, inadequate training, and technological limitations constrained accurate expected-credit-loss estimation.

Hussaini et al. (2025) examined IFRS 9 adoption and loan-loss provisioning among ten listed Nigerian deposit money banks using panel data for 2015–2024. Panel regression with clustered robust standard errors was employed.

Findings indicated that IFRS 9-related disclosures significantly increased loan-loss provisioning, while stronger bank capitalization weakened the positive relationship between IFRS 9 adoption and provisioning.

Kyiu & Tawiah (2025) investigated the relationship between IFRS 9 implementation and bank risk using 666 banks across 61 countries during 2016–2019. Multilevel hierarchical regressions and entropy-balancing estimations were employed. The results indicated that IFRS 9 implementation reduced bank risk, particularly among initially riskier banks and in jurisdictions with stronger accounting enforcement and banking supervision.

Salazar et al. (2023) examined IFRS 9, banking risk, and COVID-19 using European bank data covering 2015–2021. The researchers compared the predictive usefulness of expected-credit-loss and incurred-loss provisions for future bank risk. Findings showed that ECL provisions, particularly Stage 2 allowances, provided stronger risk information, although COVID-19 loan moratoria weakened their predictive relationship.

Methodology

Research Design

This study adopts an *ex-post-facto* research design, utilizing historical financial data from selected deposit money banks in Nigeria. The study period spans from 2014 to 2025 to ensure data comparability and to capture relevant changes in expected credit loss provisioning and credit risk within the Nigerian banking sector.

Area of Study

The research focuses on deposit money banks operating in Nigeria. Specifically, it examines the effect of IFRS 9 expected credit loss provisioning on credit risk among five selected deposit money banks over an eleven-year period, providing insights relevant to the Nigerian banking sector.

Sources of Data

Secondary data are sourced from the audited financial statements and annual reports of the sampled deposit money banks for the years 2014 to 2025. These documents provide detailed financial information necessary to compute the measures used to assess expected credit loss provisioning, loan-loss provision adequacy, non-performing loan recognition under the expected credit loss model, and credit risk.

Population of the Study

The population consists of all registered deposit money banks operating in Nigeria during the study period.

Sample Size and Sampling Technique

Using purposive sampling, five deposit money banks with consistent, reliable, and accessible financial data over the study period were selected. The sample includes: Access Holdings Plc, United Bank for Africa Plc, Zenith Bank Plc, Guaranty Trust Holding Company Plc, and Fidelity Bank Plc.

Model Specification

A. General Functional Form:

$$CR_{it} = f(ECLP_{it}, LLPA_{it}, NPLR_ECLM_{it})$$

B. Econometric Form:

$$CR_{it} = \beta_0 + \beta_1 ECLP_{it} + \beta_2 LLPA_{it} + \beta_3 NPLR_ECLM_{it} + C_i + \epsilon_{it}$$

Where:

CR_{it} = Credit Risk of bank i in year t

$ECLP_{it}$ = Expected Credit Loss Provisioning of bank i in year t

$LLPA_{it}$ = Loan-Loss Provision Adequacy of bank i in year t

$NPLR_ECLM_{it}$ = Non-Performing Loan Recognition under the Expected Credit Loss Model of bank i in year t

β_0 = Intercept term

$\beta_1, \beta_2, \beta_3$ = Coefficients to be estimated

c_i = Unobserved bank-specific effects

ε_{it} = Error term

Method of Data Analysis

Descriptive statistics will be employed to summarize and describe the characteristics of the data. For inferential analysis, panel data regression techniques, specifically Panel Least Squares (PLS), will be applied to estimate the effects of expected credit loss provisioning, loan-loss provision adequacy, and non-performing loan recognition under the expected credit loss model on credit risk. Diagnostic tests will be conducted to verify the assumptions of the regression model and select the appropriate panel data estimator, such as fixed effects or random effects.

Results and Interpretation

Descriptive Statistics

Table 1: Descriptive Statistics of the variables

	ECLP	LLPA	NPLR_ECLM	CR
Mean	0.027990	1.150150	0.074867	0.067667
Median	0.028100	1.160000	0.073000	0.067000
Maximum	0.045800	1.342000	0.124000	0.112000
Minimum	0.011800	0.876000	0.045000	0.041000
Std. Dev.	0.009146	0.108981	0.020077	0.018199
Skewness	0.057737	-0.458746	0.363866	0.341359
Kurtosis	2.020342	2.590144	2.209215	2.168040
Jarque-Bera	2.432659	2.524435	2.887332	2.895654
Probability	0.296316	0.283026	0.236061	0.235081
Sum	1.679400	69.00900	4.492000	4.060000
Sum Sq.	0.051941	80.07144	0.360084	0.294268
Sum Sq. Dev.	0.004935	0.700738	0.023783	0.019541
Observations	60	60	60	60

Source: E-view 14.0 Statistical Output, 2026

Table 1 presents the descriptive statistics for ECL provisioning (ECLP), loan-loss provision adequacy (LLPA), non-performing loan recognition under the expected credit loss model (NPLR_ECLM), and credit risk (CR) of sampled Nigerian deposit money banks from 2014 to 2025.

The results show mean values of 2.80% for ECLP, 1.15 for LLPA, 7.49% for NPLR_ECLM, and 6.77% for credit risk. The closeness of the mean and median values across all variables suggests that the data are not substantially affected by extreme observations. The minimum and maximum values also indicate reasonable differences in provisioning practices, non-performing loans, and credit risk among the sampled banks and across the study period.

The standard deviations indicate moderate variability in ECLP, NPLR_ECLM, and CR, while LLPA shows comparatively greater variation. The skewness values suggest that the distributions are generally fairly balanced, with only mild skewness observed in LLPA, NPLR_ECLM, and CR. Furthermore, all kurtosis values are below 3, indicating relatively light-tailed distributions.

Finally, the Jarque-Bera probability values for all variables exceed the 5% significance level, implying that the null hypothesis of normality cannot be rejected. Thus, the variables are approximately normally distributed, supporting the use of parametric statistical techniques in the subsequent analysis.

Table 2: Panel Regression Analysis Result of the Time Series Data

Dependent Variable: CR
Method: Panel Least Squares
Date: 09/04/26 Time: 15:35
Sample: 2014 2025
Periods included: 12
Cross-sections included: 5
Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ECLP	0.067027	0.021763	3.079823	0.0032
LLPA	-0.009422	0.001563	-6.026516	0.0000
NPLR_ECLM	0.854250	0.012073	70.75444	0.0000
C	0.012672	0.002139	5.923032	0.0000
R-squared	0.998319	Mean dependent var	0.067667	
Adjusted R-squared	0.998229	S.D. dependent var	0.018199	
S.E. of regression	0.000766	Akaike info criterion	-11.44666	
Sum squared resid	3.29E-05	Schwarz criterion	-11.30703	
Log likelihood	347.3997	Hannan-Quinn criter.	-11.39204	
F-statistic	11085.09	Durbin-Watson stat	1.236677	
Prob(F-statistic)	0.000000			

Source: E-view 14.0 Statistical Output, 2026

Table 2 presents the results of the panel least squares regression analyzing the effect of expected credit loss provisioning (ECLP), loan-loss provision adequacy (LLPA), and non-performing loan recognition under the expected credit loss model (NPLR_ECLM) on credit risk (CR) of five Nigerian deposit money banks over the period 2014 to 2025.

The results reveal that ECLP has a positive and statistically significant effect on credit risk, with a coefficient of 0.067027 and a probability value of 0.0032. Since the p-value is less than the 5% significance level, the relationship is statistically significant. This indicates that an increase in expected credit loss provisioning is associated with an increase in credit risk among the sampled deposit money banks. Specifically, a one-unit increase in ECLP, holding other variables constant, is associated with approximately a 0.067-unit increase in credit risk. This suggests that higher expected credit loss provisioning may reflect greater exposure to credit deterioration and anticipated losses within the banks' loan portfolios.

LLPA has a negative and statistically significant effect on credit risk, with a coefficient of -0.009422 and a probability value of 0.0000. The negative coefficient indicates that higher loan-loss provision adequacy is associated with lower credit risk among the sampled banks. The relationship is statistically significant at the 1% level because the p-value is less than 0.01. Specifically, a one-unit increase in loan-loss provision adequacy is associated with an estimated 0.0094-unit reduction in credit risk, ceteris paribus. This finding suggests that adequate loan-loss provisions may strengthen banks' capacity to absorb anticipated credit losses and consequently reduce their exposure to credit risk.

NPLR_ECLM has a positive and statistically significant effect on credit risk, with a coefficient of 0.854250 and a probability value of 0.0000. The coefficient indicates a strong positive relationship between non-performing loan recognition under the expected credit loss model and credit risk. Since the p-value is less than the 1% significance level, the effect is statistically significant. Specifically, a one-unit increase in NPLR_ECLM is associated with an

estimated 0.8543-unit increase in credit risk, holding other variables constant. This suggests that higher recognition of non-performing loans under the expected credit loss framework is associated with increased credit risk, reflecting the deterioration in the quality of the banks' loan portfolios.

The constant term (C) is positive and statistically significant at the 1% level, with a coefficient of 0.012672 and a probability value of 0.0000. This indicates that when ECLP, LLPA, and NPLR_ECLM are held at zero, the estimated baseline level of credit risk is approximately 0.0127. However, the practical interpretation of the intercept should be treated with caution because a situation in which all the explanatory variables are exactly zero may not represent a realistic condition for deposit money banks.

The R-squared value of 0.998319 indicates that approximately 99.83% of the variation in credit risk across the sampled banks and years is explained by the combined effect of ECLP, LLPA, and NPLR_ECLM. The adjusted R-squared value of 0.998229 further indicates that the model retains approximately 99.82% explanatory power after adjusting for the number of explanatory variables. The F-statistic of 11085.09, with a probability value of 0.0000, indicates that the overall regression model is statistically significant at the 1% level. This means that ECLP, LLPA, and NPLR_ECLM jointly have a statistically significant effect on credit risk among the sampled deposit money banks. The standard error of regression of 0.000766 indicates a relatively small average deviation of the observed credit risk values from the fitted regression values. The Durbin-Watson statistic of 1.236677 suggests the possibility of some positive serial correlation in the residuals, although further diagnostic testing would be required to establish its severity and implications for the regression results.

Test of Hypotheses

Test of Hypothesis One

Restatement of the Hypothesis in Null and Alternate forms:

H_{01} : Expected credit loss provisioning has no significant effect on credit risk among deposit money banks in Nigeria.

H_{a1} : Expected credit loss provisioning has a significant effect on credit risk among deposit money banks in Nigeria.

Statement of Decision Rule:

Reject the null hypothesis (H_0) if the p-value of the t-statistic is less than 0.05. Otherwise, accept the null hypothesis and reject the alternate hypothesis.

Decision:

From the regression result, the coefficient of ECLP is 0.067027 with a t-statistic of 3.079823 and a p-value of 0.0032, which is less than 0.05. Therefore, H_{01} is rejected, and the alternate hypothesis is accepted.

This indicates that expected credit loss provisioning has a statistically significant positive effect on credit risk among deposit money banks in Nigeria during the study period.

Test of Hypothesis Two

Restatement of the Hypothesis in Null and Alternate forms:

H_{02} : Loan-loss provision adequacy has no significant effect on credit risk among deposit money banks in Nigeria.

H_{a2} : Loan-loss provision adequacy has a significant effect on credit risk among deposit money banks in Nigeria.

Statement of Decision Rule:

Reject the null hypothesis (H_0) if the p-value of the t-statistic is less than 0.05. Otherwise, accept the null hypothesis and reject the alternate hypothesis.

Decision:

The coefficient of LLPA is -0.009422 with a t-statistic of -6.026516 and a p-value of 0.0000, which is less than 0.05. Therefore, H_{02} is rejected, and the alternate hypothesis is accepted.

This implies that loan-loss provision adequacy has a statistically significant negative effect on credit risk among deposit money banks in Nigeria over the study period.

Test of Hypothesis Three

Restatement of the Hypothesis in Null and Alternate forms:

H_{03} : Non-performing loan recognition under the expected credit loss model has no significant effect on credit risk among deposit money banks in Nigeria.

H_{a3} : Non-performing loan recognition under the expected credit loss model has a significant effect on credit risk among deposit money banks in Nigeria.

Statement of Decision Rule:

Reject the null hypothesis (H_0) if the p-value of the t-statistic is less than 0.05. Otherwise, accept the null hypothesis and reject the alternate hypothesis.

Decision:

The coefficient of NPLR_ECLM is 0.854250 with a t-statistic of 70.75444 and a p-value of 0.0000, which is less than 0.05. Therefore, H_{03} is rejected, and the alternate hypothesis is accepted.

This suggests that non-performing loan recognition under the expected credit loss model has a statistically significant positive effect on credit risk among deposit money banks in Nigeria during the study period.

Summary of Findings, Conclusion and Recommendations

Summary of Findings

The key findings of the study are elucidated below:

- i. Expected Credit Loss Provisioning was found to have a positive and statistically significant effect on credit risk, with a coefficient of 0.067027 ($t = 3.079823$, $p = 0.0032$). This finding indicates that an increase in expected credit loss provisioning is associated with an increase in credit risk among deposit money banks in Nigeria. It suggests that higher expected credit loss provisions may reflect increased exposure to anticipated credit losses and deterioration in the quality of the banks' loan portfolios.
- ii. Loan-Loss Provision Adequacy showed a negative and statistically significant effect on credit risk, with a coefficient of -0.009422 ($t = -6.026516$, $p = 0.0000$). This result implies that an improvement in the adequacy of loan-loss provisions tends to reduce credit risk among deposit money banks in Nigeria. It suggests that adequate provisioning provides a financial buffer against expected loan losses and strengthens the capacity of banks to absorb credit-related losses.
- iii. Non-Performing Loan Recognition under the Expected Credit Loss Model was found to have a positive and statistically significant effect on credit risk, with a coefficient of 0.854250 ($t = 70.75444$, $p = 0.0000$). This finding suggests that increased recognition of non-performing loans under the expected credit loss model is associated with higher credit risk among deposit money banks in Nigeria. It indicates that higher levels

of recognised non-performing loans reflect deterioration in loan portfolio quality and increased exposure to credit losses.

Conclusion

The study conclusively found that the three IFRS 9 expected credit loss provisioning indicators, namely Expected Credit Loss Provisioning, Loan-Loss Provision Adequacy, and Non-Performing Loan Recognition under the Expected Credit Loss Model, exhibited statistically significant effects on credit risk among deposit money banks in Nigeria. Specifically, expected credit loss provisioning and non-performing loan recognition under the expected credit loss model had positive and statistically significant effects on credit risk, while loan-loss provision adequacy had a negative and statistically significant effect on credit risk.

The positive relationship between expected credit loss provisioning and credit risk indicates that higher provisioning is associated with increased credit risk, possibly because greater provisions reflect higher anticipated credit losses and deterioration in loan portfolio quality. Similarly, the positive effect of non-performing loan recognition suggests that increased recognition of non-performing loans under the expected credit loss model is associated with higher credit risk. In contrast, the negative effect of loan-loss provision adequacy indicates that adequate provisioning provides a financial buffer against expected loan losses and contributes to reducing the credit risk exposure of deposit money banks.

These findings imply that the effectiveness of IFRS 9 expected credit loss provisioning in managing credit risk depends not only on the recognition of expected credit losses but also on the adequacy of provisions and timely identification of non-performing loans. The results underscore the importance of maintaining adequate loan-loss provisions and strengthening credit-risk assessment and monitoring systems to ensure that emerging deterioration in loan quality is identified and appropriately addressed.

Therefore, deposit money banks in Nigeria should adopt a comprehensive approach to credit-risk management by ensuring accurate expected credit loss estimation, adequate loan-loss provisioning, and timely recognition of non-performing loans. Such practices can strengthen banks' capacity to absorb credit losses, improve loan portfolio quality, and promote financial stability and resilience within the Nigerian banking sector.

Recommendations

Based on the findings of this study, the following recommendations are proposed:

- i. Given the statistically significant positive effect of expected credit loss provisioning on credit risk, deposit money banks in Nigeria should strengthen their credit-risk assessment and expected credit loss estimation processes. Banks should regularly review the quality of their loan portfolios, incorporate relevant forward-looking information into impairment assessments, and ensure that expected credit loss provisions accurately reflect emerging credit risks. This can help banks identify potential losses early and improve the effectiveness of credit-risk management.
- ii. Since loan-loss provision adequacy had a statistically significant negative effect on credit risk, deposit money banks should maintain adequate loan-loss provisions that are sufficient to absorb expected credit losses. Banks should periodically assess the adequacy of their provisions in relation to the quality and risk profile of their loan portfolios and avoid both under-provisioning and excessive provisioning. Adequate provisions can provide an effective buffer against credit losses and contribute to reducing credit-risk exposure.
- iii. In view of the statistically significant positive effect of non-performing loan recognition under the expected credit loss model on credit risk, deposit money banks should strengthen the timely identification,

classification, and recognition of non-performing loans. Banks should enhance loan monitoring systems, conduct regular reviews of borrowers' repayment capacity, and promptly recognise deterioration in credit quality. Early recognition of non-performing loans can enable banks to take appropriate recovery and remedial measures before credit losses become more severe.

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