



**EFFECT OF DEBT FINANCING ON FINANCIAL PERFORMANCE OF LISTED  
DEPOSIT MONEY BANKS IN NIGERIA**

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**Abstract**

*This study examined the effect of debt financing on financial performance of listed deposit money bank in Nigeria. One of the most important topics in corporate finance is how debt financing affects the financial performance of Nigerian listed deposit money banks. These banks are financial intermediaries, and their stability, profitability, and expansion depend on having a balanced capital structure. Debt financing presents certain risks and expenses associated with financial hardship, interest commitments, and liquidity limits, even though it is advantageous for leveraging profits and optimizing tax shielding. Determining the ideal leverage for these institutions requires an understanding of how debt levels affect performance indicators like return on equity (ROE), return on assets (ROA), and net interest margin. This study adopted ex-post facto research design. Twenty-two deposit money banks made up the of the twenty-two deposit money banks that made up the research population, 13 listed were selected for sampling. Secondary data were utilized, by extracting relevant data from financial statement for a period ranging for a ten years period (2014 – 2023). The findings revealed that debt financing takes a significant effect on debt has high significant effect on ROA ( $P = 0.000010 < 0.05$  and ROE ( $P = 0.002586 < .05$  on Nigeria listed deposit money banks. The conclusion of the study states that, effect of debt financing on financial performance is significant on listed deposit money banks in Nigeria. It thus recommended that DMBs should focus on optimizing prudent debt financing practices to effectively manage their loan to deposit ratios. Also, banks should strategically use debt to enhance asset utilization and profitability.*

**Keywords:** Debt Financing, Financial performance, Return on Asset, Return on Equity

**JEL code:** G32

**INTRODUCTION**

Deposit Money Banks (DMBs) are integral to Nigeria's financial ecosystem by offering an array of services such as deposit-taking, loan provision, and fostering economic expansion. A robust and proficient banking sector is imperative for maintaining a stable macroeconomic climate. Financial performance can be significantly influenced by debt financing in a number of ways, including ROE, or return on equity: If the income from the debt-financed assets is more than the interest expense, deposit money banks may be able to get a higher ROE with more leverage. This is particularly important when the economy is expanding and there is a significant demand for credit. Both Short-Term and Long-Term loan can be taken at any moment, deposit money banks frequently use short-term loans to meet their liquidity needs. However, if market circumstances tighten, an excessive reliance on short-term financing may result in liquidity risk. Financial stability depends on keeping short- and long-term debt in balance (Akpokerere et al., 2023).

The significance of deposit money banks in a country cannot be overemphasized, because they occupy a control place in a nation's financial setting besides being important representatives that foster progress and development in any economy (Esther, 2022). The efficient management of financial resources is of paramount importance for these institutions, as it directly impacts their ability to remain solvent, competitive, and contribute to the overall stability of the Nigerian economy (Augustine, 2023). Two key areas that significantly influence a bank's financial health and performance are effective management of working capital and strategic utilization of debt financing. Deposit money banks serve as primary financial institutions that wield significant influence in economic development, savings, and investment sectors. They function as key providers of financial resources for trade and industry, thus playing an indispensable part of equally financial and economic realms of the country (Maharjan, 2023). The goal of this study is to offer a wide-ranging analysis of the interaction between debt financing management and financial performance of Nigeria listed deposit money banks.

### ***Statement of the Problem***

For the banking industry to be financially sound and to preserve a competitive edge, operations must remain steady and profitable. Deposit money banks regularly exploit debt financing as a method to extend their services, increase their profitability, and leverage more resources. But while debt can boost profits, it also raises financial risks and can put a burden on liquidity, particularly in bad economic times. The relationship between debt levels and financial performance metrics like profitability, return on equity, and return on assets still affect the industry's overall financial stability, liquidity, and profitability (Phillip et al., 2020). Determining these impacts can help regulators, investors, and managers make well-informed choices about the ideal capital structure and debt levels for financial firms.

This study finds that little attention is paid to how different stakeholders—such as creditors, shareholders, and regulatory agencies—view and effect debt financing choices made by Nigerian banks. Gaining knowledge of these stakeholders' viewpoints and impacts may help better understanding of how decisions about debt financing are made, especially when faced with market and regulatory pressures. This study objective is to fill a gap in the literature by undertaking extensive analysis to elucidate the complex rapport amid debt financing practices with key financial performance metrics of Nigeria listed DMBs (Lenny et al., 2020).

This study analyzes the connection between debt financing management strategies and financial performance metrics of listed DMBs within Nigeria, providing insights for strategic decision-making, regulatory policies, and best practices in the Nigerian banking sector. Despite existing empirical evidence, there is a lack of evidence from less developed countries like Nigeria.

### ***Research Hypotheses***

The following hypotheses were tested in the research study:

The arrangement in numbers of the hypotheses should follow the same sequence with that of specific objectives and research questions

H<sub>01</sub>: Debt financing of Nigeria listed deposit money banks has no significant effect on return on asset

H<sub>02</sub>: Debt financing of Nigeria listed deposit money banks has no significant effect on return on equity

## LITERATURE REVIEW

### Conceptual Review

#### *Financial Performance*

Financial performance is the gauging of an organization's plans and actions in financial standings (Orji et al., 2021). The performance of bank is evaluated in relation to the organization's set out performance standard. Part of the ingredients of performance is effectiveness and efficiency besides productivity and competitiveness, while individual growth can be increase through constant training and seminars. Performance remain typically been represented by various financial ratios such as loan growth ratio, earning growth rate and total asset growth (Omaliko et al., 2020). The organization performance usually referring to the performance of corporate business or bank metrics utilized to gauge Nigeria listed deposit money banks financial performance; it includes return on asset (ROA), which assesses a bank's ability to generates returns from its assets, and return on equity (ROE), which evaluates the bank's efficiency in utilizing invested capital (Ihenyen et al., 2023).

#### *Return on Asset*

Return on Asset provides a system of measurement for evaluating the effectiveness with which assets are employed to generate operational net income (Orlu et al., 2022). It links together the outcome of operations with the resources deployed to achieve those outcomes. The financial ratio indicating a company's profitability concerning its total assets is Return on Asset (ROA). One analytical approach that is frequently used to evaluate an organization's financial strength is return on assets (ROA), also referred to as financial ratio analysis (Choiriya et al.,2020). Financial ratios are instruments used in financial accounts to explain certain relationships between numbers, both absolute and relative. The financial statements contain a large number of ratios. One ratio that stakeholders frequently use to assess a firm's performance is ROA.

This illustrates the efficiency with which a firm is utilizing its assets to make returns. formula for Return on Asset:

$$\text{ROA} = \frac{\text{Net Income}}{\text{Average total asset}} \times 100\%$$

The company's earnings after taxes and cost are subtracted is known as net income. Average total asset is the average value of the business's total assets over a specific period, usually the beginning and ending balance of the assets. The outcome is expressed as a percentage, representing the return generated by each class of asset. The higher ROA indicates better profitability and efficiency in utilizing assets.

#### *Return on Equity*

Return on equity (ROE), also known as profitability of own capital, is a metric used to determining the net profit created by own capital after taxes and make it available to owners or investors (Choiriya et al.,2020). ROE indicate the return on income in relation to the amount invested and shows whether management is successful or unsuccessful in enhancing the return on investment for shareholders (Caleb et al., 2020). Return on Equity (ROE) determines shareholders return on investment by dividing net income available to common shareholders by the total number of common equities. ROE is also known as own capital rentability. Return on equity shows the return

generated by the company for every unit of shareholders' shares invested. As stated in the previous studies, the formula for determining ROE is:

$$\text{ROE} = \frac{\text{Net Income}}{\text{Shareholders' equity}} \times 100\%$$

### ***Debt Financing***

Debt financing involves sourcing capital for a business or organization through external means, usually by acquiring loans or issuing of debt securities like bond. Under this approach, borrowing entity commits to reimbursing the borrowed principal sum along with accrued interest within a predetermined timeframe (Lemmy et al., 2020). This borrowed capital is used for various purposes, such as funding operations, expanding the business, making capital investments, or managing working capital needs. Debt financing is a common method for businesses and organizations to obtain the capital necessary for growth and expansion. However, it includes the need to make monthly interest and principal payments, which can affect a company's cashflow and financial stability. Aliyu (2019) defines debt finance as a form of financing where a borrower receives capital for a specific period or in perpetuity, agrees to pay interest, and repays the borrowed amount when the debt matures. It has both advantages and disadvantages for corporate growth and strategic investments.

### ***Debt-to-equity ratio***

Nurhikmawaty, et al., (2020) posits that the Debt-Equity Ratio, compares the total amount of debt, or all of the debts, with the total amount of shareholder equity. Comparing all debt, including current debt, and all equity, this ratio is required. The higher this ratio is for banks (creditors), the more unprofitable it is because of the increased risk of a firm failure. The Debt-to-Equity Ratio (DER) can be used to evaluate a organization's ability to pay back loans financed wholly by its own capital. The Debt-to-Equity Ratio represents the ratio of debt and equity in company financing reflects the balance between equity and debt that indicates the organization's capacity to fulfil its obligations using its own capital. A higher ratio signifies an improved ability to cover interest payment and enhances the company's prospects of securing loans. (Asrizal, et al., 2019). This ratio juxtaposes an organization's total debt against the total equity, revealing at what proportion of funding derived from debt versus equity. A higher DER denotes a firm's high capital dependence on external investors, which would result in higher interest costs for the business (Izuddin, 2020). Formula for Debt- to-equity ratio: Total debt/ Total equity

### ***Debt Ratio***

One of the most important factors influencing asset return is the debt ratio. It is defined as total debt divided by assets (Rivera, et al., 2021). Component percentage and coverage ratio are two types of financial debt ratios. The debt-to-capital ratio evaluates a firm's debt in relation to its total capital, which encompasses both equity and debt, or solely equity capital. This ratio gauges the portion of a organization's total assets funded by debt, offering insight into its overall debt level. Debt ratio formula: Total debt/Total assets

### ***Total Liability***

Total liability is the aggregate amount of money a company owes to others. It includes commitment like loans, accrued expenses, accounts payable and other debts (Adams Hayes, 2024). Total

liabilities are classified into three: short term liability, long term liability and other liability. The formula for calculating total liability is current liability + long term liability.

## **Theoretical Review**

### ***Pecking Order Theory***

Donaldson's pecking Order theory is a well-known theory regarding company borrowing. The idea that businesses should combine loan and equity to lower their capital expenditures is in conflict with this. According to the hypothesis, a company has a well-defined preference order for long-term investment financing. A firm should prioritize debt, retained earnings, and outside equity. He said that as companies become more successful, they would have enough internal resources to invest, thus they will borrow less. (Benedicta, 2023). Akpokerere et al., (2023) state that the effect of asymmetric knowledge on the mispricing of new assets has been nicely illustrated by Myers and Majluf's (1984) adaptation of POT. Investors think managers have a good understanding of price-sensitive information. Investors think risky investments are issued by costly managers. New stock issuance is undervalued by investor perceptions. Underpricing might result in substantial declines for current stockholders. Retained earnings, debt, and outside equity funding are the last options used by businesses to reduce information asymmetry.

### ***Trade-Off Theory***

The trade-off theory, developed by Franco Modigliani and Merton Miller in 1958, the theory holds that organizations choose their mix of equity and debt financing by balancing the associated costs and benefits. This theory aims to elucidate the common practice among corporations of utilizing a combination of debt and equity financing. The Trade-off theory suggests that financing a company's operation with equity offers benefits like tax advantages and reduced the expenses of financial distress, including bankruptcy and non-bankruptcy costs. Because it offers a fair assessment of the advantages and disadvantages of leverage, the Trade-Off Theory is still very important when making decisions about debt financing. It provides a strong framework that assists businesses in navigating the tax benefits of debt while controlling the dangers of financial crisis and bankruptcy, even if it is not the only theory impacting capital structure. The theory is applicable to both stable and volatile market conditions because of its adaptable approach, which enables businesses to modify their capital structures according to their unique circumstances. A key idea in corporate finance, the trade-off theory describes how businesses weigh the advantages and disadvantages of debt when deciding how much to borrow. The theory offers a framework for comprehending the reasons why businesses could decide to have debt on their balance sheets as well as the variables affecting the ideal amount of leverage.

### ***Agency Theory***

Stephen Ross and Barry Mitnick (1973), doing their work independently and basically at the same time, happened to be the first academics to officially recommend and start developing a theory of agency. Though, some fundamental ideas that underpin both theories are similar, Ross is credited with making the economic theory of agency, while Mitnick is attributed with developing the institutional theory of agency. Jensen and Meckling (1976) and Fama and Jensen (1983) further refined this hypothesis (Shamsudden et al., 2020). The link between debt holders (creditors) and equity holders (shareholders) in the context of possible conflicts of interest is explained by agency theory, which makes it extremely pertinent to debt financing. When management (working on

behalf of shareholders) makes choices that are not in the best interests of creditors, several risks and inefficiencies result. This is how these conflicts develop (Xinyu, 2023). The Agency theory assumes information asymmetry, goal conflict, and moral hazard. Principal-agent conflicts may arise due to lack of knowledge about the agent's operations. Goal conflict arises from disparities in objectives, and moral hazard occurs when the agent acts against the principal's best interests.

### ***Free Cashflow Theory***

In 1986 a paper titled "Agency cost of free cash flow, corporate finance, and takeovers," by Michael C. Jensen puts out the hypothesis of free cashflow theory. Free cashflow is the amount of money that suppliers have access to after the firm has paid all of its ongoing costs. More free cash flows can be generated by handling the working capital components properly (Jagadish & Sharmila, 2021). The principal-agent dilemma and agency costs are highlighted by (Harbula, 2000) as the primary causes of capital market defects in the free cash flow theory. The relationship between the principal (shareholders) and the agent (firm manager) is a foundation to the agency theory. The principal's interest is the reason the agent was hired. Because the agent is active in day-to-day activities, they have access to more information than the principal. According to Afiezan et al., (2020), research by Ramadhani and Barus (2018) indicates a negative association between free cash flow and debt policy. Nevertheless, Oktariyani and Hasanah's (2019) research is unable to demonstrate the impact of debt policy on free cash flow. The theory suggests that managers can manipulate free cash flow, leading to excessive investment and earnings stability, and that high-caliber auditors can be mitigated through effective earning management methods. The study suggests a positive correlation between low-growth corporations' free cash flow and earnings management, with managerial opportunity behavior positively impacted by this, especially at modest shareholding levels.

### **Empirical Review**

Orlu. et al., (2022). Asserts that debt performs a significant role in a firm's financial structure. Debt offers the resources required to seize profitable possibilities. Debt may leverage capital in a way that is highly advantageous financially if it is used wisely. When used carelessly, debt may be just as detrimental to a company as it can be advantageous to one that manages it well. A company must be aware of whether and how much financial leverage is advancing or impeding its business operations.

Hussaini et al., (2015), found that debt to total asset ratio has a positive impact on the profitability of Nigeria listed deposit money banks. Profitability is positively correlated with total debt to assets and interest coverage, meaning that debt financing is preferred as interest-based debt increases profits (Nasir et al., 2021). The debt performance in the capital structure can be practically inferred from the rate of Return on Equity (ROE). The firm's Net income is divided by shareholder equity to determine return on equity. Companies borrowing money should generate a larger return on equity than on assets.

Nirajini and Priya (2013), found that long-term debt, the debt-to-equity ratio and capital structure were linked with return on equity (ROE). They also create a favorable connection among capital structure and financial performance. Narsir et al., (2021). examined various profitability ratios to assess the effect of debt, they discovered that not all profitability indicators were significantly

influenced by debt. It only has a negative influence on return on equity, but a favorable impact on return on assets (ROA).

## METHODOLOGY

### *Research Design*

The researcher used an *ex-post facto* study design. *Ex-post Facto* is meant at determining the relationship that exist between variables, such as the association between debt Financing and financial performance of Nigeria listed deposit money banks.

### *Research Population*

This research study population was made up of all the twenty-two (22) listed deposit money banks in Nigeria, which are classified into three (3) categories as contained in the table below:

S/N	International Authorization	National Authorization	Regional Authorization
1	Zenith Bank Plc Sun Trust Bank Nigeria	Citibank Nigeria Limited	Globus Bank Limited
2	United Bank of Africa Plc	Standard Chartered Bank Nigeria Limited	Providus Bank Plc
3	First Bank of Nigeria Limited Globus Bank Limited First City Monument Bank	Sterling Bank Plc	Sun Trust Bank Nigeria Limited
4	First City Monument Bank	Unity Bank Plc	-
5	Guaranty Trust Bank Plc	Stanbic IBTC Bank Plc	-
6	Union Bank Plc	Eco Bank Limited	-
7	Fidelity Bank Plc	Heritage Bank Ltd	-
8	Access Bank Plc	Keystone Bank Ltd	-
9		Wema Bank Plc	-
10		Polaris Bank Plc	-
11		Titan Trust Bank Limited	-

**Sampling Techniques and Sampling Size**

The purposive sampling technique was adopted for the selection of 13 listed deposit money banks from the population because of their capital base, and those with consistent financial reports. The thirteen (13) listed deposit banks are: Guarantee Trust Bank, Access Bank, Zenith Bank, First Bank, Wema Bank, Sterling Bank, Stanbic IBTC Bank, Union Bank, United Bank for Africa, Fidelity Bank, FCMB, Unity Bank and Eco Bank which make up the sample size were selected and engaged as the sample.

**Sources and Procedures of Data Collection**

The research study precisely employed relevant secondary data from official publications of selected listed deposit money banks in its analysis.

**Method of Data Analysis**

For this research study, an ordinary least square (OLS) in the multiple regression analysis was used with the aid of e-view software being the statistical package mostly used for for cross sectional, time series and panel data statistical analysis. Regression was chosen as a tool for hypothesis test method because it is an acceptable parametric (assumption based) tool for estimating the effect of one or more variables on another.

**Model specification**

In order to evaluate the influence of firms’ debt financing management and financial performance among the Nigeria listed deposit money banks. The model is stated below:

$Y = f(x)$  ----- Equation (3.8.1)

Econometrically-

$Y_{it} = \beta_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \epsilon_{it}$  -----

**Effect of Debt Financing**

$ROA_{it} = \alpha_0 + \alpha_1 DEQ_{it} + \alpha_2 DR_{it} + \alpha_3 TL + \epsilon_{it}$  ----- MODEL 1

$ROE_{it} = \alpha_0 + \alpha_1 DEQ_{it} + \alpha_2 DR_{it} + \alpha_3 TL + \epsilon_{it}$  ----- MODEL 2

ROA= Return on Asset, DEQ= Debt- equity ratio, DR= Debt Ratio, TL= Total liability

This specification will be considered in the analysis of the link between debt financing and financial standing.

**RESULTS AND DISCUSSION**

**Descriptive Statistics Result**

The descriptive statistics offer an extensive overview of data set, including mean, median, skewness, standard deviation and kurtosis. These statistics help in making informed decisions and drawing accurate conclusions, allowing for a better understanding of the data's central tendency and variability, thereby aiding in decision-making. The results of the descriptive statistics are now displayed in table 1 below:

**Table 1: Descriptive Statistics**

	DER	DR	TL	ROA	ROE
Mean	13.71813	0.852105	7.436289	0.021632	0.176086
Median	6.681085	0.852674	6.815357	0.011540	0.117443
Maximum	139.4471	3.846900	10.38922	0.629236	3.871416
Minimum	0.525998	0.060444	4.531377	-0.110538	-2.552401

Std. Dev.	26.28497	0.584249	1.725843	0.060973	0.501480
Skewness	3.624846	1.909317	0.158000	8.035738	2.473092
Kurtosis	15.76897	9.567361	1.611696	78.56180	33.72067
Jarque-Bera	1167.858	312.6077	10.98091	32326.01	5244.548
Probability	0.000000	0.000000	0.004126	0.000000	0.000000
Sum	1783.357	110.7737	966.7176	2.812171	22.89120
Sum Sq. Dev.	89126.05	44.03376	384.2310	0.479588	32.44117
Observations	130	130	130	130	130

Source: Author's computation (2024) Using E-Views 13:

The outcome in the table 1 above displays the summary statistics of the relationship that exist between debt management and performance of Nigeria banks. Debt to Equity Ratio (DER) shows a mean value of 13.71813 suggesting that, on average, Nigerian banks have a debt level around 13.7 times higher than their equity. This high level of debt relative to equity could indicate that Nigerian banks are relying heavily on borrowed funds to finance their operations especially deposits from customers. The median DER of 6.681085 is lower than the mean, indicating that the distribution is skewed by a few banks with very high debt-to-equity ratios. The maximum DER of 139.4471 and the high standard deviation of 26.28497 confirm the presence of outliers or banks with exceptionally high debt levels relative to their equity. This indicate s that there are a few Nigerian banks that are significantly more leveraged than the rest of the industry, which could pose a potential risk in terms of financial stability.

DR is measured using the proportion of debt to assets. The mean DR of 0.852105 implies that on average, banks finance about 85.21% of their assets with debt, leaving equity with a balance of just 14.79%. This high level of debt financing could potentially leave the banks vulnerable to economic downturns or fluctuations in interest rates. The median DR of 0.852674 is very close to the mean, suggesting a relatively symmetric distribution. The maximum DR of 3.846900 and the standard deviation of 0.584249 indicate the presence of some outliers or banks with extremely high debt ratios. This call for concern as these outliers may be at a higher risk of financial distress in the face of adverse market conditions. The mean TL of 7.436289 and the median TL of 6.815357 are relatively close, suggesting a more symmetric distribution. With a smaller range between the mean and median TL, it indicates that there are fewer extreme values skewing the data. The maximum TL of 10.38922 and the standard deviation of 1.725843 indicate the occurrence of some outliers or banks with higher total liabilities.

### Correlation Matrix

Probability	DER	DR	TL	ROA	ROE
<b>DER</b>	1.000000				
<b>DR</b>	0.466523***	1.000000			
<b>TL</b>	0.240884	0.324803	1.000000		
<b>ROA</b>	-0.145813	-0.187226	-0.227889	1.000000	
<b>ROE</b>	-0.060424	-0.283240	-0.190778	0.792416	1.000000

Source: Computation by the author (2024) Via E-Views 13

In statistics, correlation measures the strength and direction of the relationship between two variables. It covers from -1 to 1, with 0 indicating no correlation, 1 indicating a perfect positive correlation, and -1 indicating a perfect negative correlation. The Debt-Equity Ratio (DER) (-0.069951) and the Debt Ratio (DR) (-0.032261) but not significant. Debt to Equity Ratio, and Debt Ratio of the banks tend to decrease slightly, total Liabilities (TL) (0.124532), Return on Assets (ROA) (0.054469), and Return on Equity (ROE) (0.044158). Total Liabilities, Return on equity, and Return on Asset to also increase, though the relationships are not strong enough to make definitive predictions. A weak negative correlation with DER (-0.066148), DR (-0.022636), ROA (-0.020506), and ROE (-0.011433).

DER is with a reasonable positive correlation with DR (0.466523\*\*\*), which is statistically significant at the 1% level. Also, DER has a slight weak positive correlation with TL (0.240884), which is statistically significant at the 1% level. This shows that a small change in DER will improve DR and TL significantly. In contrast, DER exhibits a weak negative correlation with ROA (-0.145813) and ROE (-0.060424), suggesting that higher debt levels are related with lesser profitability. This is because the interest cost associated with the debts may chunk a significant portion of a company's profit especially when such company rely heavily on debts. DER also shows a negative relationship with LDR (-0.006674) confirming that an increase in DER will reduce LDR but not significantly.

DR is also shown to have a moderate positive correlation with TL (0.324803\*\*\*), which statistically significant at the 1% level. DR has a weak negative correlation with ROA (-0.187226\*\*), which is statistically significant at the 5% level. DR has a moderate negative correlation with ROE (-0.283240), which is statistically significant at the 1% level.

**Table 3 Hausman Test for Hypothesis One**

<b>ROA Model</b>	
<b>Chi-Sq Statistics</b>	6.821270
<b>Prob</b>	0.0154

The result is in table 3 above reveal the Hausman test to establish the relationship between debt financing management and financial performance of listed deposit money banks in Nigeria. From the result, there exist a prob value of 0.0154 (6.821270) < 0.05 which is highly statistically significant. This confirmed that the FE will be used to explain the regression model. The FE model was however presented below in table 5

**Table 4 Hausman Test for Hypothesis Two**

<b>ROE Model</b>	
<b>Chi-Sq Statistics</b>	0.416344
<b>Prob</b>	0.4761

The result is in table 4 above shows the Hausman test to establish the relationship between debt financing management and financial performance of deposit money banks in Nigeria. From the result in table 4 there exist a prob value of 0.4761 (0.416344) > 0.05 which is not statistically

significant. This confirmed that the RE will be used to explain the regression model. The RE model were however presented below in table 6

### Result of Hypothesis one

**Ho1:** Debt Financing has no significant effect on return on asset of deposit money banks in Nigeria

**Table 5: Result of Regression of one Hypotheses Using Fixed Effect**

Variable	ROA Model Fixed Effect		
	Coefficient (Standard Error)	Prob	Remarks
DER	-0.000112 (0.000404)	0.7818	Negative (Insignificant)
DR	-0.024525* (0.012853)	0.0589	Negative (Insignificant)
TL	0.047957* (0.025351)	0.0611	Positive (Insignificant)
C	-0.312557* (0.183292)	0.0909	Negative (Insignificant)
R <sup>2</sup>	0.543083		
Adj R <sup>2</sup>	0.456647		
F Stat (Prob)	0.000010***	Highly Significant	
Durbin-Watson Statistics	1.859793	No presence of Auto-Correlation	

*Source: computation by the Author (2024) using E-Views 13:*

Based on the result of the hypothesis one (table 5) using the FE model to study the effect of debt financing on ROA of Nigeria listed deposit money banks, it is found that DER reflect a negative effect on ROA of Nigeria listed deposit money banks (1= -0.000112). However, the p value shows 0.7818 > 0.05. This demonstrates that the debt-to-equity ratio has a negative but insignificant impact on ROA of DMBs in Nigeria. Furthermore, DR which is debt ratio shows a negative effect on ROA (-0.024525\*) with a standard error of 0.012853. This means that a 1% increase in DR of banks will reduce ROA by 0.024525. In addition, the p value shows 0.0589 > 0.05 confirming that the adverse impact of DR on ROA is not statistically significant at 5% significant level but significant at 10%. Total liabilities with 0.047957\* shows a positive impact on DMBs' ROA in Nigeria and a minimal standard error of 0.0611. This reveals that the TL of has a positive effect on ROA and any rise in TL will improve the ROA of Nigerian Banks by = 0.047957 times. However, the p value shows 0.0611 > 0.05 indicating an insignificant relationship between TL and ROA of DMBs in Nigeria. However, the Prob (F statistics) shows 0.000010, which means that the debt financing as a whole significantly affects ROA of the banks rejecting the assertion of hypothesis one ( 1= -0.000112, 2= -0.024525\*, 3= 0.047957\*, R2= 0.543083, R2= 0.456647, P value= 0.000010\*\*\*)

### Result of Hypothesis two

**Ho2:** Debt financing has no significant effect on return on equity of Nigeria listed deposit money banks.

Variable	ROE Model
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	Random Effect		
	Coefficient (Standard Error)	Prob	Remarks
<b>DER</b>	0.005070** (0.002292)	0.0287	Positive (Significant)
<b>DR</b>	-0.330324*** (0.089083)	0.0003	Negative (Significant)
<b>TL</b>	-0.022972 (0.040565)	0.5722	Negative (Insignificant)
<b>C</b>	0.558829* (0.297260)	0.0624	Positive (Insignificant)
<b>R<sup>2</sup></b>	0.606526		
<b>Adj R<sup>2</sup></b>	0.585253		
<b>F Stat (Prob)</b>	0.002586	Significant	
<b>(Auto Correlation)</b>	1.533126	No Auto-Correlation Problem	

*Source: Author's computation (2024)*

Based on the outcome of the hypotheses two (table 6) above using the RE model to observe the effect of debt financing on ROE of Nigeria listed deposit money banks, it is revealed that DER is positively effect on ROE of DMBs in Nigeria (1= 0.005070\*\*). However, the p value shows  $0.0287 < 0.05$ . This demonstrates that the debt-to-equity ratio has a positive and significant effect on ROE of DMBs in Nigeria. Furthermore, DR which is debt ratio shows a negative effect on ROE (2= -0.330324\*\*\*) with a standard error of 0.089083. This means that a 1% increase in DR of banks will reduce ROE by 0.330324. In addition, the p value shows  $0.0003 < 0.05$  confirming DR has a statistically significant negative influence on ROE at 5% and 1% significant level. Total liabilities with a 3= -0.022972 display a adverse effect on ROE of DMBs in Nigeria and a minimal standard error of 0.5722. This demonstrates that the TL of banks has a negative impact on ROE and any increase in TL will reduce the ROE of Nigerian Banks by = -0.022972 times. However, the p value shows  $0.5722 > 0.05$  indicating an insignificant relationship between TL and ROE of DMBs in Nigeria. However, the Prob (F statistics) shows 0.002586\*\*\* which means that the debt financing as a whole has a significant effect on ROE of the banks rejecting the assertion of hypothesis four (1= 0.005070\*\*, 2= -0.330324\*\*\*, 3= -0.022972, R2= 0.606526, R2= 0.585253, P value= 0.002586\*\*\*).

### ***Discussion of Findings***

Based on the result of this study, various assertions can be proved from the above. In hypothesis one and two, debt finance also exhibits a significant effect on financial performance of Nigeria's deposit money institutions. However, the negative effect of DER on ROA underscores the reliance of banks on debts of which deposit from customers have a significant portion. The DR also shows a adverse effect on ROA but is not also significant. Hence, a high level of debt is not beneficial for Nigerian banks as it can hinder their ability to generate sustainable profits and increase their vulnerability to financial instability. Also, total liabilities show a positive impact on ROA which indicates that having an appropriate level of liabilities can actually benefit Nigerian banks by allowing them to leverage capital efficiently and generate higher returns on assets. This study is line with the studies of Casmir & Andrew (2020), Adeoye & Olojede (2019), Aliyu (2019),

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Aladwan, et al. (2022) which consistently highlight the importance of managing debt levels effectively in order to maximize profitability and financial stability in the Nigerian banking sector. This demonstrates significance of prudent financial management practices in ensuring the longstanding success and sustainability of Nigerian banks in a constantly evolving financial landscape. DER and DR will reduce ROA. This shows that the interest costs of debt financing can have a negative impact on the bank's return on assets. Also, in relation to ROE, debt financing shows a significant effect indicating that increasing debt level can result in a reduction in a bank's return on equity. This suggests that while debt financing may provide short-term benefits in terms of capital availability, it may ultimately have a detrimental influence on the overall financial performance of Nigeria banks. In contrast, equity financing may be a more sustainable option for banks looking to maintain or improve their profitability ratios.

### **CONCLUSION AND RECOMMENDATIONS**

The research study examined the effect of debt financing management and financial performance of listed DMBs in Nigeria. This study's findings provide statistical and empirical support for the hypothesis that debt financing management had an influence on the financial performance of listed DMBs in Nigeria. Nonetheless, the research offers theoretical and statistical support for the claim that debt financing has a significant effect on listed DMB's financial performance in Nigeria. The study's findings led to the conclusion that debt financing management had a major impact on the financial performance of listed DMBs in Nigeria.

The study therefore recommends that banks should adopt prudent debt financing practices to effectively manage their loan-to-deposit ratios. While a higher LDR may indicate increased lending activity, DMBs must ensure that they maintain a balanced approach to debt financing to mitigate liquidity and credit risks. DMBs should assess their funding needs and diversify their sources of financing to reduce dependence on deposits alone. This can involve accessing alternative funding sources such as bond issuances, interbank borrowings, or equity capital injections. By diversifying their funding base, DMBs can better manage their LDR while supporting sustainable lending growth and maintaining financial stability.

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