

Corporate Governance and Credit Risk Disclosure Nexus: An Empirical Analysis of Financial Firm in Nigeria

Judith Onyekachukwu Ndah-John (Phd)
Department Of Accounting, Topfaith University, Mkpatak,
Akwa Ibom State, Nigeria

Emmanuel Chinanuife
Department Of Economics, Topfaith University, Mkpatak,
Akwa Ibom State, Nigeria.
Department Of Economics, Prince Abubakar Audu University
Anyigba, Kogi State Nigeria.

Adegboyega Alimi Oyediran (Phd)
Department Of Economics, Prince Abubakar Audu University
Anyigba, Kogi State

Abstract

Credit risk disclosures in financial firms are contingent upon corporate governance. For all financial firms that lend to individuals and legal entities, the issue of managing credit risk and conducting a quantitative evaluation and analysis of borrowers' credit risk and rating are pertinent. This study looks into how financial firms' disclosure of credit risk is affected by corporate governance. It looks into the relationship between credit risk disclosure and nonperforming loans, board size, and board makeup. The study's research design is ex-factor. Data came from financial firms' annual disclosures on the Nigeria Stock Exchange. To examine the data, SPSS was used. Multiple regressions were used to formulate the tested hypotheses. According to the regression analysis, there is a significant and negative correlation between the size of the board of directors and the coefficient. This finding implies that a larger board lowers the percentage of nonperforming loans. Additionally, the study reveals that non-performing loans—a proxy for corporate governance—are negatively and statistically insignificantly impacted by board composition. As a result, the study suggests that financial institutions improve the performance of

nonperforming loans and give careful consideration to financial literacy when choosing board members.

Keywords: Board Composition, Board Size, Corporate Governance, Credit Risk, Ownership Structure

1.0 Introduction

Credit risk can be defined in a variety of ways, such as the reduction of firm value as a result of changes in some basic aspects of the business environment (Pyle, 1999) or uncertainties in firm value or performance, the likelihood of occurrence and non-occurrence (Raghavan, 2003). Financial risk is a type of risk related to the financial sector, meaning that there may be losses due to financial variables. These could be from the internal business, such as liquidity and capital risk, or from the financial market, such as interest rate, foreign exchange, or credit risk. According to Oldfield and Santomero (1995), financial institutions may encounter three types of risks: those that may be managed by the company, those that can be passed to third parties through the use of financial instruments, and those that can be removed by a well-organized organization. The bank should properly manage risk in order

to meet its financial performance target for those that cannot be transferred or removed and should be absorbed at the bank level (Santomero, 1997).

As financial intermediaries, financial institutions contribute to economic growth by lubricating the economy. Any country must have financial stability, so financial institutions must be managed well. Afriye and Akkotey (2011) state that the velocity of loan creation in an economy has a substantial impact on the productive activities of a country. This study aims to close this gap in the literature. Redirecting funds from the surplus sector to the deficit sector in a sustainable and lucrative way is a bank's main goal. The primary sources of revenue for a commercial bank are interest on loans and advances; nevertheless, providing loans exposes banks to several hazards, such as credit risk and liquidity risk. (Kargi 2011) In order to address the country's credit risk management problems, the Central Bank of Nigeria (CBN) signed the Base I and Base II accords in 1987. According to Iwedi and Onuegbu (2014), both agreements stressed the significance of capital adequacy in reducing credit risks and reducing the impact of unexpected financial losses on banks.

Generally speaking, "corporate governance" refers to the set of guidelines, moral principles, procedures, and systems that regulate how a firm is run. It creates a framework that is lawful for the organization to accomplish its goals. Corporate governance, according to Bhasin (2012), is comprised of principled procedures that establish the interaction between the company's management, board, minority and majority shareholders, and all stakeholders. Establishing business goals and outlining the strategies for achieving them are made easier by corporate governance mechanisms. Eng and Mak (2003) assert that the inclusion of corporate governance information in annual reports aids investors in making investment decisions because they believe

that management conducts business in an ethical and open manner by demonstrating a dedication to the company's core values. The broader economic environment in which businesses function, which includes macroeconomic regulations and the level of competition in the product and factor markets, is comprised of more than just corporate governance (CG). Corporate governance is a set of guidelines, procedures, and policies that govern how a business is run (Organization for Economic Co-operation and Development (OECD), 2004). According to the Financial Reporting Council (FRC), 2014, it is employed to balance the interests of many stakeholders in a business, such as shareholders, potential investors, managers, staff, clients, creditors, debtors' suppliers, and the government, in order to produce a long-term success story. Stated differently, corporate governance refers to the organization of a company's hierarchy, separating the powers and duties of the board of directors, shareholders, and committees to make sure the business is operating efficiently and successfully in order to support its long-term goals. Achieving and preserving public trust and confidence in the banking system and other financial institutions is crucial for the smooth operation of the banking industry and the economy at large, according to the Basel Committee on Banking Supervision (Bank for International Settlement (BIS), 2010). Corporate governance is crucial, and credit risk disclosure management is crucial in financial organizations since the banking sector and other financial enterprises play a significant role in the economy.

Thus, this research aims to examine the relationship between corporate governance and credit risk disclosure in Nigerian financial organizations. In particular, this study aims to determine the impact of board composition on non-performing loans in financial organizations and to examine the effect of board size on non-

performing loans in Nigerian financial firms.

2.0 Literature Review

Credit risk disclosures

According to Npower (2010), credit risk is simply the possibility that you won't be able to fulfil your contractual payment commitments. Since the credit crises, there has been a renewed focus on credit risk. It has evolved into a financial product that is traded globally and seems to represent more than just the conventional risk that banks avoid when making loans (Beem, 2011). There are two types of credit risk: default risk and creditworthiness risk. The danger that the debtor will ultimately be unable to fulfil his financial obligations to his creditors is known as default risk. While default is not a given, creditworthiness risk is the chance that the borrower's or the counterparty's perceived trustworthiness could decline (Bruyere et al., 2006).

Nigeria has an extremely high level of financial system risk, according to the 2014 Country Risk Report (A.M. Best Company, Inc. (AMB)). Nigerian banks were unable to withstand credit losses in a dire macroenvironment (Nguyen, 2015). Additionally, Nguyen (2015) found that the NPL (Non-Performing Loan) ratio and GDP growth had a negative relationship. According to stock exchange Nigeria (NSE), 2015, NPLs increased to 4.67% in 2012. Furthermore, short-term loans account for about 60% of all outstanding loans, with 16% going to state-owned businesses and only 2% to foreign-invested businesses (NSE, 2015).

The academic literature is quite interested in studies that examine how corporate governance affects credit risk. Risk-taking behaviours and important signs that corporate governance procedures are responsible for overseeing the various aspects of credit risk disclosures were highlighted in the earlier studies. Because credit risk encompasses non-performing loans, board composition, and size, various

credit risk indicators are employed. Capital is crucial and the main issue that shareholders are worried about. When assessing credit risk disclosures, there are numerous criteria to consider. Basel II requires that most bank managers maintain a minimum interest rate (IRR). Furthermore, IRR was a common criterion for assessing credit risk in many previous studies. As a result, the model in this study uses non-performing loans to represent credit risk. In the asset portfolio of financial firms, credit is considered a significant activity. Credit risk is indicated by the low credit quality and high percentage of bad credit. This kind of risk typically affects and harms bank deposit money operations. One tool for assessing credit risk is the Non-Performing Loan ratio (NPL). cash risk should not be disregarded because in recent years, a severe lack of cash has been one of the causes of bankruptcy.

Credit Risk Assessment Model

Creating terms and conditions for bank customers who take out loans that both entice potential borrowers and assure loan payback is essential to ensuring efficient credit risk management in financial institutions. However, creating a unique set of terms and conditions for each borrower would not be practical. Rather, current and prospective bank customers must to be categorized based on their commonalities and distinctions. Following that, each group must have its own set of terms and conditions that are tailored to the members' individual characteristics. Bank customers should be categorized into different categories using a classification process that combines different system components into uniform groupings based on the components' shared characteristics. In order to guarantee the best appropriate grouping of the data, this classification technique must mirror the structure of the original data. Clustering and networking have historically been used to accomplish these objectives. Both of these techniques

yield comparable item classifications in the case of multidimensional samples. Clustering will be used in this article as a technique for evaluating credit risk. Statistics showing bank customers' breaches of contract terms and the harm each infraction causes to the bank must be considered when evaluating the risk of a bank's lending operations. A regressive dependence on variables like the average loan amount, the loan length, and several other parameters can be observed in the magnitude of the risk as the amount of damage (risk defined as the customer's inability to make principle payments on time). The information regarding the damage caused by each client and the credit characteristics of each customer class should be used to specify and identify such regressions. A model like this would make it possible to predict the danger that each possible customer would pose.

Corporate Governance

To preserve and enhance public trust in financial institutions (banking system) on their capacity to effectively manage their assets and liabilities, demonstrating their dedication to depositors, shareholders, and other stakeholders, corporate governance is essential. Corporate governance in the banking system is a major challenge because of the sector's high levels of regulation, competitiveness, agency issues, and information asymmetry. According to BIS (2010), the board of management oversees the business and affairs in the banking industry. Banking system performance and stability will be improved by regulations and supervisory mechanisms that prioritize information disclosure (Barth, Caprio, & Levine, 2004). Additionally, allowing foreign management and investors enhances banking advancements (Barth et al., 2004). The Nigerian banking system's corporate governance is seen as weak and insufficient. Moreover, one of the main causes of a corporate governance

framework's shortcomings is a lack of understanding of its importance. International principles and Nigerian financial institutions' corporate governance practices differ significantly as well (Tu, Son, & Khanh, 2014). By employing the corporate governance index (CGI), Tu et al. (2014) also discovered that the supervisory board and board of directors are the weakest components of banking's corporate governance practices. The performance of Nigerian financial institutions is positively impacted by corporate governance, they added. According to their proposal, ROA and ROE are positively impacted by shareholder meetings, the board of directors, and information disclosure.

Corporate governance is the process by which relationships within businesses are governed by laws and moral principles, according to Sayogo (2006). Planning, internal control, performance evaluation, and disclosure of corporate information are all included in the legal framework that is created to accomplish the corporate goals. The Cadbury Committee (2012) states that corporate governance is merely the framework that allows firms to be effectively managed and regulated. By ensuring that all of the company's operations are efficiently managed and focused on generating value for the shareholders, corporate governance procedures guarantee the financial sustainability of corporate operations. It explains the distribution of powers and offers a way to hold corporate boards and management accountable. Following a surge in company failures like Enron, significant corporate governance regulations were created in the US and the UK in 2002. due to inadequate internal controls and accounting fraud at WorldCom, Royal Bank of Scotland. According to the OECD (2004), the corporate governance principle requires companies to provide corporate information in a timely and correct manner.

Non-Performing Loan

Minsky's (2008) schema about the origins of banking and financial crises serves as the model for this section. According to the evidence gathered by Minsky and later researchers, financial crises are frequently preceded by excessive credit growth and leverage, which is indicated by a sharp increase in the ratio of loans to deposits. These lending booms result in non-performing loans, which are then significant roadblocks to economic recovery (Davis and Karim 2008; Demirgüç-Kunt and Detragiache 2005; Borio and Lowe 2002; Demirgüç-Kunt 1989). A growth in non-performing loans is often a bad thing. For banks that have poor loans on their books, funding costs increase in tandem with NPLs. The European Banking Coordination Vienna Initiative (2012) states that these expenses are frequently transferred to businesses and families, which may impede economic expansion as credit contracts. When non-performing loans (NPLs) result in bank and borrower insolvencies, it can lead to systemic failures. These insolvencies can have a negative impact on third parties through direct interconnections and indirect effects as asset prices drop during liquidations (USAID 2011). Additionally, overextended borrowers may refrain from spending, which lowers future income for others, even those who are not heavily indebted (Mehrling 2010).

The extent of NPL reduction initiatives that financial institutions can take is determined in part by capital levels and their anticipated trends. The capital implications of the various components of a bank's non-performing loan (NPL) strategy should be dynamically modelled by the bank, ideally in various economic conditions. Together with the internal capital adequacy assessment process (ICAAP) and the risk appetite framework (RAF), their consequences should also be taken into account. In situations where capital buffers are limited and profitability is poor, banks with significant non-

performing loans (NPLs) should incorporate appropriate measures into their capital planning to facilitate a long-term removal of NPLs from the financial position. Bank of Europe (2017), bank guidance regarding non-performing loans. Time-bound quantitative analysis should be a minimum component of any NPL strategy. NPL goals backed by a matching, all-inclusive operating strategy. A self-evaluation and a study of the choices for implementing an NPL strategy should serve as its foundation. The management body should approve the NPL strategy and review it at least once a year, along with the operational plan.

Factors in Financial Firms' Crises

Assets, liabilities, and equity are the three components of financial position that correspond to the three primary elements in banking crises. Insufficient equity funding to cover losses is the first factor. This issue, which is a high ratio of total assets to equity, is frequently referred to as the excess leverage problem. In wholesale markets, where liquidity can suddenly evaporate, a significant percentage of liabilities are supported on a short-term basis. This is the second common element. The issue of illiquidity and maturity mismatch—short-dated liabilities financing long-term assets—is what this is commonly referred to as. Lastly, a decrease in the value of banks' assets due to a hunt for yield is a third common element in banking crises. This issue shows up as non-performing loans on the accounts of the majority of banks.

In actuality, a number of eminent economists have put forth models of financial instability that heavily emphasize the issue of non-performing loans and overall asset quality. For instance, Hyman Minsky (1986) contended that a lot of financial problems stem from banks' attempts to boost profitability by lowering lending requirements. A critical threshold is reached at some stage of the lending cycle, according to Minsky (1986), when

allowing the quality of the assets to deteriorate is the only option to support additional asset expansion. At this point, the banking system moves from cash flow banking, also known as banking proper, where loans are given based on the anticipated cash flow from profitable ventures, to collateral-oriented banking, which is essentially pawn brokering, where loans are given based on the perceived value of the underlying security (Minsky 1986). When the value of the underlying collateral drops, asset quality becomes extremely vulnerable. Additionally, Minsky (1986) contended that certain banks begin to engage in Ponzi banking during the height of lending booms, right before they burst. This involves making loans for which they have misgivings about repayment, but they are nonetheless made since they can be sold. By securitizing loans and selling them to conduits and special purpose vehicles that are not listed on the financial position statement, this "Minsky moment" emerged in the most recent crisis (Wray 2011).

The extent of NPL reduction measures that banks can take is determined in part by capital levels and their anticipated trends. Ideally, under various economic conditions, banks should be able to dynamically estimate the capital implications of the various components of their non-performing loan (NPL) strategy. These consequences should also be taken into account when using the internal capital adequacy assessment process (ICAAP) and the risk appetite framework (RAF). High NPL banks should incorporate appropriate measures in their capital planning to allow for a sustainable removal of non-performing loans from the financial position in situations where capital buffers are limited and profitability is poor. The European Central Bank (2017) instructions for banks regarding non-performing loans. At the very least, an NPL strategy should include quantitative NPL targets with a timeframe and a complete operational plan to support them.

It should be founded on a review of the choices for implementing an NPL strategy as well as a self-evaluation. The management body should approve and review the NPL strategy and operational plan at least once a year.

Banks should examine the variety of NPL strategy implementation choices available and their corresponding financial impact based on the assessment stated above. The following are some examples of implementation possibilities that are not exclusive of one another: Forbearance and hold strategy: Forbearance and borrower assessment skills, operational NPL management capabilities, outsourcing of service, and write-off policies are all closely related to a hold strategy choice; Reductions to the active portfolio: One way to accomplish this is by selling or writing off provisioned non-performing loan exposures that are considered unrecoverable. Provision adequacy, collateral valuations, quality exposure data, and NPL investor demand are all closely related to this choice; Change in the type of exposure: Foreclosure, debt-to-equity, debt-to-asset, and collateral substitution fall under this category; Choices for the law, this covers bankruptcy procedures or extrajudicial resolutions. Banks should make sure that their non-performing loan (NPL) strategy include a variety of methods and choices rather than just one in order to best accomplish their goals in the short, medium, and long term. They should also investigate which options are suitable for various portfolios or segments.

In order to reduce non-performing loans (NPLs), banks should also determine medium- and long-term strategy options that may not be possible right now. For instance, a lack of immediate NPL investor demand may change in the medium to long term. Such developments, such the requirement to improve the quality of NPL exposure data in order to be prepared for future investor transactions, may need to be anticipated in operational strategies.

Banks should clearly represent these demands in a suitable and timely provisioning approach if they determine that the implementation methods mentioned above do not offer an effective NPL reduction in the medium to long-term horizon for specific portfolios, sectors, or individual exposures. The bank should promptly write off loans that are determined to be uncollectible once they have been suitably funded. Lastly, it is recognized that banks may benefit from NPL risk transfer and securitization transactions in terms of funding, liquidity management, specialization, and efficiency. But they are typically intricate procedures that need to be handled carefully. As a result, organizations that wish to take part in these kinds of transactions must have sufficient risk control procedures and perform thorough risk assessments. As a result, organizations that wish to take part in these kinds of transactions must have sufficient risk control procedures and perform thorough risk assessments.

Prior to initiating the short- to medium-term target-setting process, banks should clearly define acceptable long-term non-performing loan (NPL) levels, both generally and at the portfolio level. While there is a great deal of uncertainty regarding the timelines needed to accomplish these long-term objectives, they are a crucial component in establishing appropriate short- and medium-term goals. To determine "reasonable" long-term non-performing loan levels, banks operating in volatile macroeconomic environments should also look at historical or international standards.

At the very least, high non-performing loan (NPL) institutions should incorporate quantitative goals that are well-defined and approved by the management body into their NPL plan. Foreclosed assets should be included if applicable. At least in the medium run, the combination of these goals ought to result in a noticeable

decrease in NPL exposures, both gross and net (of provisions). Although expectations regarding changes in macroeconomic conditions may influence target levels (if they are supported by reliable external forecasts), they shouldn't be the only factor driving the set NPL reduction goals. At the very least, goals ought to be set along Short-term (indicative one year), medium-term (indicative three years), and potentially long-term time horizons; primary portfolios (such as retail mortgages, retail consumers, retail small businesses and professionals, SME corporate, large corporate, and commercial real estate); and the implementation option selected to propel the anticipated decrease, such as cash recoveries from hold strategies, collateral repossessions, recoveries from legal proceedings, or revenues from the sale of non-performing loans or write-offs. Central Bank of Europe (2017). recommendations for banks regarding non-performing loans.

Board Size

Managerial oversight, management, and consultation abilities are impacted by board size. According to Lipton and Lorsch (1992), boards with eight or nine members are the most productive. These writers contend that having a board larger than this ideal size makes it more difficult for each member to voice their thoughts and opinions during the few time allotted for board sessions. Jensen (1993) supports this viewpoint, contending that boards with more than seven or eight members operate less efficiently and are simpler for the CEO to manage. Given that a larger board will have more challenges when overseeing managers, it follows that a smaller board size is more effective. A larger board size, according to Pearce and Zahra (1992), will enhance the ability to monitor and enhance information sources. After looking at data from a questionnaire poll of the chairman of 1000 of the biggest firms in the UK in early 2008, McNulty et al. (2012) found that the smaller the board

size, the less financial risk-taking choices were made. (2012) Salhi and Boujelbene They discover that a smaller board size aids in reducing risk-taking actions in financial organizations by using data from ten Tunisian banks spanning eight years, from 2002 to 2009.

The number of directors, including executive and non-executive directors, on a company's board is known as its board size. Board size has an impact on a company's performance. Lipton and Lorseh (1992) believed that a small board size could help a company perform better because the advantages of more oversight from larger boards are outweighed by the poorer communication and decision-making of larger groups. They recommended that a board should have seven to nine directors. High firm value is positively correlated with a small board size, according to Mak and Kusnadi's 2005 study. According to Sanda, Mikalu, and Garba's (2010) study in Nigeria, small boards have a higher value correlation than large boards. The claim is that a CEO may more easily exert influence over a large board, which makes them less effective. Large boards have high processing issues and coordination costs, which makes decision-making challenging. On the other side, smaller boards tend to increase the firm's value because they lessen the chance of free-riding. They calculated the board's size based on the number of directors on it, and they anticipate that this will have a detrimental effect on the company's worth.

Board Composition

Board composition must be equal, according to Section 359(4) of the Companies and Allied Matter Acts of 2004. The number was left out of the new Security and Exchange Commission (SEC) recommendation. To guarantee the board's independence, the best international practice is to have a larger number of non-executive directors than executive directors. Board composition typically involves concerns about the independence

of the board (including the independence of its committees) and the diversity of its members (including their functional backgrounds, company and industry experience, and others). When a corporate board is composed primarily of independent outside directors, it is said to be independent. It is thought that an outsider-dominated board is more watchful of managerial actions and the company's decision-making than an insider-dominated board. Directors with a varied range of functional expertise (such as accounting, management, information technology, marketing, engineering, and finance), industrial experiences, educational backgrounds, and a mix of genders and ethnicities may be better able to handle a variety of problems facing the company and offer executives advice and consultation from a variety of viewpoints.

The percentage of non-executive board members who offer an unbiased perspective during board consultation and decision-making is indicated by the board's makeup. A large number of non-executive board members could undermine the board's consultation functions by discouraging executives from joining, which would make it more difficult for the board and executives to share information (Brickley, Coles, & Jarrell, 1997; Adams & Mehran, 2008). According to Booth et al. (2002), agency conflicts cause the bank to take on greater risk when there are fewer outside directors. Tsorhe et al. (2011) claim that the percentage of external members reflects the board's strength and independence. They discover that there is little correlation between capital risk and board strength. The number of non-executive board members has no discernible impact on financial risk, according to McNulty et al. (2012).

Ownership structure: Another important factor influencing corporate governance is ownership structure. Foreign capital, state-owned capital, and majority shareholders are all related to capital structure. Nearly

one-third of Nigerian deposit money banks have foreign investment or strategic alliances. The ownership aspect of internal governance may therefore be represented by the capital fraction of foreign investors.

System regulation: Information disclosure regulation is one of the issues in corporate governance, where system regulation is crucial. The board, which serves as a liaison between the relevant authorities and the financial instructions, is in charge of providing shareholders, authorities, and other stakeholders with transparent information. This is required for big, publicly traded financial firms.

Market discipline: The government's oversight and regulation are likely supplemented by market discipline. Market discipline is one of the three pillars and the cornerstone of future financial regulation, according to BIS (2010). The role of shareholders and depositors in penalizing the bank for unacceptably high risks is mentioned in market discipline. According to Hosono (2003), depositors have the option to withdraw their funds or demand a higher interest rate in order to offset the increased risk. It is possible for shareholders to lower the price by selling their shares. According to Hosono (2003), the bank will refrain from engaging in excessively risky activities and implement safety management when they recognize that a circumstance involving greater financing costs or high withdrawal deposits could jeopardize their existence.

Theoretical Framework

In order to understand the connection between corporate governance and credit risk disclosure in financial organizations, this article is based on the resource's dependence theory. According to Nicholson & Kiel (2007), one of the most crucial roles of a board is to provide resources, which are thought to have an effect on the enterprise's productivity. According to Pfeffer (1972), Pfeffer &

Salancik (1978), Boyd (1990), Daily & Dalton (1994), Gales & Kesner (1994), and Hillman, Cannella, & Paetzold (2000), this viewpoint is the most prevalent in the literature pertaining to stakeholder traditions (Johnson & Greening, 1999; Luoma & Goodstein, 1999; Hillman, Keim & Luce, 2001) and resource dependency (Hillman & Dalziel, 2003).

Additionally, when an organization selects someone to a board, it expects that person to support the organization, care about its issues, always bring it to the attention of others, and attempt to assist the organization, according to Pfeffer and Salancik's (1978) research on resource dependence. According to resource dependence logic, a board's allocation of resources is thus intimately tied to the success of the company (Nicholson & Kiel, 2007). Resources minimize the firm's reliance on external events (Pfeffer & Salancik, 1978), reduce uncertainty for the company (Pfeffer, 1972), reduce transaction costs (Williamson, 1984), and ultimately help the company survive (Singh, House & Tucker, 1986).

3.0 Methodology and Data

Ex-post factor research design is used in this study. Through an analysis of past events, this quasi-experimental research design investigates the cause-and-effect relationship. Thus, according to the theoretical framework, the resource dependence logic implies that the performance of the company is directly correlated with the resources provided by the board (Nicholson & Kiel, 2007). This demonstrates how corporate governance affects credit risk disclosure.

Empirical model

$$CRD = f(CG) \quad (1)$$

Where:

CRD = credit risk disclosure and will be proxy by the ratio of non – performing loan to total gross loan.

CG = Corporate governance. This is proxy by board size (BODSIZE) and board composition (BODCOM).

BODSIZE = Board size measured by the number of members in the board.

BODCOM = Board composition measured by the members who attained the level of directors.

Table 1: shows the description of the (dependent and independent) variables

Variables	Symbol	Measure
Credit Risk Disclosures		
Credit Risk Disclosure	CD	$\frac{\text{Non – performing loan}}{\text{Total gross loan}}$
Corporate Governance		
Board Size	BODSIZE	Number of members in the board.
Board composition	BODCOM	Members who attained the level of directors.

Source: Author, 2025

In this study, a vector of explanatory variables, including corporate governance aspects, is used to model the relationship between the indicators of credit risk disclosures that a bank encounter. We reject the null hypotheses and accept a significant link if the probability value (PV) in the coefficient table is less than 0.05 alpha levels. The null hypothesis is accepted and no significant link is acknowledged if the probability value (PV) is higher than 0.05 alpha levels.

Therefore, equation (1) can be rewritten as

$$CRD = f(BODSIZE, BODCOM)$$

Equation (2) can be specified in its estimable form as

$$CRD_{it} = \beta_0 + \beta_1 BODSIZE_{it} + \beta_2 BODCOM_{it} + \mu_{it} \quad (3)$$

Where

β_0 = Intercept

β_1 and β_2 = Regressionslope coefficients

μ_{it} = Unobserved factors that could affect credit risk disclosure but not captured in the model.

Method of analysis

The secondary data is investigated using multiple linear regression analysis. In tables, the data are displayed. The results are obtained using statistical analysis for social sciences (SPSS), and the multiple regression is evaluated using the Ordinary Least Square assumption.

Sources of Data

This paper derives the Corporate Governance and financial data used to test our hypothesis from the annual financial report of financial firms.

(2)

Population and Sample

Ten financial institutions, including banks, that were listed on the Nigerian Stock Exchange between 2020 and 2024 make up the study's population. These make up the study's sample.

4.0 Presentation of Result

Table 2: Model Summary^b

Model		R		R Square		Adjusted R Squared		Std. Error of the Estimate		Durbin-Watson	
Dep. Non-performing loan		.819 ^a		.845		.690		0.3007567		1.497	
Model		Unstandardized Coefficients		Standardized Coefficients		t				Collinearity Statistics	
		B	Std. Error	Beta							
	(Constant)	21.970	6.4522			3.405	0.026				
	BODSIZE	-0.0310	0.0097		-0.0314	-3.182	0.046		0.999		1.0001
	BODCOM	-0.2140	0.2146		-0.2150	-0.997	0.424		0.999		1.0001

Authors, 2025

- Predictors: (Constant), Board of Directors Composition, Board of Directors Size.
- Dependent variable: Nonperforming loan.

Source: Researcher's result.

According to the model summary table 2 above, there is a strong and significant correlation between nonperforming loans, board of director size, and board of director composition. The correlation coefficient, or "R," is 0.819%. Furthermore, our R² value was 0.845, meaning that changes in the independent variables (board of directors' size, composition) account for roughly 85% of the variations in the dependent variable (nonperforming loan). The Durbin-Watson $d = 1.497$, which falls between the two critical values of $1.5 < d < 2.5$, indicates that there is no first order linear auto-

correlation in the data, and the model is therefore of absolute good fit. The standard error is 0.3007567, meaning that the measure of variation of the observation made from the (actual values of) around the computed value of on the regression line is close to 1 and close to 0.

According to the results of the H1 test, which examined the relationship between non-performing loans, board of directors' size, and board of directors' composition, the model constant (a) value in table 3 is 21.97, and the board of directors size (bx1) value is -0.021. This means that for every unit increase in the size of the board of directors, the dependent variable credit risk disclosure value will decrease by 0.021 units, and for every unit increase in the composition of the board of directors, the dependent variable nonperforming loan value will decrease by 0.03 units. In contrast, the Board of Directors' Size (bx1) and Composition (bx2) have Beta (β)

values of -0.0314 and -0.2150, respectively. When the Board of Director size (bx1) T-value of -3.182 is higher than the 2-rule of thumb, it is considered significant. At the five percent level, this is evident from the probability value of the board of directors' size (p-value = 0.046) being less than 0.05. This indicates that credit risk disclosure is significantly impacted negatively by board size. Thus, at 5%, it is possible to reject the hypothesis that board size has no statistically significant impact on credit risk disclosure. A similar negative and statistically negligible effect on credit risk disclosure is indicated by the board composition T-value of 0.999, which is less than the 2-rule of thumb. The probability value (P value = 0.424) is higher than 0.05, further indicating that, at the 5-percent level, board composition had no discernible impact on financial businesses' disclosure of credit risk. Therefore, hypothesis two is accepted, indicating that the composition of the board of directors and nonperforming loans do not significantly correlate.

The outcome demonstrates the connection between corporate governance (as measured by the size and composition of the board of directors) and credit risk disclosure (as measured by the percentage of non-performing loans to gross loans). The results demonstrate that board size negatively impacts financial businesses' disclosure of credit risk, which is in line with findings by Lu and Boateng (2018), Abdulai et al. (2020), and Debrah, Preko, and Ampadu (2022). Some investigations, such as Belicia, Josephine, Nany, and Retno (2023) and Nyamongo and Temesgen (2013), however, produced somewhat different results. Board size was found to have a favourable impact on Indonesian mining companies' credit risk disclosure by Belicia et al. (2023). The inability to coordinate board operations due to the big board size and the free rider issue may result in a bad board relationship. Additionally, the limited size

of the board may result in a lack of diversified expertise on the composition.

Conclusion /Recommendation

The degree to which corporate governance influences credit risk disclosure is examined in this study. The size and makeup of the board of directors, as well as non-performing loans, are the proxies that are examined. While there was a negative and statistically insignificant association between board composition and credit risk disclosure, the results indicate a negative but substantial relationship between board of director size and credit risk disclosure. These results hold significance in the development of a rigid regulatory framework for financial institutions, wherein a supervisory review process is to define a set of disclosure values and the minimum required capital adequacy ratio. To enhance the perception of asset quality in relation to information disclosure and the investor's supervisory function, the loan categorization approach was created. Consequently, the study offers useful data regarding how corporate governance elements affect credit risk management, which gives policymakers important clues to construct corporate governance frameworks in financial risk management.

According to this study, financial institutions' board structure should improve nonperforming loan performance, particularly in terms of credit risk disclosures. All members of the board of directors should have their educational backgrounds made public. When choosing the members of its board, financial literacy should be taken into account. The size of the board of directors should be lowered, and more financially motivated individuals should be added to the board.

References

Abdulai, R. A., Abere, M., & Olowo, S. O. (2020). Effects of corporate governance on delinquency management

of microfinance banks in Southwest, Nigeria. *International Journal of Academic Research in Business and Social Sciences*, 10(5), 166–15. <https://doi.org/10.6007/ijarbss/v10-i5/7215>.

Adams, R. B., & Mehran, H. (2008). *Corporate Performance, Board Structure and Its Determinants in the Banking Industry*. Federal Reserve Bank of New York, Staff Report No. 330.

AMB. (2014). *Country Risk Report*. A.M. Best Company, Inc.

Barth, J. R., Caprio, G., & Levine, R. (2004). Bank regulation and supervision: What works best? *Journal of Financial Intermediation*, 13(2), 205-248. <http://dx.doi.org/10.1016/j.jfi.2003.06.002>

Beasley, M. S. (1996). An empirical analysis of the relation between the board of director composition and financial statement fraud. *Accounting Review*, 71(4), 443-465.

Belicia, V., Josephine, A., Nany, C. M., Retno, Y. (2023). The Impacts of Board Characteristics and Size on Risk Disclosure: Evidence from Indonesian Mining Firms. *ournal of Economics, Business, and Accountancy Ventura*, 25(3), .255–272.

BIS. (2010). *Principles for Enhancing Corporate Governance*. Bank for International Settlement (BIS), Basel, Switzerland.

Booth, J. R., Cornett, M. M., & Tehranian, H. (2002). Boards of directors, ownership, and regulation. *Journal of Banking & Finance*, 26(10), 1973-1996. [http://dx.doi.org/10.1016/S0378-4266\(01\)00181-9](http://dx.doi.org/10.1016/S0378-4266(01)00181-9)

Brickley, J. A., Coles, J. L., & Jarrell, G. (1997). Leadership Structure: Separating the CEO and Chairman of the Board. *Journal of Corporate Finance*, 3(3), 189-220. [http://dx.doi.org/10.1016/S0929-1199\(96\)00013-2](http://dx.doi.org/10.1016/S0929-1199(96)00013-2)

Ciancanelli, P., & Reyes-Gonzalez, J. A. (2000). *Corporate Governance in*

Banking: A Conceptual Framework, EFMA Conference, Athens.

Debrah, E., Preko, A., and Ampadu, S. (2022). Examining the effect of board size on credit risk of universal banks in Ghana. *Cogent Business and Management*, 9,-1-15.

<https://doi.org/10.1080/23311975.2022.2157100>

Ebirien, G. I., Chukwu, G. J., & Ohaka, J. (2018). Audit committee characteristics and corporate governance disclosure of Nigerian deposit money banks. *Asian Journal of Economics, Business and Accounting*, 9(3), 1-14.

European Central Bank (2017). Guidance to banks on nonperforming loan.

<https://www.bankingsupervision.europa.eu/framework/priorities/non-performing-loans/html/index.en.html#:~:text=A%20supervisory%20focus,stock%20of%20non%2Dperforming%20loans>

FRC. (2014). *The UK Corporate Governance Code*. Financial Reporting Council.

https://media.frc.org.uk/documents/UK_Corporate_Governance_Code_2024_a2hmQmY.pdf

Governance. In Y. R. R. Reddy & T. Yarram Raju (Eds.), *Corporate Governance in Banking and Finance*. McGraw-Hill, New Delhi.

Hosono, K. (2003). Market Discipline and Forbearance Policy to Banks. *Nagoya City University Discussion Papers in Economics*, (339).

Kohli, S. S. (2003). Corporate Governance in Banks: Towards Best Practices. *IBA Bulletin*, 25, 29-31.

KPMG. (2013). *Vietnam Banking Survey 2013*. KPMG Vietnam.

Lipton, M., & Lorsch, J. W. (1992). Modest Proposal for Improved Corporate Governance. *The Business Lawyer*, 48(1), 59-77.

Llewellyn, D., & Sinha, R. (2000). Monitoring and Control of Banks: The Role of Regulation and Corporate.

Lu, J & Boateng, A (2018). 'Board composition, monitoring and credit risk:

- evidence from the UK banking industry. *Review of Quantitative Finance and Accounting*, 51, 1107-1128. <https://doi.org/10.1007/s11156-017-0698-x>.
- Macey, J. R., & O'Hara, M. (2003). The Corporate Governance of Banks. *Economic Policy Review*, 9 (1) 91-107
- McNulty, T., Florackis, C., & Ormrod, P. (2012). *Corporate Governance and Risk: A Study of Board Structure and Process*. University of Liverpool Management School.
- Nguyen, T. H. T. B. (2015). Assessing Credit Risk of Commercial Banks in Vietnam. *World Review of Business Research*, 5(2), 1-11.
- Nyamongo, E. M., & Temesgen, K. (2013). The effect of governance on performance of commercial banks in Kenya: A panel study. *Corporate Governance (Bingley)*, 13(3), 236-248. <https://doi.org/10.1108/CG-12-2010-0107>
- OEDC. (2004). *OEDC Principles of Corporate Governance*. Organization for Economic Co-operation and Development.
- Oldfield, G. S., & Santomero, A. M. (1995). *The place of risk management in financial institutions*. Wharton School, University of Pennsylvania.
- Pearce, J. A., & Zahra, S. A. (1992). Board Composition from a Strategic Contingency Perspective. *Journal of Management Studies*, 29(4), 411-438. <http://dx.doi.org/10.1111/j.1467-6486.1992.tb00672.x>
- Pyle, D. H. (1999). Bank risk management: Theory. In D. Galai, D. Ruthenberg, M. Samat, & B. Z. Schreiber, (Eds.), *Risk Management and Regulation in Banking* (pp. 7-14). Kluwer Academic Publishers. http://dx.doi.org/10.1007/978-1-4615-5043-3_2
- Raghavan, R. S. (2003). Risk Management in Banks. *Chartered Accountant-New Delhi*, 51(8), 841-851.
- Salhi, B., & Boujelbene, Y. (2012). Effect of the Internal Banking Mechanisms of Governance on the Risk-taking by the Tunisian Banks. *International Journal of Economics, Finance and Management*, 1(1), 8-19.
- Santomero, A. M. (1997). *Bank Risk Management: An Analysis of the Process*. Financial Institution Center.
- Truong, H. T, Thai T. T. D. & Nguyen T. T (2015). Corporate governance and financial performance of commercial banks. University of Economics, the University of Danang, Vietnam. Online Published: June 25, 2015, doi:10.5539/ijef.v7n7p123 URL: <http://dx.doi.org/10.5539/ijef.v7n7p123>
- Tsorhe, J. S., Aboagye, A. Q. Q., & Kyereboah-Coleman, A. (2011). *Corporate Governance and Bank Risk Management in Ghana*. University of Ghana Business School.
- Tu, T. T. T., Son, N. H., & Khanh, P. B. (2014). Testing the Relationship between Corporate Governance and Bank Performance: An Empirical Study on Vietnamese Banks. *Asian Social Science*, 10(9), 213-226. <http://dx.doi.org/10.5539/ass.v10n9p213>
- Williamson, (1984), lower transaction costs and ultimately aid in the survival of the firm (Singh, House & Tucker, 1986 as cited in Pfeffer, 1972).
- Zhong, K., Gribbin, D. W., & Zheng, X. (2007). The Effect of Monitoring by Outside Blockholders on Earnings Management. *Quarterly Journal of Business & Economics*, 46(1), 37-60.