

Chapter One

Introduction

1.1 Background to the Study

Most companies like banks hinged their existence on profitability. Commercial Banks are often seen as a Financial Institution set up for keeping and lending money to their customers with the view to making money from such transaction.

Apparently, the role of commercial banks is basically intermediation. This involves the act of mobilizing funds from the surplus areas as deposits that keep their funds into the banks do so based on trust. They expect to collect their money back on demand or as agreed upon. Hence, the commercial banks must ensure that the deficits units(borrowers) to whom they pass the money repay on demand agreed upon to enable them repay the owners as at when needed¹.

Banks are merely custodians of the money they lend; hence interest must be paid to depositors

and dividends to the investors. Credit management can be seen as an integral part of lending and as such in its absence, good loans can turn bad. The risk and uncertainty associated with lending decision, situation are so great that the concepts of risk and risk analysis need to be employed by lending bankers in order to facilitate sound decision-making and judgment.²

This statement implies that if risks are to be objectively assessed, lending decisions by themoney-deposit banks should be based less on quantitative data and more on principles toosubjective to provide sound and unbiased judgment. Furthermore, the banks depend heavily on historical information as a basis for decision making³. For banks to be successful, their corporate credit appraisal, disbursement, adequate monitoring and repayment must be

assured. But experiences over the years have shown that inadequate credit analysis and sound judgment of loans application have resulted in un-performing loans. Provision of credits, which are in the form of loans and advances, are the total amount of money a given bank lends out to its customers at any given period of time.

The bank usually charges the borrower interest for using its money. These loans and advances usually have maturity period⁴.

In order to remain competitive, retaining customers are winning over new ones, companies have to extend credit to their customers as an investment and also to stimulate earning and profitability, however the repayment of the credit so extended is affected by internal and external factors that may signal crisis and eventually default in credit settlement.

One of the prevailing features of banks is the ever increasing incidence of bad and doubtful debt. This ugly situation stems from inadequate training, improper appraisal of loan applications and criminate lending on the part of bank managers.

However, efficient credit management is necessary to prevent possible bank failure. More so, Business environment is dynamic and as such it is necessary to review credit policy at acceptable periodic intervals in order to cope with the ever -changing condition. Lending is an art not a science. As such there are no such rules or formula to appraise and consider loan applications that would – hundred per cent result. Evaluation of loan applications by whatever methods and means can never be exact or automatic. It is through experience that a person achieves excellence in the art of credit management.

1.2 Statement of the Problem

The credit policy of a firm refers to those decision variables that influences when, whom and how credit are given to customers. Most credit policies are too strict on customers. Most banks do not run a liberal credit policy. Stringent credit policies tend to bring sales down and reduce the profit of the bank-reduction in the number of people applying for credits because of harsh credit policies. More so, it has been noticed that the application forms for loans and advances (credits) passes through many turn a snail paced manner necessary. Long processing of credit facilities could have adverse effects on applicant's project.

The default in paying back debt by customers may result into huge debt portfolio on the banks and they would have to grapple with debt recovery problem.

Macroeconomic development may result in unforeseen changes in the fortunes of companies or industries, of geographical areas or even of whole countries

An effective credit administration and recovery should delve into

1. The examination of various economic, social and political factors affecting Credits before and after granting it.
2. Identifying the categories of customers who benefit from this credit and to what extent.
3. Identifying the cost of granting credit to the bank.
4. Suggesting ways of efficient and prudent administration in the bank.
5. Encompassing effective debt recovery strategies and an in-built early warning and detection signal.
6. At what point credit administration is supposed to commence? Is it before or after granting credit to the customer.

Before the bank recapitalization, the size of bad debts reported for entire banking industry

was put at about N20billion. An uncontrolled growth of bad debts has many implications for the industry in terms of jeopardizing individual banks survival and threatening the nation's economic stability and growth. It reduces financial institution ability to create money and increase credit facility as to refine the economy.

In addition, the quality of risks, assets and performance was given little attention. Further maintained that the duties of a bank manager charged with credit management and control are enormous and all-embracing with the principal duty of monitoring loan performance, delinquent accounts and advise on the optimal credit structure of the bank Arising from this is the need to pay attention to credit distress with particular emphasis on the early warning signals. The basic question is how does a bank relate the loan/responsible officer action in situation where there is a regular call memo, plant site report in the customer's credit file?

Unfaithfulness on the part of the bank officials is another problem. Some officials of the bank falsify their project evaluation report in favor of the customer, just because of their relationship with him. This act will influence the customers' easy access to credit facilities.

Some even go to the extent of collecting bribes from the applicants in order to influence their chances of securing the credits by so doing, they neglect the creditworthiness of the customers and at times the collateral provided by such customers does not worth half of the credits granted to them. Such customers are bound to mismanage their credits, because they believe that the bank officials are always there to cover them up, if they run into problems. However, some customers lack sufficient knowledge of terms of credit granted to them. Many customers do not know or are ignorant that the bank reserves the right to start realizing their securities after 3 months of non-repayment of loan installment.

1.3 Research Questions

To achieve the objectives of this research study, the following research questions must appropriately

1. What are the general principles and concepts of lending In banking?
2. What are the practices of Nigeria banks in their lending function and in the management of loans and advances?
3. What are the significant causes of bad and problem credits and loans, including those that cause credit fraud?
4. What significant steps and action can be taken to drastically reduce the incidence and the causes of bad and problem loans and also to reduce credit fraud?
5. What benefit and impact an efficient and effective lending function can have on the bank.

1.4 Aim and Objectives of the Study

This research objective attempt to examine the impact of credit management on company performance using Zenith Bank of Nigeria as a case study.

1. Determine the general principles and concepts of lending in banking
2. Determine the practices of Nigeria banks in their lending function and in the management of loans and advances.
3. Determine the significant causes of bad and problem credits and loans, including those that cause credit fraud.
4. Determine the significant steps and action that should be taken to reduce the incidence and the causes of bad and protein loans and also to reduce credit fraud.
5. Determine the benefits and impact an efficient and effective lending function can

have on the bank.

The main purpose of the research work is to find solution to the problems stated earlier. It highlights the benefits, which are derivable from efficient management of bank credit. It sets out to provide dynamic guidelines to bankers, financiers and students of the banking profession alike on the art of good lending and credit management.

- Determine if there is any relationship between the profitability growth of commercial banks and the efficiency in their lending and credit management.
- Determine whether Zenith Bank is following the generally acceptable principles and practices of lending in Nigeria.
- Determine whether Zenith Bank is following the generally acceptable principles and practices of lending in Nigeria.
- Determine whether Zenith Bank have a policy guiding their lending function and if they do, determine the appropriateness of such policies and the extent of adherence and compliance.
- Identify the causes of problems and advances.
- Identify the problem faced by Zenith Bank in carrying out their lending function.
- Identify the necessary steps or actions that management of commercial banks should put in place to reduce the incidence and impact of problem loan advances

1.5 Hypothesis

H₀1: The commercial banks in Nigeria have articulated lending policies that are efficiently and effectively implemented.

Ho2: There is direct relationship between an effective lending function and credit management and liquidity, profitability and long-term solvency of Zenith Bank of Nigeria.

Ho3: There is a direct relationship between an effective lending function and credit management and outline growth and stability of the commercial banking system and the Nigeria economy

Ho4: There is direct relationship between the problems associated with commercial banks' lending preventive measures required to ameliorate the problem.

Ho5: There is a significant relationship between loans and advances (credit) and bad loans (non-performing loans).

1.6 Scope of the Study

This study shall focus on the Zenith Bank of Nigeria. This Bank is one of the biggest banks in Nigeria. The research project would be made to cover all the financial activities of Zenith Bank of Nigeria in General. The headquarters of the bank is situated at Adeola Odeku, Street, Victoria Island, Lagos State.

1.7 Significance of the Study

The significance of the study is to examine the effect of proper credit management on loan performance and debt recovery and also establish a relationship (in any) between loan advanced and of such fund. The need to carry out the research work arose because of the present economic situation this country at the time being and also the post recapitalization impact. Credit responds greatly to economic situation. The bank and other banking institution would see that bank bad debt in are losses caused by poor credit policy. It is imperative for banks to reduce to the barest minimum bad debts in the industry through good lending and credit management. Also, the banking industry staff would now have a

broader knowledge and perspective of bank credit management

This Study is useful to the banking sector, other financial institutions, and professional managers or who are into credit lending or borrowing. Also, governments, organizations and concerned with credit management and facilities can benefit from this study. This research study is expected to stimulate research interests in other aspects of banking in general, and Zenith Bank of Nigeria Plc. in particular.

1.8 Limitation of the Study

Some factors contributed to make this work less than perfect one. The first factor was difficulties for the researcher in trying to obtain the needed information from the bank used as case study. Many of the documents needed were not given to him. There was not enough time to get more the school gave a specific time for submission and defence of the project. Lack of textbooks and other materials for reading such as magazines and newspaper relevant to topic are factors that hindered me to go beyond this level.

1.9 Operational Definitions of Terms

Bank: It is a comprehensive term for a Number of Institutions carrying out certain kinds of financial *and* are also licensed and authorized or it can also be define as an organization where people can invest or borrow money. Change it to foreign money.

Credit Management: It is the process of ensuring that all loans, advances, banking or credit facilities or accommodation granted a customer by a bank are well 'managed' to ensure the facilities run satisfactorily according to the terms governing them.

Growth: To increase in size or amount, or to be become more advanced or developed

Lending: To give something to someone for a short period of time, expecting it to be given back.

Liquidity: In the form of money, rather than investments or property, or also to be changed into cash.

probability.

Non performing loans: These are loans and advances upon which the bank has experienced default from the customer in terms of repayment of the principal amount and /or interest. Generally, there are classes of non-performing loans: Sub-standard, doubtful and lost. Each has to do with .levels of susceptibility with respect to payment of the principal amount and/or interest.

Profitability: A company's ability to generate revenues in excess of the costs incurred in producing these revenues, it is also a measure of business success through comparing profit made with the amount invested. It can be defined as the extent to which an entity's income exceeds its expenditure during a particular accounting period.

Risk: This is a situation where the outcomes of an occurrence have a known or estimable

Endnotes

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Chapter Two

Literature Review

Review of Related Literature

This chapter addressed a review of literature pointing out areas of agreement and disagreement of the scholars. Hence, a gap in knowledge is created where this study interested to fill. This chapter will be classified into the following headings:

- Conceptual Framework
- Theoretical Framework
- Empirical Studies
- Summary of Literature Review

2.1 Conceptual Framework

A Conceptual review of credit management strategies

An important decision faced by sellers is whether to grant credit or not and if allowed, how would the credit be controlled? Credit control decision varies from one organization to another, wholesome companies may have similarity in their decision templates.²

Debt can be classified into good, doubtful, and bad according to the payment strength of the debtors involves. The determinants of the size of doubtful or bad debt losses include the quality of accounts accepted by the firm, the condition of the country of the buyers, and credit management strategies³. When debtors are appropriately managed, the risk of doubtful and bad debts can be mitigated. While poor management of trade debt can lead to the provision of a large sum of funds for doubtful and debt debts, bad debt losses arise when a firm is unable to collect its accounts receivable '. Regardless of the merits of credit sale towards achieving company objectives, it had proved to be responsible for the financial

failure recorded in some manufacturing organizations primarily when trade credits were not properly managed. Most firms disregard the risk associated with sale credits and use it as a marketing tool on the following grounds: sales help in commanding, it encourages negotiation⁵. A firm grants credit when there is competition in the prevailing market. Also, sales are employed as a marketing tool, when a product is introduced into or when a company wants to push its weak product⁶

Credit Management Strategies

Policy and strategy have been used interchangeably. Policy refers to a set of rules made by the organization for rational decision making while a strategy is a special plan made to achieve a market position and to achieve the company's objectives. Therefore, policies are subordinate to strategy. Credit management policy is an operational document defining several operating rules for the credit sales process to be followed by the whole organization in the course of granting credit to customers. This study focused on credit management strategy which is described as a willing design to help the company attain the organizational credit objectives, gain customer's trust, attain competitive advantage through sales volume and to acquire a good market position. It is a combination of well-thought intent and actions which lead a firm towards its desired position. This organizational strategy is intended to have effectiveness (increase sales), handling events and problems (financial risk), taking advantage of opportunities (enhance cash inflow), full resource utilization (make appropriate investments), and coping with threats (reducing bad debt losses)⁸. The credit management strategy ensures that credit sales are controlled and bad debt losses are minimized. The standard procedures include: establishing terms of credit, credit information analysis and scoring to determine credit worth firms and individuals and setting credit plans to aid

receivable collection.

A cash discount is often allowed as part of the terms of credit, and the reason for offering the rebate is to speed- up the receivables collection.

Lastly, credit sales instrument is usually the invoice¹ • A seller issues an invoice to customer to sign as a proof that the goods have been received which also form a source document for receivable accounting record. The established criteria for evaluating credit risk should be based on the “5 Cs” of credit, which include character, capacity, capital, collateral, and condition. Character refers to the customer’s willingness to meet credit repayment. Capacity means the customer’s ability to pay his debts as at when due. Capitalis measured as the net value or income earned by an individual¹⁴. This criterion shows the adequacy of an individual. Furthermore, collateral is the pledge or security of the credit extended. Lastly, the condition refers to the preventing of economic and other national conditions, which may influence the customer’s capacity to pay. Adverse economic conditions may affect the ability or willingness of a customer to pay debt. Factoring In credit management, different firms adopt various methods as long as it will yield a positive outcome.

The finance manager who has recognized the exceptional circumstance of his firm may decideadopt some strategies to reduce debt risk, one which include factoring.¹⁷ The factor gives clients necessary information and reports about market trends and pauerns. Also, they make a systematic analysis f the data concerning the client for the proper monitoring and management of the debts. Monitoring receivables the finance manager should employ the average collection period methods. such as average collection period, aging schedule, and collection experience matrix’⁸. The average collection period is needed to collect an account receivable. ¹⁹.This scenario would inevitably impair the firm’s liquidity position and may

affect profitability. The formula is calculated thus: $ACP = D/C$ sales of the same period. The Liquidity and profitability in the manufacturing context measure the extent to which an organization adequate cash or near cash instrument meet its obligations instantly or in a short-term 22. Liquidity means that an entity cannot meet its financial obligations as they fall due. There is a quantity and a time dimension to liquidity. If you hold cash or readily realizable assets such as government securities, your liquidity is soundly based. If it consists of debtors, liquidity depends on their ability and willingness to pay²³. If it consists of goods, liquidity is a function of the salability of those goods and may be low if they are not in demand. The central purpose of any business venture is to maximize profit, which determines the short-term survival. Profit is vital, but management decisions should not only be profit-oriented at the detriment of wealth maximization. Profit is the difference between revenues and expenses over some time usually one year, and it is regarded as the final output of a company's operation. A company without sufficient profit would have no future. Profitability ratios measure the performance of the company in terms of the margin and mark up, return on equity (ROE) and return on assets (ROA) are the ratios used for profitability measurement. The ordinary shareholders are entitled to the residue profits. Therefore, shareholder's equity return is used to measure the profitability of owners' investment known as Return on Equity (ROE). The formula is: $ROE = \frac{\text{Net profit after tax}}{\text{Shareholders equity}}$ Also, the profitability can be measured by the net income earned by a company as a percentage of the total assets available for use by that company known as Return on Assets (ROA)²⁷. ROA measure company's ability to effectively use the available assets and earn good returns. The formula is:

$$ROA = \frac{\text{Profit after tax}}{\text{Total Assets}}$$

2.1 Concept of bank lending

Lending is seen as one of the essential functions of commercial banks. The major function is not only to recover the capital but also, the interest thereon. Credit management is granting loans and advances to credit worthy customers and ensuring that the loans are repaid. The banking industry in any developing or industrialized economy performs this function. The banking industry needs to have a very strong and viable management system that will enable it to recover the credit granted to its customers, since it serves major suppliers of credit for the different economic units in any economy. Such a system will help the bank to formulate credit policies that are directed to help it determine whom, how, and when credits are granted, but would also help the industry in monitoring risks associated with reducing the bad and doubtful debt rates, increase the profit margin and above all, help in increasing the value of the firm, achieving a tradeoff between liquidity and profitability.

2.1.1 Objectives of bank lending

The primary objectives of commercial banks' lending function are to provide growth, profitability and liquidity.

Business Growth

According to the Cambridge dictionary, growth is the ability of something to increase in size or amount. For any commercial bank lending to be credible there must be some form of assurance of growth in the business of the bank. This is however evident in the potential of the bank to create additional services to the customers that will yield good income to the bank. Each of the lending activities should thus show up the quality of the bank's loans and advance portfolio. The commercial bank is expected to see to the growth of its clients' business as this is why commercial banks are regarded as important agents in

the process of economic growth and development.

Profitability

It is the very essence of commercial bank lending function and it is very necessary for long term survival of any bank. In fact, this is why profitability is used as an index for measuring the managerial strength and performance of any bank.

Liquidity

Although, safety measures exist to ensure bank liquidity through traditional Central Bank of Nigeria (CBN) control mechanism such as cash reserve ratio and liquidity ratio. Commercial banks maintain prudent balance between the liquidity and profitability of its loans and advances. Since the banks are trading with money that belong to depositors, the whole policy relating to banks lending function must contain measures that ensure the liquidity of such loans portfolio. Hence, the structure and nature of banks loans and advances must align with that of the depositor's facilities.

2.1.2 Principle of Good Lending

It may be difficult to generalize the lending practices in the Nigerian banking sector. In truism lending largely on a number of working factors. The economical environment of the lender, the expertise of the bank involved, the 'tradition' and 'culture' of individual banks and of the individual engaged in the commercial bank lending function. In spite of these complexities varieties, there are still some generally accepted basic principle of lending. The principles include the following:

1. The personal characteristics of the borrower in terms of his protected reputation, antecedents, mar and managerial capability and financial capability.
2. Purpose of the loan. The loan must be consistent with the macro-economic policies of

the government

3. The details analysis of the amount being requested for with a view to determining how sufficiently and satisfactorily it would carry out the project.
4. Duration of the Advance or loan being requested.
5. The sources of repayment and its financial viability.

Remuneration on the advances (the interest) must naturally constitute the largest portion of the bank's total earnings. Consideration of the right lending decision on the security for the advances.

These canon of lending can be summarized in the five cannon of credit: character, capital, capacity, and collateral. More cannons have been added - customer relationship and competition make them seven(1990)

Personal characteristics

The personal characteristics of the borrower are the most important factors to look at when considering any lending proposal. Who is the borrower? Does he have a reputation, image and name to protect? What are his borrowing habits like? These questions are basic to the entire process involved in the lending decision. Also important to consider is the capacity and ability to handle the business for r e loan is being sought. The bank must be satisfied that the customer has the morale, technical and managerial expertise required for the project in question.

Purpose of the loan

The purpose rose for which the loan is being sought must be one that is satisfactory from the banker's point - and it must be acceptable from moral, ethical and legal point of view. Furthermore, such must be within the regulatory/supervisory framework as provided in the

CBN guidelines and .the CBN decree, the NDIC Decree together with the NDIC guidelines and the bank and other al institution decree.

Amount being required

The mount of loan being sought by the customers should in detail be analyses to determine whether it would be sufficient to satisfactorily carry out the project. It has been observed that customers often underestimate the amount they require, although there are few instances where some deliberately overestimate the amount. It is important that customers obtain enough finance for the project so as to *forestall* all abandonment due to shortage of funds. The bank is going to disburse funds for the projects. And it is important that the project succeeds, since it is basically the success of the project that will me cans repayment. Naturally, it is in the interest of the bank that the project succeeds, says like to be associated with failed or abandoned projects of importance here is the use of on the type of business he is going to finance comes to bear. If the officer has a good of the line of business, he should be able to objectively and prudently analyze such cash *me* estimates submitted by the customers. Alternatively, the bank can use the services of n re line of business. It can even use information from outside the customer. The objective is to ensure that the project is feasible from the beginning and the bank is in the position to provide the type of finance required. The bank is more protected where it is the sole financier of the project (Except where syndication facility becomes inevitable), otherwise, the allegiance of the customer will be split among various financier.

Duration of the Advance

The duration of the deposit liabilities of a bank will determine , depend on the

facilities .Incidentally, in Nigeria bank deposit liabilities are predominantly short term .The proportion of the entire loans and advances of the whole banking system represented by medium and long- term is still negligible.The duration is very important , it must be consistent with the lending policy of the bank. Experience in Nigeria has shown that most customers would ask for shorter duration ,basically because the high level of interest rates. The banks must ensure that the interest of the bank and that of the customers areprotected at all times.

Source of repayment

The ability of borrowing customer to repay the loan from sources which is reasonable, certain and sine mam test of the loan request. Obviously, no bank will want any of the loans it granted into hard core borrowing. Therefore the source of repayment of the facility must be adequate from the onset. For project financing, the best and the most convenient source of : should be the project itself. The loan will only be repaid with the cash flows that the project rather than on profit which is normally based on the accounting accrual concept. For a capital facility, there must be sufficient evidence that the company and customer will be able e enough cash to repay the facility.

Remuneration on the Advance

Thefundavailable to banks for lending attract specific interest rates and such rate are greatly influenced by competition in the Nigerian Banking sector today. Thus, the bank must consider a fair return for its shareholders. Again, lending decisions increases the risk profile of the bank, so that the remuneration on the loan must be commensurate with the risk inherent in the project being financed. Lending officers must ensure that the return or any lending facility satisfactorily justify the effort. The agreement must be well documented.

Security for the Advance

Bank require security as an insurance against unknown event which may render the proposed repayment difficult .It is expected to just be a fall back position for the bank in case of unexpected occurrence . In Nigeria, where there is dearth of credit information or where the borrowing customers positions changed due to highly volatile economic situation, security should normally be is an additional leverage to the bank for its lending decisions. The best time to obtain the s at the onset, when the loan is being negotiated. This time is the most auspicious because it

Then that customer will be willing to cooperate in submission of all documentations needed. The real security that the bank has in any of its lending is making good and right lending decisions. Once the lending is good and right, security will just be a residual decision. A Bank that predicates on good and quality collateral will be running the risk of making high loan losses. Thus, the lending decision must be based on its own merit and never on the good and quality security which the customer is ready to provide.

2.1.3 Types of Bank Lending

Loans: They take several forms. They are extended to sole proprietorship, partnership business, liability companies and individuals such as salary earners. The whole essence of loan facility is to assist the recipients during periods of need. Sometimes the amount of such facility may be unsecured and it is repayable in the shortest possible time.

Term Loans: This is usually for businesses essentially; it is for business expansion, maintenance of business premises or buying of new equipment. Term loans are in various categories. Short term is for periods under a year example are import and export financing,

warehouse finance. Medium loan is between 1 and 5 years while the long-term loan is for a period of more than 5 year

Bank Guarantee: Banks also provide guarantees to their customers. Guarantees are sometimes bonds. When a bank provides guarantee to its customers, the bank will assume an obligation to third party when the customer fails to meet his own obligation. The fact that the bank has a potential liability to the third party requesting for the bond/guarantee. Such transaction must be undertaken by the bank from the point of view of a pure credit so that all the considerations required in considering other credit should be done before the bank agrees to issue bond or guarantee.

Letter of Credit

It is just similar to bank guarantee in that the bank undertakes on behalf of the customer to pay a specific amount if certain conditions stipulated in its terms are not met. They are normally used international trade for both import and export transactions and thus are usually denominated in foreign currency. Just like bank guarantees and bonds, letters of credit should be viewed as a pure credit.

Project Financing

It is the provision of finance for a particular project such finance is expected to sustain the project through which to its completion time. In most cases, the repayment for the loan will come from income that will accrue from the project particularly when the project is a commercial one. When the project is not commercial, the repayment is expected to come from other sources. For commercial projects, feasibility studies are normally required by the bank in order to determine the projects economic viability.

Syndicate Loan

This is a large loan that is made by a group of banks to a single borrower. Syndication is the practice of deciding risk between several people in order to minimize individual risk. Because of large amount required, one bank may not be willing to assume all the risk involved and as such a group enter into a consortium agreement towards providing a syndicated loan.

2.1.4 Lending Policies

The lending operations of the bank are guided by the policies, such that the loan portfolios are in line with the goals of the bank and the aspirations of its business environment. Primarily, the objectives of a written policy are:

1. To ensure compliance by lending personnel with the bank policies and objectives regarding the portfolio of loans.
2. To provide the personnel with a framework of standard's within which they can operate. In order words, lending policies are required by a bank to serve as signposts to guide the lending officers of the bank who may be involved directly or indirectly in marketing the bank's services.

2.1.5 The Underlying Factors in Determining Lending Policies

It differs from bank to bank. One of the underlying factors in determining the lending policy is the decision to how much to lend at any particular point in time. The loan-to-deposit adopted by the bank is important. Here; the ratio will be influenced by the regulatory requirements of the CBN and NDIC.

The ratio will differ from bank to bank as result of past experience, the size of the banks and

the aggressiveness of the management.

The past experience of the banks, the potential level of credit demands by its customers (current and perspective) observable from their financials plans and the state of the economy, the size and structure the deposits of the bank, the levels and structure of interest rates are some of the factors that will affect the bank's forecast loan demand.

A bank's lending policy must be one that recognizes the need for profitability. This need to be profitable is fundamental and essential for the continued existence of a bank. The need for profitability limit the extent to which a bank wants to be biased in lending to a particular sector. A good ample is lending to agriculture which is both economically and socially desirable but represents one of the least profitable avenues for the investment following a bank's funds given the high default rate of loans to the sector.

2.1.6 Specific Contents of Lending Policy

1. The quality and quantity of information to be requested and obtained from customers for specified types of loans.
2. The policy guideline should also specify the desirable restriction to be placed on the activities of the borrower to ensure that the interest of the bank is well catered for.
3. This is the agreed repayment schedule. Here, only a general statement underlying the need for relating the repayment schedule to the cash flow ability of the customer can be made.
4. The actions required to be taken by the bank when the borrower is found to have breached any of these covenants, which may include immediate recall of the loan, the taking over of security and the notification of appropriate personnel or department of branch office.

2.1 7. Credit Management

Credit Management

Credit can be defined as a form of facility or loan that is granted to a potential customer in order to meet his or his indebtedness. It could come in form of overdraft, loans and advance, e.tc

While, management is the ability of getting things done by people. Simply put, credit management is process or way of managing, supervising, controlling, and coordination the extent of credits that are given to potential customers, and the terms and condition associated to those credits.

What is credit?

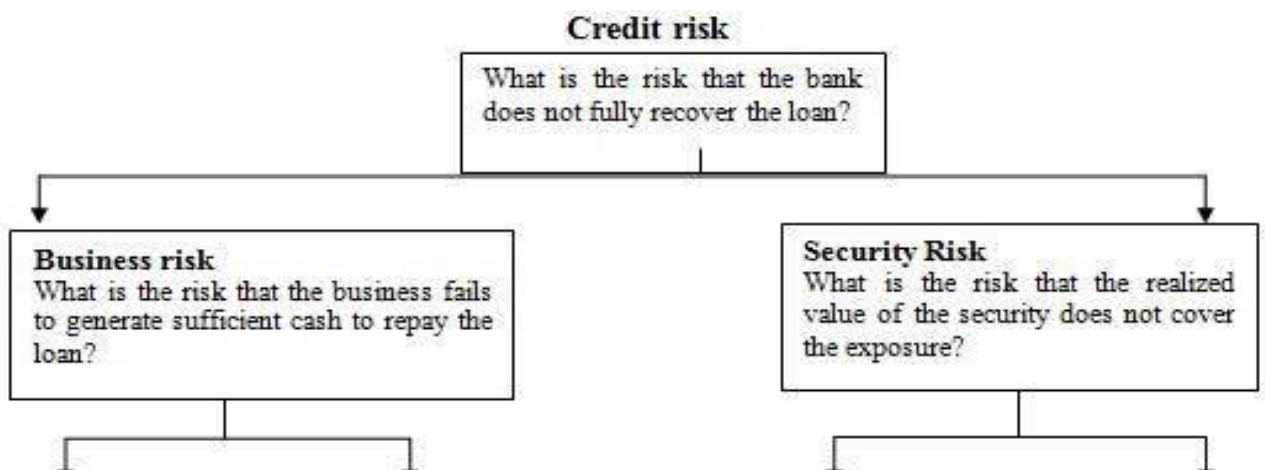
Credit means a provision of, or commitment to provide, funds or substitutes for funds, to a customer or borrower to pay his or her bills, as at when due.

What is credit risk

Credit risk means the risk of credit loss that results from the failure of a borrower to honor the borrower's credit to the financial institution. Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its in accordance with agreed terms

The constituent elements of credit risk can be viewed from the following flowchart

Figure 1:Credit Management



The Source: Credit Approval Process and Credit Risk Management.
2005ObsrreichischeNational Bank

2.1.8 What is credit risk management

Figure 1.2: Prism model of credit risk management

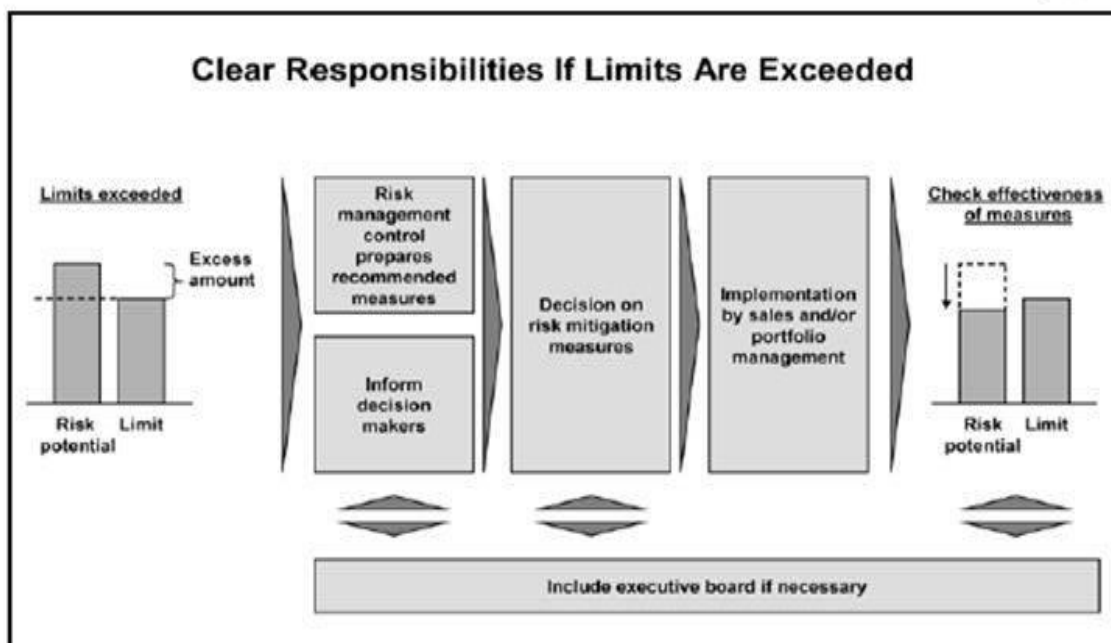


Figure : Credit Management.

Source: (Credit Approval Process and Credit Risk Management, 2005, National Bank)

The renowned and popular big names in Nigerian manufacturing sector as well as giants in the distributive trade have suffered tremendously and even folded up due to the high incidence of bad debts. The construction industry has not fared any better as not a few of them have closed shop due to unpaid debts by both government and private patrons. Various chambers of commerce, trade associations including the Manufacturers Association of Nigeria (MAN) and NACCIMA confirmed that their members were burdened with crippling bad debt profiles resulting from poor management and unsecured credit granted to their customers. With the deregulation of the downstream sector of oil and gas industry, it becomes imperative for credit facilities to be granted to operators in order to ensure that the lifting and marketing of products continues unhindered. Key players in the downstream sector like NNPC, Mobil, Oando, Texaco, Conoil and AP to mention a few, operate large credit.

Control departments saddled with the responsibility of managing credit extended to their customers, banking industry is grappling with the incidence of bad debts which has led many of them various stages of distress. Yet, for the banks to survive in the new banking regime in Nigeria they must extend credit to their teeming and deserving customers, otherwise, the

entire economy will grind a halt. The government has promoted various credit delivery programmes and institutions. The performance of these programmes has been analyzed variously and researchers have come to a conclusion that most of them were colossal failure due largely to unavailability of skilled credit managers. Institutions like NIDB, NIBCI, NACB, FEAP, Peoples Bank had since been merged or outrightly discontinued due to their poor performance arising from ineptitude, lack of credit management know-how and corruption on the part of the managers. For credit management to be effective in Nigeria there must be a specialist institution, providing specialized learning in the field of credit with responsibility to provide quality personnel of credit management. For this vocational institution to be effective and impact positively on the nation's credit market, it should receive cheering accreditation of the nation's relevant education authorities. Furthermore, the introduction and management of credit card business as means of effective payment for goods and services purchased as well as extension of business to business credit lines and post-paid services to individuals require an array of professional credit managers in imperative to state that an efficient, effective and disciplined credit management and its importance cannot be overemphasized as it is not possible to achieve a robust economy without a well-equipped credit market. Credit remains an indispensable lubricant and a tool of convenience for the solid economic progress of a country. But its uncontrolled use brings untold problems for an economy. Once again, it is therefore a necessary evil. Creating an enabling and supportive environment to train and produce skilled and frenzied credit professionals is the responsibility of government and credit market stakeholders. With the payment of Nigeria's external debt by the Federal Government, the nation must move quickly to give backing to genuine efforts aimed at making Nigeria a member of economically

civilized nation.

This is why the Postgraduate School of Credit Management (PSCFM) is providing its commitment to implementing the highest standard of credit management academics with professional rigour in Nigeria. The role of PSCFM is therefore germane at this stage of our country's credit market economic development. This is in addition to fostering ethical conduct among its graduates and award higher professional and post diploma certificates based on those standards. The developed economies have long the need to harness its potentials in the area of credit management and Nigeria should not be left out. : The effort of the Postgraduate School of Credit and Financial Management should be commended. Supported and recognized for its singular effort in championing the of internationally competitive credit management education in Nigeria.

Credit Risk Management: The Magic to Determine the Fate of Post Consolidated Banks

The issue of debt in whatever form and its importance cannot be over emphasized as it could be held responsible for the failure of most businesses especially banking business. In the post consolidation credit risk and management will pose a big challenge to the banks as they consolidate and make more plans in granting micro credit and micro finance to the issue of debt, there is another process of careful planning known as credit bureau system, which may net as a safeguard in re-lending money to r already indebted person. Credit bureau system will be solutions in an environment where some people go from bank to bank, borrowing funds without the slightest intention to repay.

In this case, credit bureau system will provide the platform for the financial institutions to

strengthen their appraisal procedures, through enhancing credit quality and responsible credit behaviour in the -nation's financial system.

Although the issue of debts and bad debts mostly bother with high net worth individuals, credit bureau system would also be needed to apply to small depositors as time goes on because of the consumers banking products about to be introduced by the consolidated banks. For instance, most of the commercial banks in the country have introduced a flexible micro credit product, which would allow customer's access to loan as much as possible.

However, credit risk is one area that will pose as a big challenge to these consolidated banks in an environment without demographic statistical information like social security system, national identity card, accurate population figure and poor judicial process.

At the national stakeholders workshop on credit bureau development recently organized by the steering committee on credit bureau development, the Governor of the Central Bank of Nigeria, , said one of the main goals of s credit bureau is to strengthen the business environment by supplying information to market participants with regards to the credit worthiness of individuals and enterprises. Others goals, according to him, include facilitating improvement in the performance of the financial sector and to provide high quality services and meet the needs of the whole community and general public. According to Soludo, the establishment of a credible credit bureau is considered as one of infrastructures that will assist in the development of a strong credit culture, which is a prelude die transformation of the Nigerian economy from cash economy to credit economy, Soludo explained that the establishment of the bureau should assist in reducing time and costs of the borrowers risk assessment procedures, facilitate the most optimal allocation of financial sector credit resources and boost credit volumes in the economy.

Thus he said, the business community has the opportunity to quickly and easily assess the customers credit risk potential by receiving cumulative information on their previous payment behaviour patterns and current credit obligations with various financial and non-financial institutions: discover and attract creditworthy customers; streamline the account opening and application process; monitor irresponsible borrowers and be protected from bad debts; save time and money spent on information gathering by receiving the borrow credit report within seconds; minimize the credit risk in the financial sector as consumers became more cautious while fulfilling their financial obligations to avoid getting information into their credit reports. This fact contributes to the formation of a reputation factor in general public mentality as an additional device to repayment of loans; accelerate their risk assessment, account qualification and approval processes; significantly lower interest rates on loans and credit arrangement by reducing these risk involved in lending; get informed about both their domestic and international potential partners. Consequently apply their decision criteria to approve customers and new services.

The governor observed that a major challenge for the credit bureau is the source of data and data integrity, saying that how will the bureau collect data from institutions that issue loans, finance companies, primary mortgage institutions, insurance and public utility companies, local government and so on.

Furthermore, the bureau must anticipate and provide for dispute resolution particularly as affects incorrect information in report being insured. Where complaints of incorrect report and received, the bureau must be in a position to reconcile the record to its original source. However, he said, to have the record changed; an update with corrected information should be received from the original source. The governor explained that in the area of security and

safety of data, the bureau must develop, implement or acquire a robust security system that will ensure safety and inaccessibility of data to authorized persons. However, he mentioned some behavioural challenges in the operation of the credit bureau especially the one that touches on the willingness of contributors to provide accurate, complete and timely records to the data base.

According to him, many institutions were discovered to have failed to capture the credit records of their special customers most of whom were directors of shareholders in their institutions. He said that in many cases where such are captured, the actual statuses of the credits were not correctly indicated. Still, he said, in some cases, the credit statistics were inappropriately captured thereby misrepresenting the exposure of the bank to the entity. He also mentioned the fact that many institutions lack complete information for the creation of their credit customers most especially for very old loans.

He stated that the duplications of borrowers in the database and treatment of individual borrowers pose a special challenge in view of the similarity of Nigerian names. According to the governor, some institutions are reluctant in embracing the credit bureau because by its nature, it would expose the flawed credit granting process in their organizations. This allowed them to grant credit to unworthy borrowers or to themselves at the expense of the bank.

Another area of challenges is the contention from operators and commentators of the mandatory requirements for enquiry and usage of the credit information available in the Credit Risk Management System (CRMS) database. His words. Some respondents felt that it should be optional and discretionary as against its mandatory use. The mandatory requirement in the CBN credit bureau was in furtherance of its statutory responsibility to

protect depositor's fund entrusted with the institutions. Speaking at a workshop recently, the Managing Director and Chief Executive Officer (CEO) of Nigeria Deposit Insurance Corporation (NDIC), observed that most of the officers of the liquidated banks flouted their own internal loan policies, procedures and limits (where they existed) as well as the provision of laws and regulations guiding their operations with impunity and some offices in the banks still in operation are equally not obeying these provisions.

Loans were granted without collaterals and where collaterals were taken, such were not adequate and when adequate, they were not perfected.

Such officers of the liquidated banks had to face Failed Banks Tribunal for loans granted improperly with the result that the loans were irrecoverable", he said.

Furthermore, he said, loan disbursements in many instances were known to have been effected even before conditions precedent to draw-down were met. He explained that some banks were, and some are still reckless in disbursing facilities before loan applications and/or acceptance letters are received. 'How can such customers be made to repay it the simple but important contract documents were not executed at the onset of a credit relationship", he said.

The managing director said further that effective risk monitoring requires institutions to identify and measure all material risk exposures. Consequently, he said, risk monitoring activities must be supported information systems that provide senior managers and directors with timely reports on the financial condition, operating performance and risk exposure of the institutions as well as with regular and efficiently detailed reports for the line managers engaged in the day-to-day management of the institution's activities.

The sophistication of risk monitoring and management information systems should be consistent with the complexity and diversity of the institution's operation an institution's

internal control structure is critical to the safe and sound functioning of the institution .generally and to its risk management system in particular.

Establishing and maintaining an effective system of controls, including the enforcement of official business of authority and the appropriate separation of duties, such as trading, custodial and back, office is one of the management's more important responsibilities", he said. Indeed, he said, an appropriate segregation of duties is a fundamental and essential element of a sound risk management and internal control system. His words; "Failure to maintain and implement an adequate separation of duties can constitute an unsafe and unsound practice and possibly lead to serious losses or otherwise compromise the financial integrity of the institutions.

Serious lapses or deficiencies in internal controls, including inadequate segregation of duties, may warrant supervisory action, including formal enforcement action.

When properly structured, a system of internal controls promotes effective operations and reliable financial reporting, safeguard assets and helps to ensure compliance with relevant laws, regulations and institutional policies", he observed that one of the manifestations of inadequate internal controls in Nigerian banks is the high volume of losses arising from frauds and forgeries. According to him, these losses arise principally from weak internal controls and the retention of staff with fraudulent propensity.invariably, he said, banks with high volumes of losses from fraud tend to have these two factors and often the weak internal controls manifests in such a way as preponderance of unrecognized items, no segregation of active from dormant balances, lack of control of strong room, lack of online auditing of banks that are online and so on. Ogunleye explained further that it is evident that some of those saddled with the responsibility of managing our banks do not fully understand the

dynamics of the current business environment and the volatility of the variety of financial products and services : offered.

Against this backdrop, he said it is instructive that every responsive bank management in addition to formulating sound lending policies, installing efficient internal control systems and observing ethical standards, should also establish a robust internal risk management framework that will ensure effective management and control of its appetite.

“Such framework should be subjected to periodic appraisal and review in accordance with established risk management policies” the supervisory authority role in the assessment of financial institutions risks, 5 important to stress that supervisors rely on information on risk exposures supplied by the financial institutions to monitor the individual banks and the entire system for safety and soundness.

“The reliance underscores the supervisors’ emphasis on the need for such information to be complete, accurate and timely. Effective off-site surveillance of bank performance calls for rendition of accurate and reliable prudential returns”, he said. Knowing the importance of risk especially in this post consolidation era, the CBN had picked September 2006 as the commencement date for the implementation of Risk Based Supervision of Banks in the country.

Speaking at the sixth yearly national conference of the Risk Managers Association of Nigeria (RIMAN) recently, the Director of Banking Supervision, CBN, Mr. Ignatius Imala, explained that RBS was an object-based supervisory approach concerned with translating economic and other - formation into potential risk factors for a bank.

According to him, RBS focuses on the quality of credit management systems in supervised institutions and recognition of systematic credit to the banking system.

RBS presents a framework which banks are assessed regarding the probability and impact of credits as opposed to the intuitive assessment by the traditional approach, Imala explained that contrast to the traditional form of supervision, which was based on credit avoidance and hence against innovative products and services, credit based supervision treats mitigating risks and offsetting risks as valid approaches to credit management.

The director of banking supervision illustrated further that a risk-focused supervisory process provides flexible and responsive supervision to foster consistency, co-ordination as well as communication among supervisors, relies on the understanding of the institution, the performance of the risk assessment as well as the development of a supervisory plan and procedures tailored to the risk profile of individual institutions.

In that regard, risk based supervision identifies, measures and controls risks, and monitors the risk management process put in place by a financial institution during a supervisory period.

The special usefulness of risk-based supervision is to identify ahead of time, risks that may cause serious problems in the future and to assess the ability of bank management to deal with risks. Imala stated that risk-based supervision holds out the hope of a more flexible and targeted regime. Which can adapt to fast changing market developments?

In a RBS environment, regulations address a broad spectrum of risks, and provide principles on how to assess and manage risk without unnecessary detailed rules and recommendations. Since it is based on principles rather than rules, the RBS approach can adapt to changing business/market conditions. Regulations, therefore, only concentrate on creating an environment in which the quality and effectiveness of risk management can be optimized, and should oversee the risk management process exercised by the boards and management

personnel of individual banking institutions.

Under the current approach to banking supervision, he said regulations have often been prescription in nature and have imposed onerous requirements on banks, which have sought to circumvent them. The traditional approach to regulation and supervision has, at times, provided negative incentives for the evasion of regulations, rather than encouraging the adequate management of risks.

It has, therefore, been recognized that the old approach to banking supervision does not live up to the challenges of a modern banking environment and turbulent markets.

This, among others, informed the CBN's policy shift to important risk-based supervision in Nigeria, according to him, the framework clearly indicated that the risk to the banking system and depositors posed by a given bank would be the key criterion that would inform supervisory activity and guide the location of time and human resources to the supervisory process. Salient features of the framework include the followings.

He said further that the framework opened by establishing basic supervisory objectives, which may be threatened by individual banking institutions risk. The three statutory/supervisory objectives identified in the framework are: promotion of stable banking system; consumer protection; and reduction of financial crimes.

Bank-specific risk elements were equally identified in the framework. These are 20 in number and they include market, credit operational, quality of corporate strategy, litigation/legal, adequacy of capital, liquidity, earnings, types of products, clarity of ownership, information communication technology, compliance, money laundering, corporate governance etc.

The framework also identified some risks to the attainment of the three supervisory

objectives (credit to objectives). These are insufficient fund, problem of corporate governance, and mismanagement, financial misappropriate/fraud, irregularities in forex operations, inadequate understanding and money laundering.

It is also detailed the supervisory cycle stages. Normally, there will be six stages in a supervisory cycle, however, at the commencement of the implementation of RBS, there would be seven stages including full-scale maiden examination. These are as follow;

Full scale maiden examination of banks covering all the 20 risk elements; assessment of banks; risk assessment of banks; development of risk mitigation programme; evaluation and validation; communicating the result of the assessment and risk mitigation programme to the bank; and credit control, mitigation programme, ongoing assessment of the bank and response to risk escalation.

The framework also outlined the credit management process of a typical financial institution and proposes guidelines for developing a risk management model for a bank. This is with view to facilitating risk.

He added that risk management is central to the development and operation of an organization's control structure and, therefore, of its corporate governance.

To ensure that organizational objective are being met, and priorities are being addressed in the manner agreed, an organization wide view of risks and controls is necessary. This is what ERM is all about.

He added further that an over-arching and implicit objective of the ongoing banking sector reforms is to foster the emergence of a strong, safe, stable and reliable banking system that would engender and -sustain the confidence of depositors. The implementation of the RBS framework and the adoption of best practices in risk management by banks will assist in the

realization of this objective.

Imala now said that banks must continually refine their risk management strategies to accord with their changing risk profiles and best practices.

The extent to which banks embrace best practices in risk management will greatly complement the efforts of the regulatory authorities to promote the safety, soundness and stability of the Nigerian banking sector.

According to Imala, he observed that there is currently an acute dearth of knowledge and skill in risk management in Nigeria and this to him is a major challenge as banking operations and supervision becomes more risk focused.

However, we hope that through foray and other capacity building initiatives, the identified skill and knowledge gaps among industry practitioners and regulators will be significantly bridged, going forward.

Financial statement analysis

Bevans (1979) gave his opinion that the audited accounts of a customer rank as the most used lending tool of all, and are quite highly regarded as the means of understanding the statement of affairs of a customer quickly and easily. These audited figures are expressed in ratio i.e. a means of comparing one figure with the other, with the sole aim of analyzing a customer's performance, the ratios are mainly used to assess the credit worthiness of customers (companies) and also enable the bank to assess the degree of risk it takes by granting loans to some customers.

According to (2000) grouped this financial ratio into five:

Liquidity Ratio

Leverage Ratio

Efficiency Ratio

Profitability Ratio

Equity Ratio

Liquidity ratios

Liquidity ratios measure an enterprise's ability to meet its current and maturing obligations as and when due. These ratios are further classed into two namely Current Ratio and Quick Ratio.

The Current Ratio (CR) is calculated by dividing current assets by current liabilities:

$$\text{Current ratio} : \frac{\text{Current asset}}{\text{Current liability}}$$

Current assets are made up of cash and those assets that can be converted into cash within an accounting period such as marketable securities - treasury bills, treasury certificates and other customized money market instruments, debtors, bills receivable stock or inventories, prepayments (that is payments in advance). Similarly, all obligations maturing within an accounting period are described as current liabilities. They include; creditors, bills payable, accrued expenses, bank overdraft, income tax liability and any long-term debt maturing in the current accounting period.

The Current Ratio measures the company's short-term solvency. It is an indication that for every Naira current obligation, there are available matching current assets in Naira. The Quick Ratio (QR) or the Acid Test Ratio, on the other hand, is a more refined measure of a company's quick or liquid assets and its current liabilities.

$$\text{Quick ratio} : \frac{\text{Quick or liquid asset}}{\text{Current liabilities}}$$

Leverage (Or Capital - Structure) Ratios

While short-term creditors, such as banks and suppliers of raw materials, are concerned with a company's current debt-paying ability, the long-term creditors, and loan-capital providers such as debenture-holders, investors, and related stakeholders are much more interested in the company's long-term solvency and stability. A business enterprise must be strong financially both in the short and the long term for it to be reckoned with as a going concern. While liquidity ratios play the role of gauging the short term strength of a company, its long-term solvency and stability is determined through the leverage or the capital structure ratio criteria. These ratios are calculated by dividing the total funds provided by outside parties, that is, creditors for loan capital by the owners' equity.

The general rule in corporate financing is that there should be an appropriate mix of debt with the owners' equity in corporate financing. The mode of financing for the assets of a company has quite a number of implications. For instance, debt is more risky than equity from an enterprise's viewpoint in that, it has a legal obligation to pay interest to debt-capital-providers irrespective of whether it makes profits or losses. Failure to pay interest and capital to debt-capital-providers in time may land the organization in some troubles. Legal actions may be instituted against the organization, which in some extreme cases may lead to their liquidation; all as a consequence of its inability to meet its long term obligations to providers

of debt capital. However, in some ways, the employment of debt capital may be advantageous;

1. It allows the existing owners to retain control of their company with a limited stake.
2. They enjoy the residue of earnings whenever the business enterprise earns a rate higher than the interest rate higher than the interest rate on the invested funds, thus maximizing returns on their investments. The process of maximizing the shareholders' ROI (Return on Investment) or ROCE (Return on Capital Employed) is called trading on equity

Leverage can work in opposite direction if an optimal mix of debt-equity is not attained as well. In their words if the cost of debt, is higher than the company's overall ROI, the earnings of shareholders will be adversely affected and the threat of insolvency will be louder and pronounced. If in very adverse circumstances, the company is liquidated for non-payment of debt-capital providers' dues, the worst sufferers are usually the shareholders who are the residual owners. From this knowledge, we can safely conclude that the use of debt-capital has the capacity to improve the shareholders' earnings as well as increases their risk.

Another important fact to be borne in mind is that, a highly debt-burdened company may find it difficult raising funds from outsider parties and even owners (who would not want to increase their exposure further) in future.

Generally shareholders' equity is treated as a margin of safety outside parties namely creditors and other relevant stakeholders. Therefore, if the equity base is thin, these outsider parties may not be willing to the further exposure to higher risk. Leverage ratios are thus calculated to measure the financial risk to the organization and it's the long term solvency and stability potentials. It also determines its ability to use debt financing for the benefit of shareholders.

Return on Investment (ROI)

The profitability of an enterprise is also measured in relation to the investment in it. The term investment usually refers to total assets, capital employed or the owners' equity.

Normally, quite a number of profitability ratios in relation to investment can be calculated, among which are the following:

1. Return on Assets (ROA)
2. Return on Capital Employed (ROCE)
3. Return on Shareholders' Equity (ROSE)

ON ASSETS (ROA)

The ROA or profit-to assets ratio is net profit divided by total assets which is given by this formula:

$$\text{Return of Asset} : \frac{\text{Net profit after Taxes}}{\text{Total Asset}}$$

This ratio is conceptually unsound as it excludes interest charges from the Net Profit figure. Usually, assets would have been financed from the pool of funds from the debt-capital providers, trade and owners. Therefore, in measuring the returns on assets, the primary purpose are to the effectiveness in utilizing the *pool* of financial resources have been utilized; the return there from Tom can be compared with their weighted average cost of acquiring them.

It should be noted, however, that the **Net Profit After Taxes** in the numerator of the ratio does not the **interest charges**, that is, the cost of debt, thus resulting in an under-statement of the earnings generated by the *pool* of funds. In order to arrive at the real earnings, the *Net Profit After taxes* should include interest charges, in which case the ratio will now be;

$$\text{Return of Asset: } \frac{\text{Net profit after Taxes} + \text{interest}}{\text{Total Asset}}$$

This same formula may still be modified to exclude all intangible assets, in which case it will be given

$$\text{Return of Tangible Asset: } \frac{\text{Net profit after Taxes}}{\text{Total Tangible Asset}}$$

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The ROA is a useful measure of the profitability of all financial resources invested in the enterprise's assets. It is used to evaluate the uses to which the funds available to an organization are put without serious consideration for the sources of funds. The ratio is particularly useful for divisional performance evaluation in a multi-divisional company where generally divisions have responsibility for utilizing and controlling assets for which they were not responsible for their acquisition.

Return Capital Employed (ROCE) There are three varieties of the ROCE namely:

$$(1) \text{ ROCE : } \frac{\text{Net profit after Taxes}}{\text{Capital employed}}$$

$$(11) \text{ ROCE: } \frac{\text{Net profit after Taxes} + \text{Interest}}{\text{Capital employed}}$$

$$111) \text{ ROCE: } \frac{\text{Net profit after Taxes} + \text{Interest}}{\text{Capital employed}}$$

The ROCE is an indication of how efficiently the enterprise's management has been utilizing the funds brought into the business by both owners and creditors. The higher this ratio, the more efficient the

Management is using funds entrusted into its care. In business performance measure, this ratio should be compared with that of similar organizations within the same industry and also with the industry average. Such comparison will reveal the relative operating efficiency of the company.

Return on Shareholders' Equity (ROSE): The shareholders of a company usually may comprise of ordinary and preference shareholders.

In the distribution of dividend, the preference shareholders, usually enjoys a priority. The rate of reference dividend is fixed while ordinary shareholders are entitled to the residual earnings of the enterprise. For ordinary shareholders, the rate of dividend is not fixed. All residual earnings may be distributed to them or retained in the business for further expansion.

It is important to point out here that, the net profits after taxes and after preference dividend Present the return on their investment in the enterprise. A ROSE is calculated is calculated to evaluate the profitableness or otherwise of the owners' investment (equity). The shareholders' equity will include ordinary share capital, preference share capital, share premium and reserves (capital and venue) and surplus, that is, retained profit less accumulated losses. The total shareholders' equity is sometimes called net worth. The figure

of Net Worth can also be obtained by subtracting total liabilities from total assets. The term 'net worth' as used here may be misleading because it usually refers to market value of the owners' equity, while the owners' equity is recorded at book value in the Balance Sheet. A way of avoiding this confusion is to replace the term, net worth, with owners' or shareholders' equity.

The ROSE is, therefore, the net profit after taxes divided by the total of preference and ordinary shareholder' equity:

$$\text{Return On Shareholders' Equity} = \frac{\text{Net profit after Taxes}}{\text{Shareholder's equity (Net Worth)}}$$

Since the ordinary shareholders are the residual owners in the real sense of the word, they assume the maximum risk, and have the highest stake in the company. As earlier stated, the rate of dividend is fixed for preference shareholders, but for ordinary shareholders. Preference shareholders will usually receive dividends, whenever the company makes profits whereas the earnings of ordinary shareholders can be retained in the business and may not be paid dividends despite earning profit, it all depends on the objective to be achieved. Since ordinary shareholders are the real owners of the company, the performance of the enterprise operations is judged on the basis of earned on ordinary share capital provided by the equity investors.

Basic Credit Standards

- A. Officer signing a memorandum recommending the approval of a credit must reasonably expect the credit have an acceptable risk rating during its life.
- B. Owners, managers and individual borrowing customers must be people of integrity

with substantial relevant business experience.

- C. Ownership equity or net worth of the borrowing customer must be significant in relation to the credit being granted
- D. The bank's position as a creditor should be good as or better than that of any significant creditor with respect to collateral security, guarantees, default clauses and similar matters.
- E. The bank must have sufficient qualified staff, facilities and procedures in place to ensure professional administration of the documentation, continuing credit, evaluation and operational support of the credit throughout its life.

Causes of Problem Loan

1. Poor analysis of customers' statement which always resulted to customer total assurance on the loan to be received from the bank.
2. Lack of knowledge of customer's activities
3. Irresponsible and reckless management practices
4. Bad management and monitoring of account
5. Inadequate project monitoring
6. Misrepresentation on the part of the customer.
7. Excessive dependence on security.
8. Matters beyond customers control.
9. Inefficient collection system.
10. Increased competition and weak economy.
11. Executives 'over-confidence.
12. Diversification without proper skills.

13. Inadequate legal protection.
14. Unavailability of credit bureau

Effects of Problem Loan

1. Loss of depositor's fund.
2. Emergency liquidity crisis.
3. Loss of confidence in the banking system.
4. Loss of income arising from providing on loan and advances in accordance with the procedural guidelines.
5. Distress and failure.
6. Crowding effect on some economic factor e.g. Agriculture.
7. Further depression of the economy.

Measures Aimed At Reducing Incidence of Problem Loans

1. Good and effective policy must be put in place to guide the lending function of commercial banks policy must also be respected and judiciously followed.
2. Compliance with the bank and other and other financial institution decree (BOFID) and other statutory provision.
3. Compliance with prudential guidelines to identify such loans that have the potential of becoming bad, early enough.
4. Adequate monitoring, classification and follow-up to tighten-up the tie between the commercial banks and their customers.
5. Good recovery policy, strategies and tactics, which will enable the lending officers to be well informed of an default signals, once they begin to emerge and to be able to take necessary steps without any delay.

6. Strengthening of the technical control system so that they can effectively function in the best interest of the bank.
7. Reforming the legal system.
8. The NDIC should be more proactive.

Impact of Efficient Lending Function

An efficient lending function will impact positively not only on the bank liquidity, but also on the profitability of such banks since it will enable the bank plan and manage its liquidity very well.

- The Safety of the depositor fund is guaranteed.
- The safety of shareholders fund is also protected.
- The lending function will also help to reduce and eliminate the distress syndrome inherent in the banking industry.
- An efficient lending function in the banking sector will also be in the overall interest of the country in that it will bring about an availability of credit to the national economy.
- It brings about growth and development of the economy.

Guiding Principles of Good Lending

According to Nwankwo (2004), guiding principles are the well-known 5c's of bank lending. These

principles are character, capacity, capital, condition and collateral in a general agreed order of importance to lending decision making.

Character: This is the ability and willingness of the borrower to repay the loan. The

borrower must be reliable with high personal integrity and honesty. The banker must be aware of the customers past records of activities, experience and is dedication to work. In the case of business organization, the past record of profit as indicated by the business annual profit and loss account and balance sheet will be properly scrutinized to know the character of the borrowers to know whether he will spend the money on the project and will be willing to repay the loan.

Capacity: This is the ability to utilize the loan well with the past experience intelligent and knowledge of the borrower. This is very important because repayment of every loan or advanced is expected from future earnings. Borrowing customers must be able to submit a simple cash budget and show the ability that the loan will be utilized.

Capital: this is evaluation of the amount required whether the amount required is adequate to finance the project. The customers contribute to the project is very important. It must be reasonable as it is one of the reasons why banker can determine the borrower's commitment. The higher the borrower investment, the greater will be his determination to succeed and make profit.

Condition: This relates to all the condition associated with the loans. Whether it is for a long or short-term basis purpose of the loan, term of repayment, the economic institutional policy and all other terms associated with the loans.

Collateral: This is the last to be considered. The essence of collateral to other (depositors). Therefore there must be security for it. Secondly, there may be unanticipated development that distort projection and therefore to serve as a cushion against. Collateral does not make a tan good or bad because collateral decision is a residual decision and to a very large extent irrelevant to lending proposal since no bank is interested in selling people's property. Security

itself may be insecure due to effusion of time, inflation and unexpected event like fire.

Typology of Credit Facilities

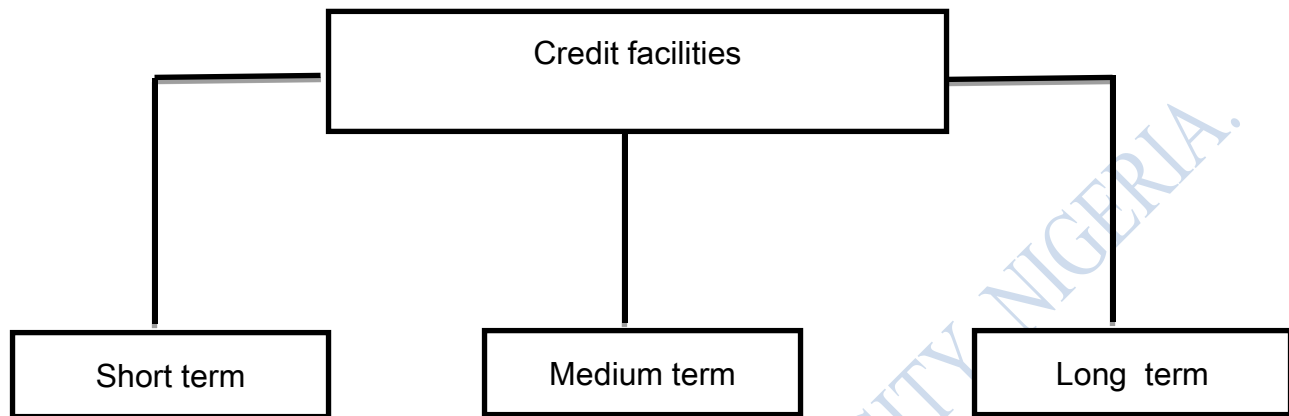
Traditionally bank credit facilities may be divided into three major categories by tenor or duration.

a) Short-term facilities, short-term credit facilities are those bank lending products that have original usually of not more than one year. They constitute over 50% of the commercial bank credit facilities granted. Short-term credit facilities are used principally to finance working capital need as a result of accumulation of inventory (stock) and receivable (debt).

The repayment of short-term facilities typically comes from the regular conversion of current assets mush. In view of this, short-term facilities are often referred t; 'Cash Operating Cycle' lending.

The conversion of cycle commerce with procedure (i.e. purchases of raw materials). It is foil: fly production during which the purchased raw materials are converted or transformed into finished products. The cycle then continues with sale of finished products to customers which create debtors and continues until when cash collected from customers. This cycle is a continuous **one so** long as the company is in business.

Figure 2.2 Typology of credit product



Short term

Term loan

Short term

Source: ACCA (2011) Financial Management Paper F9 BPP learning Media P.202

b) Medium-term facilities: These may be defined as credit facilities having original maturity spanning over one (1) year.

c) Long-term credit facilities: These are facilities having original maturity exceeding five (5) years.

Example of bank lending product which may range between medium to long term include:

- Term loan (Medium-To-Long-Term)
- Revolving loans
- Equipment Lease finance
- Project finance

3. Brief history on Zenith Bank Plc

Its head office is located at 87, AjoseAdeogunstreet Nigeria Island, Lagos, Nigeria. with over two hundred and fifty (250) branches and business offices nationwide connected online, real time zenith bank has presence in all the state capitals, the federal Territory (FCT) and numerous towns and cities.

However, the managing director is Ebenezer. N.Onyeagwu, and the deputy managing director is Adaora Umeoji.

Techniques and Tools of Credit Management

The achievement of the objectives of lending depends on an efficient and effective credit management control. Experience has shown that most lending officers tend to underplay the importance of credit control and management in their lending function because of the difficulties that abound. However, in tile economic environment like ours and with low level of banking awareness, no commercial should be caught off guard, because of poor administration control in its lending function, as pointed out by) a customer who is aware that his operations are not being closely red has every chance and temptation to divest the original loan to riskier (or even unnecessary) . Some of the techniques and tools employed by Nigerian banks in their credit control management are;

1. Regular and periodic reviewing of financial statement of the customer to enable the bank keepabreast with the financial position of customer from time to time.
2. Establishment of lending policy to determine the direction and the use of bank's funds. Such will be channeled to control the composition and the size of the loan accounts and as well as describe the condition under a loan can be made.
3. Establishment of loan procedures to act as a check in ensuring that the aims of the banks lending objectives are achieved.

4. Initiation of regular contact with the customer to extract some other useful information to the bank as regards customer's activities and business.
5. Incorporation of control through disbursement to protect the interest of the bank and ensure that the bank's fund properly utilized.
6. Establishment of a collection policy with a view to allowing the bank to keep loan losses within a tolerable limit.
7. Establishment of risk acceptance criteria for lending activities to enable the bank decide whether it will accept the risk inherent in any lending proposal or not.
8. The use of credit committees to ensure that the management of the bank not to give loans to very risky businesses without the involvement of the Board of Directors (BOD.)

2.0 Theoretical Framework

This chapter presents the various definitions of credit management theories by different research scholars then reviews the theoretical framework of the study. The transaction theory, portfolio theory and information theory are the main theories used in this study, as the theoretical framework to analyse more on the effect of credit management on firm profitability.

Transactions Costs Theory

First developed by this theory explains that suppliers may have an advantage over traditional lenders in checking the real financial situation or the credit worthiness of their clients. Suppliers also have a better advantage successfully applied modern portfolio theory to market risk. Many companies are now using value at risk models to manage their interest rate and market risk exposures. Unfortunately, however, even though credit risk remains the

largest risk facing most companies, the practice of applying modern portfolio theory to credit risk has lagged. Companies recognize how credit concentrations can adversely impact financial performance. As a result, a number of institutions are actively pursuing quantitative approaches to credit risk measurement. This industry is also making significant progress toward developing tools that measure credit risk in a portfolio context. They are also using credit derivatives to transfer risk efficiently while preserving customer relationships. Portfolio quality ratios and productivity indicators have been adapted. The combination of these developments has vastly accelerated progress in managing credit risk in a portfolio context.

Traditionally, organizations have taken an asset-by-asset approach to credit risk management to identify a portfolio's expected losses. The foundation of the asset-by-asset approach is a sound credit review and internal credit risk rating system. This system enables management to identify changes in individual credits, or portfolio trends in a timely manner. Based on the changes identified, credit identification, credit review, and credit risk rating system management can make necessary modifications to portfolio strategies or increase the supervision of credits in a timely manner. While the asset-by-asset approach is a critical component to managing credit risk, it does not

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This provides a complete view of portfolio credit risk, where the term risk refers to the possibility that actual losses exceed expected losses. Therefore, to gain greater insight into credit risk management, companies increasingly look to complement the asset-by-asset approach with a quantitative portfolio review using a credit model (Mason and Roger, 1998).

Companies increasingly attempt to address the inability of the asset-by-asset approach to

measure unexpected losses sufficiently by pursuing a portfolio approach. One weakness with the asset-by-asset approach is that it has difficulty identifying and measuring concentration. Concentration risk refers to additional portfolio risk resulting from increased exposure to credit extension, or to a group of correlated creditors

2.1.25 Information Theory

This theory recommended that borrowers should be screened especially as indicated by symmetric information theory.

Qualitative and quantitative techniques can be used in assessing the borrowers although one major challenge of using qualitative models is their subjective nature. However it has been concluded that quantitative models make it possible to numerically establish which factors are important in explaining default risk, evaluating the relative degree of importance of the factors, improving the pricing of default risk, screening out bad loan applicants and calculating any reserve needed to meet expected future loan losses.

In summary, the transaction cost theory best suit credit management of a manufacturing firm because it has supplier-client relationship, on which the supplier is the manufacturing firm granting the credit while the client is the customers or the debtors of the business. This theory has the factors which the creditor will consider before granting credit to its customers which include: the information about the customer's ability to pay on time, the nature of the firm's financial statement and it is not costly to operate.

Finally, transaction cost theory encompasses all the attributes of credit management and is therefore chosen as the figure that best describe credit management.

2.1.26 Empirical Framework

Empirical Review Previous empirical studies captured to support this study were summarized as follows: The relationship between credit management, liquidity position, and profitability of some selected banks in Nigeria using ten years data of banks from 2006 to 2010. The study indicated that the alternative risk absorption hypothesis stipulated efficient credit management, which enhances firms' ability to create liquidity. Also, it showed that return on assets has a significant positive effect on current ratio confirming the financial fragility crowding out hypothesis. The relationship between credit management and liquidity was also established by 126, who evaluated the impact of effective credit policy on the liquidity of manufacturing companies in Nigeria. The study revealed that when a company's credit policy is favourable, liquidity is at a desirable level. It also indicated that manufacturing companies do not monitor and review their credit policy regularly, and as a result, the allowance of cash discounts could not be minimized as much as expected. Some studies noted that credit management has a positive and significant correlation with profitability as seen in 127 the impact of efficient credit management on profitability of commercial banks in Sierra Leone between 2010 and 2014. The results showed that the profitability of commercial banks in Sierra Leone was significantly influenced by the efficiency of credit management. The effect of credit management on the performance of commercial banks in Rwanda. The study established that there was a strong relationship between the financial performance of Equity Bank and client appraisal, credit risk control, and collection policy. Also, a study on the nexus between credit management and profitability of deposit money banks in Nigeria between 2006 and 2015. The study concluded that sound credit management holds the financial strength (liquidity) of the DMBs, which heightens the banks' profitability. Consequently, The effects of credit policy

on the profitability of manufacturing firms in Kenya. The results show that there is a positive relationship between profitability and credit policy. These results are in line with the findings reported. However, the positive effect of credit management on profitability was opposed by the finding of the study assessed the role of trade credit in the Spanish agro-food industry to ascertain the importance of trade credit as a way of firm financing. Credit policy and liquidity management has a significant negative relationship to Return on Assets. Liquidity management is of utmost importance especially at the period when firms are facing financial crisis and high cost of obtaining loans in the financial market, as well as the reluctance of the investors to invest in the share of companies due to the problem of the capital market. The relationship between liquidity management and corporate profitability in manufacturing firms in Nigeria. The finding showed that liquidity management measured in terms of the company's credit policies, cash flow management, and cash conversion cycle has a significant impact on profitability. Furthermore, the effect of credit management on liquidity and profitability of a manufacturing company in Nigeria. The study concluded that there is a significant correlation between liquidity position and debtors' turnover as well as liquidity management and profitability of the manufacturing companies in Nigeria. Based on the above findings, it has been established that trade credit promotes products and increasing sales, while credit management strategies have a direct relationship with a firm's liquidity position and indirect relationship with profitability. The result of the relationship between liquidity management and profit performance was replicated in the listed pharmaceutical manufacturing subsector in Nigeria. Findings showed that the liquidity ratio and profitability of the companies were significantly and positively related. The conclusion of these studies is supported by research findings. If trade credit is not effectively controlled, it will deteriorate

the profitability and performance of the system. Gaps and hypotheses

development. Generally, the literature reviewed in the above subsection showed that most researchers had established the relationship between credit management and liquidity and profitability in the banking sector. However, only a few studies linked credit management with liquidity and profitability in the manufacturing sector in general terms in Nigeria. It is evident that the relationship between the credit management strategy, liquidity and profitability subvariables and in aggregate have been omitted in the body of knowledge in the quoted chemical and paints manufacturing subsector in Nigeria. This omission has created gaps upon which the current study intended to fill. The following null hypotheses (HO) were developed to investigate the relationship between the variables to fill the gaps in the literature. 1. Credit risk assessment has no significant impact on the customer's ability to pay.

2. Debt recovery strategy has no significant influence on the level of the company's bad debt.

3. Receivable collection policy has no significant effect on cash inflow and

4. Firm liquidity has no significant influence on profitability.

The conceptual model and research hypotheses in the current study, the researchers proposed a conceptual model which suggests that there is a relationship between credit management strategies and adequate liquidity. Liquidity forms a moderating factor between credit management strategies and profitability in the quoted chemical & paints manufacturing companies in Nigeria.

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Chapter Three

Methodology

This chapter focuses its attention on the ways of gathering relevant information that could help lead to possible solution to earlier highlighted research problems. Therefore, it is important to emphasize on the aspect of the method employed by the researcher in conducting the research.

3.1 Research Design

The design for this research will be descriptive design. Research design requires the structuring of the investigations aimed at identifying the validity of the hypothesis and their respective relationship between one another. This is indeed used for purpose of obtaining data to enable the researcher test hypotheses or answer the research questions. For this purpose therefore, the researcher employed the method of (primary source) and library research (journals) published by the bank, Zenith Bank's annual reports and statement of account's were being used to obtain the necessary data required for the research.

3.2 The Population of the Study and Its Characteristics

Population refers to all the number of target group within a geographical area as specified by the aims of the study being conducted.

This study focuses on the population includes all the staffs, both the management and other staffs of Zenith Bank Nigeria Plc, with population of ten selected banks

Due to the fact that this research work focuses its attention on the profitability growth of Zenith Bank as a result of its lending and credit management function or operation, the population of the study is hinged upon the Top, Middle and Supervisory level staff of the bank in the following departments.

- Corporate banking group
- International banking department
- Commercial banking
- Small and Medium Scale Enterprises
- Agric Credit Department
- Treasury Department

Primary data (face-to-face interview) was used to sources information from such categories of respondents who have direct and indirect experience or knowledge of bank lending; particularly offices and managers in the above stated various departments of the bank. The research will also include both the theoretical and practical approaches underlying the subject matter. Other areas considered irrelevant to the actualization of the objective of this research work were excluded. Respondent year of experience in the commercial banking system were also used as a yardstick for determining the qualification of each respondent. The lowest academic qualification of the respondent was first degree or its equivalent and with at least 5 years of relevant working experience.

3.3 Sampling Techniques

There are basically two broad sources of data in research work which are primary data and secondary data.

Primary data are those data collected, analysed and published by the same organization that collected them, examples of this are questionnaires, interview and direct observation.

Secondary data are those data collected from journals, newspaper, media and periodicals etc.

the research work will depend heavily on secondary data i.e. analysis from the financial statement of Zenith Bank over the years.

It must be emphasized that various officers of the credit Administration department and the internal control made various contribution to the analysis of the financial statement of the bank. The sample Size is the Zenith Bank nationwide with data collected through the Head Office.

3.4 Description of the Research Instrument

The main research instrument for this study is structured questionnaire. The administration of questionnaire was distributed basically among the management and staff of Zenith Bank Nigeria PLC, a total of sixty copies of questionnaires were distributed. In order to obtain data from the same correspondent multiple choice question was designed and administered among issues sample size the questionnaire comprises of two parts a and b part consist of personal data of the correspondent such as Sex, Academic, Qualification, Status .

while part B consists of relevant question that relate to the subject matter so as to be able to test the formulated hypothesis and drawing of the recommendation and conclusion.

The layout of the question was done in such a way that unique, unambiguous and unbiased

question we asked the options available to respondents include strongly agree, disagree, strongly disagree and abstention and weight were attached to the options provision were made for tickling the appropriate options in the design questionnaire

Chapter Four

Result and Discussion of Findings

In this chapter, the raw data obtained from the financial statement were analyzed and presented here to provide direct answers to the research questions and also tests of the research hypothesis.

4.1 Data Presentation

Table 4.0: Response Rate

Response	Total	Percentage (%)
Administered	100	100
Retrieved	60	60
Total	60	100

Source: Field Survey Results, 2019

Table 4.1 Commercial banks doesn't have articulated lending policies that are efficiently and effectively implemented.

Options	Responses	Percentage
Strongly Agree	10	23.3
Agree	30	50
Disagree	20	16.7
Strongly Disagree	5	3.3
Undecided	5	6.7
Total	60	100

Source: Field Survey (2019)

From the above table, 10 (23.3%) of the respondent strongly agreed on the technique in the use of credit and portfolio credit risk measurement mode 30 (50%) agreed, 20(16.7%) disagreed and 5(3.3%) strongly disagreed 5(6.7%) were undecided

Table 4.2 There is direct relationship between an effective lending function and credit management on liquidity, profitability and solvency of the firm.

Options	Responses	Percentage
Strongly Agree	12	26.7
Agree	30	50
Disagree	7	10
Strongly Disagree	6	6.7
Undecided	5	6.7
Total	60	100

Sources: Field Survey (2019)

From the above table, 12 (26.7%) of the respondents strongly agreed on the banks 30(50%) agreed, 7(10%) disagreed, 6(6.7) strongly disagreed while 5(6.7%) were undecided.

Table 4.3 There is no relationship between lending function and credit management on the growth and stability of the commercial bank.

Options	Responses	Percentage
Strongly Agree	16	26.7
Agree	30	50
Disagree	6	10
Strongly Disagree	4	6.7
Undecided	4	6.7
Total	60	100

Source: Field Survey (2019)

From the above table, 16(26.7%) of the respondent strongly agreed that a bank should provide information between credit risk and other risk, 30 (50%) agreed, 6(10%) disagreed, 4(6.7%) strongly disagreed and 4(6.7%) were undecided.

Table 4.4 There is no relationship between the problem associated with commercial banks lending preventive measures required to ameliorate the problem.

Options	Responses	Percentage
Strongly Agree	9	15
Agree	41	68.3
Disagree	1	1.7
Strongly Disagree	2	3.3
Undecided	7	11.7
Total	60	100

Source: Field Survey (2019)

From the above table, 9(15%) of the respondents strongly agreed that the solvency requirement means that the liable capital of a bank must at least be 2(3.3%) strongly disagreed and 7(11.7) were undecided.

Table 4.5 There is significant relationship between loans and advances (credit) and bad debts (non-performing loans).

Options	Responses	Percentage
Strongly Agree	12	20.0
Agree	36	60.0
Disagree	7	11.7
Strongly Disagree	5	8.3
Undecided	-	0.0

Total	60	100
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Sources; Field Survey (2019)

From the above table, 1(20%) of the respondents strongly agreed that the new risk weighted method have been more effective in safeguarding bank solvency, 36(60%) agreed, 7(11.7%) disagreed while 5(8.3%) of the respondents strongly disagreed.

Table 4.6 Distribution By Age

Age	Frequency	Percentage
18-25	3	5
26-35	32	53.3
36-45	22	36.7
46-55	3	5
56 & Above	-	-
Total	60	100

Source; Field survey (2019)

In the table 4.1 above, the number of respondents who are within the age bracket of 18-25 years constituted 5%, 26-35 years constituted 53.3%, 36-45 years constituted 36.6% 46-55 years constituted 5%, 56 and above constituted 0% . The maturity of the respondents implies that their sense of judgment will be very high and data supplied by those respondents can be relied upon. The highest percentage was recorded within the age brackets of 26-35 years . This shows that the bank believed that this age bracket could contribute best to the attainment of her organizational goal.

Table 4.7 Credit management as a critical element in maintaining safety soundness of a Bank

Options	Responses	Percentage
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Strongly Agree	14	23.3
Agree	34	56.7
Disagree	6	10.0
Strongly Disagree	4	6.7
Undecided	2	3.3
Total	60	100

Source: Field Survey (2019)

From the above table, 14 (23.3%) of the respondents strongly agreed that credit management is a critical element in maintaining the safety and soundness of a Dank, 34(56.7%) agreed, 6(10%) disagreed, 4(6.7%) strongly disagreed, while 2(3.3%) were undecided.

Table 4.8 Level of Bank's capital as determinant of credit risk it can undertake

Options	Responses	Percentage
Strongly Agree	15	25.0
Agree	31	51.7
Disagree	11	18.3
Strongly Disagree	-	-
Undecided	3	5.0
Total	60	100

Source; Field Survey (2019)

From the above table, 15 (25%) of the respondents strongly agreed that the level of a bank's capital determine the amount of credit risk it can undertake 31(51.7%) agreed, 11(18.3%) disagreed, while 3(5%) were undecided.

Table 4.9 Effect of risk weighted method on safeguarding bank solvency

Options	Responses	Percentage
Strongly Agree	15	25.0

Agree	30	50.0
Disagree	10	16.7
Strongly Disagree	-	0.0
Undecided	5	8.3
Total	60	100

Sources; Field Survey(2019)

From the 15(25%) of the respondents strongly agreed that the new risk weighted method have been more effective in safeguarding bank solvency, 30(50%) agreed, 10(16.7%) disagreed while 5(8.3%) of the respondents were undecided.

Table4.10 There is significant relationship between loans and advances (credit) and bad debts (non-performing loans).

Options	Responses	Percentage
Strongly Agree	30	50.0
Agree	15	25.0
Disagree	-	0.0
Strongly Disagree	-	0.0
Undecided	15	25.0
Total	60	100

Sources; Field Survey(2019)

From the above table,30 (50%) of the respondents strongly agreed that the new risk weighted method have been more effective in safeguarding bank solvency, 15(25%) agreed, 15(25%) undecided.

Table 4.11 The goal of credit risk management

Options	Responses	Percentage
Strongly Agree	15	25.0
Agree	30	50.0

Disagree	15	25.0
Strongly Disagree	-	0.0
Undecided	-	0.0
Total	60	100

Sources: Field Survey (2019)

From the above table, 15 (25%) of the respondents strongly agreed that the goal of credit risk management ,30(50%) agreed, while 15(25%) disagreed on the goal of credit risk.

Table 4.12 Fulfillment of contractual obligation

Options	Responses	Percentage
Strongly Agree	4	6.70
Agree	40	66.7
Disagree	6	10.0
Strongly Disagree	-	-
Undecided	10	16.6
Total	60	100

Source: Field Survey (2019)

From above, 4(6.7%) of the respondent strongly agree fulfilment of contractual obligation , 40(66.7%) agree, 6(10%) disagreed and 10(16.6%) were undecided.

Table 4.13 Implementation of written policies as a cornerstone to credit risk

Options	Responses	Percentage
Strongly Agree	12	20.0

Agree	40	63.3
Disagree	5	8.3
Strongly Disagree	3	5.0
Undecided	2	3.3
Total	60	100

Source: Field Survey (2019)

From the above table, 12(20%) of the respondent strongly agree that a cornerstone of safe and sound banking is the design and implementation of written policies relating to credit risk, 38(63.3%) agree, 5(8.3%) disagreed, 3(5%) strongly disagree, and 2(3.3%) were undecided.

Table 4.14 Solvency requirement means that the liable capital of a bank at least en (10)percent of bank’s weighted asset

Options	Responses	Percentage
Strongly Agree	9	15
Agree	41	68.3
Disagree	1	1.7
Strongly Disagree	2	3.3
Undecided	7	11.7
Total	60	100

Source: Field Survey (2019)

From the above table, 9(15%) of the respondents strongly agreed that the solvency requirement means that the liable capital of a bank must at least be 2(3.3%) strongly disagreed and 7(11.7) were undecided.

Table 4.15 Relationship between credit risk and other risks

Options	Responses	Percentage
---------	-----------	------------

Strongly Agree	16	26.7
Agree	30	50.0
Disagree	8	13.3
Strongly Disagree	3	5.0
Undecided	3	5.0
Total	60	100

Source: Field Survey (2019)

From the above table, 16(26.7%) of the respondent strongly agreed that bank should provide information between credit risk and other risk, 30 (50%) agreed, 8(13.3%) disagreed, 3(5.0%) strongly disagreed and 3(5.0%)were undecided.

Table 4.16 Techniques for credit and portfolio credit risk measurement mode.

Options	Responses	Percentage
Strongly Agree	14	23.3
Agree	30	50
Disagree	10	16.7
Strongly Disagree	2	3.3
Undecided	4	6.7
Total	60	100

Source: Field Survey (2019)

From the above table, 14 (23.3%) of the respondent strongly agreed that bank should provide information on its technique for credit and portfolio credit risk measurement mode 30 (50%)agreed, 10(16.7%) disagreed and 2(3.3%) strongly disagreed 4(6.7%) were undecided.

Table 4.17 Relationship between liquidity management and profitability of a bank

Options	Responses	Percentage
---------	-----------	------------

Strongly Agree	10	23.3
Agree	30	50
Disagree	20	16.7
Strongly Disagree	5	3.3
Undecided	5	6.7
Total	60	100

Source: Field Survey (2019)

From the above table, 10 (23.3%) of the respondent strongly agreed that a bank should provide information on its technique in the use of credit and portfolio credit risk measurement mode 30 (50%) agreed, 20(16.7%) disagreed and 5(3.3%) strongly disagreed 5(6.7%) were undecided.

Table 4.18 Debtor's turn over affects bank's profitability

Options	Responses	Percentage
Strongly Agree	15	15
Agree	20	63.3
Disagree	10	8.3
Strongly Disagree	10	5
Undecided	5	5
Total	60	100

Source: Field Survey (2019)

From the above table, 15(18%) of the respondent strongly agree that a cornerstone of safe and sound banking is the design and implementation of written policies relating to credit risk, 20(63.3%) agree, 10(8.3%) disagreed, 10(5%) strongly disagree, and 5(5%) were undecided.

Table 4.19 Positive correlation between credit policy and profitability

Options	Responses	Percentage
Strongly Agree	12	20.0
Agree	30	50.0
Disagree	8	13.3
Strongly Disagree	5	8.3
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 12 (20.0%) of the respondents strongly agreed that the of credit policy management is to maximize banks profitability, 30(50%) agreed, 8(13.30%) disagreed, 5(8.3%) strongly disagreed while 5(8.3%) were undecided.

Table 4.20 Credit policy and stock valuation

Options	Responses	Percentage
Strongly Agree	30	50.0
Agree	15	25.0
Disagree	5	8.3
Strongly Disagree	10	16.6
Undecided	-	-
Total	60	100

Sources; Field Survey(2019)

From the 30(50%) of the respondents strongly agreed that the new risk weighted method have been more effective in safeguarding bank solvency, 15(25%) agreed, 5(8.3%) disagreed while 10(16.6%) of the respondents strongly disagreed.

Table 4.21 credit management minimizes delinquency and bad debt losses

Options	Responses	Percentage
Strongly Agree	16	25
Agree	30	51.7
Disagree	11	18.3
Strongly Disagree	-	-
Undecided	3	5
Total	60	100

Source; Field Survey (2019)

From the above table, 16(25%) of the respondents strongly agreed that the level of a bank's capital determine the amount of credit risk it can undertake 30(51.7%) agreed, 11(18.3%) disagreed, while 3(5%) were undecided.

Table 4.22 Credit policy influence profitability of a bank

Options	Responses	Percentage
Strongly Agree	30	25
Agree	9	51.7
Disagree	11	18.3
Strongly Disagree	-	-
Undecided	3	5
Total	60	100

Source; Field Survey (2019)

From the above table, 30(25%) of the respondents strongly agreed that the level of a bank's capital determine the amount of credit risk it can undertake 9(51.7%) agreed, 11(18.3%)

disagreed, while 3(5%) were undecided.

Table 4.23 Performance of credit policy in a banking sector

Options	Responses	Percentage
Strongly Agree	17	28.3
Agree	29	48.3
Disagree	6	10.0
Strongly Disagree	3	5.0
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 17 (28.3%) of the respondents strongly agreed on the performance of credit management, 29(48.3%) agreed, 6(10%) disagreed, 3(5.0) strongly disagreed while 5(8.3%) were undecided.

Table 4.24 Profitability measures management efficiency

Options	Responses	Percentage
Strongly Agree	18	30.0
Agree	31	51.6
Disagree	3	5.0
Strongly Disagree	4	6.6
Undecided	4	6.6
Total	60	100

Sources: Field Survey (2019)

From the above table, 18 (30%) of the respondents strongly agreed profitability measures management efficiency ,31(51.6%) respondents agreed, 3(5.0%) disagreed, 4(6.6) strongly disagreed, while 4(6.6%) were undecided.

Table 4.25 Credit policy control financial resources of a bank

Options	Responses	Percentage
Strongly Agree	16	26.7
Agree	20	33.3
Disagree	7	11.6
Strongly Disagree	9	15.0
Undecided	8	13.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 16 (26.7%) of the respondents strongly agreed that the of credit policy control financial resources of banks, 20(33.3) agreed, 7(11.6%) disagreed, 9(15%) strongly disagreed, while 8(13.3%) were undecided.

Table 4.26 Poor management efficient may threaten profitability

Options	Responses	Percentage
Strongly Agree	12	20.0
Agree	34	56.6
Disagree	5	8.3
Strongly Disagree	4	6.6
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 12 (20.0%) of the respondents strongly agreed that poor management efficient may threaten profitability , 34(56.6%) agreed, 5(8.3%) disagreed, 4(6.6) strongly

disagreed while 5(8.3%) were undecided.

Table 4.27 Credit policy ensure stability and provide maximum potential for growth

Options	Responses	Percentage
Strongly Agree	30	50.0
Agree	8	13.3
Disagree	12	20.0
Strongly Disagree	5	8.3
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 30 (50.0%) of the respondents strongly agreed that the of credit policy management,8(13.3%) respondents agreed, 12(20%) disagreed,5(8.3%) strongly disagreed, while 5(8.3%) were undecided.

Table4.28 Relationship between liquidity management and working capital on firm's or bank's profitability

Options	Responses	Percentage
Strongly Agree	16	26.6
Agree	30	50.0
Disagree	6	10.0
Strongly Disagree	4	6.6
Undecided	4	6.6
Total	60	100

Sources: Field Survey (2019)

From the above table, 16 (26.6%) of the respondents strongly agreed that the relationship between liquidity management and working capital, 30 (50.0%) agreed, 6 (10.0%) disagreed, 4 (6.6%) strongly disagreed, while 4 (6.6%) were undecided.

Table 4.29 Bad debts and credit fraud have become the order of the day in the recent times and thus took toll on the banking system and economy

Options	Responses	Percentage
Strongly Agree	15	25.0
Agree	31	51.6
Disagree	6	10.0
Strongly Disagree	4	6.7
Undecided	4	6.7
Total	60	100

Sources: Field Survey (2019)

From the above table, 15 (25.0%) of the respondents strongly agreed that bad debts and credit have become the order of the day, 31 (51.6%) agreed, 6 (10.0%) disagreed, 4 (6.7%) strongly disagreed, 4 (6.7%) were undecided.

Table 4.30 Most banks do not comply with set out guidelines for effective and efficient lending

Options	Responses	Percentage
Strongly Agree	12	20.0
Agree	34	56.6
Disagree	5	8.3
Strongly Disagree	5	8.3

Undecided	4	6.6
Total	60	100

Sources: Field Survey (2019)

From the above table, 12 (20.0%) of the respondents strongly agreed that most banks do not comply with set out guidelines for effective and efficient lending ,34(56.6%) agreed, 5(8.3%) disagreed, 5(8.3) strongly disagreed, while 4(6.6%) were undecided.

Table 4.31 The distress syndrome in the banking industry is largely due to poor credit port folio management

Options	Responses	Percentage
Strongly Agree	30	50.0
Agree	11	18.3
Disagree	6	10.0
Strongly Disagree	7	11.6
Undecided	6	10.0
Total	60	100

Sources: Field Survey (2019)

From the above table, 30 (50.0%) of the respondents strongly agreed that distress syndrome in the banking industry is largely due to poor credit management,11(18.3%) agreed, 6(10.0%) disagreed, 7(11.6%) strongly disagreed, 6(10.0%) were undecided.

Table 4.32 Capital Adequacy requirement is a measure of the solvency of banks

Options	Responses	Percentage
Strongly Agree	16	26.6
Agree	28	46.6
Disagree	8	13.3
Strongly Disagree	4	6.6
Undecided	4	6.6

Total	60	100
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Sources: Field Survey (2019)

From the above table, 16 (26.6%) of the respondents strongly agreed capital adequacy requirement is a measure of the solvency of banks, 28 (46.6%) agreed, 8 (13.3%) disagreed, 4 (6.6%) strongly disagreed, while 4 (6.6%) were undecided. .

Table 4.33 The level of a bank’s capital determine the amount of credit management it can undertake on credit risk as low as possible

Options	Responses	Percentage
Strongly Agree	18	30.0
Agree	26	43.3
Disagree	8	13.3
Strongly Disagree	4	6.7
Undecided	4	6.7
Total	60	100

Sources: Field Survey (2019)

From the above table, 18 (30.0%) of the respondents strongly agreed that the level of a bank’s capital determine the amount of credit management it can undertake. 26 (43.3%) agreed, 8 (13.3%) disagreed, 4 (6.7) strongly disagreed while 4 (6.7%) were undecided.

Table 4.34 Capital adequacy assessment starts with analysis of component of banks capital and the risky exposure.

Options	Responses	Percentage
Strongly Agree	12	20.0
Agree	34	56.6
Disagree	5	8.3

Strongly Disagree	4	6.7
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 12 (20.0%) of the respondents strongly agreed that capital adequacy assessment starts with the analysis of the component of banks capital and the risky exposure. 34(56.6%) agreed, 5(8.3%) disagreed, 4(6.7%) strongly disagreed while 5(8.3%) were undecided.

Table 4.35 Capital Requirement for credit is a Central Elements for credit management.

Options	Responses	Percentage
Strongly Agree	15	25.0
Agree	31	51.6
Disagree	5	8.3
Strongly Disagree	4	6.7
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 15 (25.0%) of the respondents strongly agreed that capital requirement for credit is a central elements for credit management. 31(51.6%) agreed, 5(8.3%) disagreed, 4(6.7) strongly disagreed while 5(8.3%) were undecided.

Table 4.36 The central bank of Nigeria should set the same capital level for each bank's Credit risk profile

Options	Responses	Percentage
Strongly Agree	20	33.3
Agree	26	43.3

Disagree	5	8.3
Strongly Disagree	4	6.6
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 20 (33.3%) of the respondents strongly agreed that the central bank of Nigeria should set the same capital level for each bank's credit profile management , 26(43.3%) agreed, 5(8.3%) disagreed, 4(6.7%) strongly disagreed while 5(8.3%) were undecided.

Table 4.37 Banks don't obey the legal lending limit concerning a single Customer

Options	Responses	Percentage
Strongly Agree	26	43.3
Agree	20	33.3
Disagree	5	8.3
Strongly Disagree	4	6.7
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 26 (43.3%) of the respondents strongly agreed that Banks don't obey the legal lending limit concerning a single customer credit management, 20(33.3%) agreed, 5(8.3%) disagreed, 4(6.7) strongly disagreed while 5(8.3%) were undecided.

Table 4.38 The new risk weighted method have been more effective in safeguarding bank solvency.

Options	Responses	Percentage
---------	-----------	------------

Strongly Agree	24	40.0
Agree	22	36.6
Disagree	5	8.3
Strongly Disagree	4	6.7
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 24 (40.0%) of the respondents strongly agreed that new risk weighted method have been more effective in safeguarding banks solvency , 22(36.6%) agreed, 5(8.3%) disagreed, 4(6.7) strongly disagreed while 5(8.3%) were undecided.

Table 4.39The Central Bank of Nigeria don't Sanction Bank that did not comply with capita' Adequacy requirement.

Options	Responses	Percentage
Strongly Agree	16	26.7
Agree	15	25.0
Disagree	15	25.0
Strongly Disagree	10	16.6
Undecided	4	6.7
Total	60	100

Sources: Field Survey (2019)

From the above table, 16 (26.7%) of the respondents strongly agreed that the central bank of Nigeria don't Sanction Bank that did not comply with capital'adequacy requirement , 15(25%) agreed, 15(25%) disagreed, 10(16.6) strongly disagreed while 4(6.7%) were undecided.

Table 4.40The Goal of credit Risk management is to maximize a bank's risk adjusted rate of return by maintaining Credit risk exposure within acceptable parameters.

Options	Responses	Percentage
Strongly Agree	20	33.3
Agree	22	36.7
Disagree	7	11.6
Strongly Disagree	6	10.0
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 20 (33.3%) of the respondents strongly agreed that the of credit risk management is to maximize banks adjusted rate of return by maintaining credit risk exposure within acceptable parameters, 22(36.7%) agreed, 7(11.6%) disagreed, 6(10.0%) strongly disagreed while 5(8.3%) were undecided.

Table 4.41 Banks should assess the risk/reward relationship in any credit as well as the overall profitability of account relationship

Options	Responses	Percentage
Strongly Agree	16	26.7
Agree	30	50
Disagree	6	10
Strongly Disagree	4	6.7
Undecided	4	6.7
Total	60	100

Sources: Field Survey (2019)

From the above table, 16 (26.7%) of the respondents strongly agreed that Banks should assess the risk and reward in any credit as well as the overall profitability of account relationship 30(50%) agreed, 6(10%) disagreed, 4(6.7) strongly disagreed while 4(6.7%) were undecided.

Table 4.42 Credit administration is a critical element in maintaining the safety of banks

Options	Responses	Percentage
Strongly Agree	20	33.3
Agree	26	43.3
Disagree	6	10.0
Strongly Disagree	4	6.7
Undecided	4	6.7
Total	60	100

Sources: Field Survey (2019)

From the above table, 20(33.3%) of the respondents strongly agreed that the of credit administration is a critical element in maintaining the safety of banks , 26(43.3%) agreed, 6(10%) disagreed, 4(6.7) strongly disagreed while 4(6.7%) were undecided.

Table 4.43 Banks are encourage to develop and utilize an internal risk rating system in maintaining credit risk.

Options	Responses	Percentage
Strongly Agree	26	43.3
Agree	20	25.0
Disagree	5	8.3
Strongly Disagree	4	6.7
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 26 (43.3%) of the respondents strongly agreed that banks are encourage to develop and utilize an internal risk rating system in maintaining credit risk 20(25%) agreed, 5(8.3%) disagreed, 4(6.7) strongly disagreed while 5(8.3%) were undecided.

Table 4.44 Credit risk arises because bank borrowers and other counter parties may not be willing or able to fulfill their contractual obligation.

Options	Responses	Percentage
Strongly Agree	16	26.7
Agree	15	25.0
Disagree	15	25.0
Strongly Disagree	10	16.6
Undecided	4	6.7
Total	60	100

Sources: Field Survey (2019)

From the above table, 16 (26.7%) of the respondents strongly agreed that credit risk arises because bank borrowers and other counter parties may not be willing or able to fulfill their contractual obligation, 15(25%) agreed, 15(25%) disagreed, 10(16.6) strongly disagreed while 4(6.7%) were undecided.

Table 4.45 A cornerstone safe and healthy banking is the design and implementation of written policies relating to credit management

Options	Responses	Percentage
Strongly Agree	15	25.0
Agree	31	51.7
Disagree	5	8.3
Strongly Disagree	4	6.7
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 15 (25%) of the respondents strongly agreed that a corner stone safe and healthy banking is the design and implementation of the written policies relating to credit management, 31(51.7%) agreed, 5(8.3%) disagreed, 4(6.7%) strongly disagreed while

5(8.3%) were undecided.

Table 4.46 The solvency requirement means that the liable capital of a bank must at least 10 percent of bank’s weighted assets.

Options	Responses	Percentage
Strongly Agree	12	20.0
Agree	38	63.3
Disagree	5	8.3
Strongly Disagree	3	5.0
Undecided	2	3.3
Total	60	100

Source: Field Survey (2019)

From the above table, 12(20%) of the respondent strongly agree the solvency requirement means that the liable capital of banks must at least 10 percent of bank’s weighted assets. , 38(63.3%) agree, 5(8.3%) disagreed, 3(5%) strongly disagree, and 2(3.3%) were undecided.

Table 4.47 The major drawback of using credit models for assessing capital adequacy are data quality and ability to validate output from the model.

Options	Responses	Percentage
Strongly Agree	12	20.0
Agree	38	63.3
Disagree	5	8.3
Strongly Disagree	3	5.0
Undecided	2	3.3
Total	60	100

Source: Field Survey (2019)

From the above table, 12(20%) of the respondent strongly agree that the major drawback of using credit models for assessing capital adequacy are data quality and ability to validate

output from model ,38(63.3%) agree, 5(8.3%) disagreed, 3(5%) strongly disagree, and 2(3.3%) were undecided.

Table 4.48 The banks do not comply with the minimum capital adequacy ratio and risk policies

Options	Responses	Percentage
Strongly Agree	20	33.3
Agree	30	50.0
Disagree	2	3.3
Strongly Disagree	3	5.0
Undecided	5	8.3
Total	60	100

Source: Field Survey (2019)

From the above table, 20(33.3%) of the respondent strongly agree that banks do not comply with minimum capital adequacy ratio and risk policies, 30(50%) agree, 2(3.3%) disagreed, 3(5%) strongly disagree, and 5(8.3%) were undecided

Table 4.49 The increase of capital adequacy ratio from 8% to 10% is aimed at imposing a greater demand on bank's capital there by reducing capital adequacy problems

Options	Responses	Percentage
Strongly Agree	20	33.3
Agree	22	36.7
Disagree	7	11.7
Strongly Disagree	6	10.0
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 20 (33.3%) of the respondents strongly agreed that the increase of capital adequacy ratio from 8% to 10% is aimed at imposing a greater demand on banks’ capital there by reducing capital adequacy problems. 22(36.7%) agreed, 7(11.7%) disagreed, 6(10.0) strongly disagree 5(8.3%) were undecided.

Table 4.50 Capital adequacy measurement enable banks to carry out proper appraisal of credit before disbursement of credit.

Options	Responses	Percentage
Strongly Agree	20	33.3
Agree	15	25.0
Disagree	7	11.7
Strongly Disagree	7	11.7
Undecided	11	18.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 20 (26.7%) of the respondents strongly agreed that capital adequacy measurement enable banks to carry out proper appraisal of credit before disbursement of credit , 15(25%) agreed, 7(11.7%) disagreed, 7(11.7) strongly disagreed while 11(18.3%) were undecided.

Table 4.51 It is not explicitly suggested that banks may use their own credit model to access their adequacy requirement.

Options	Responses	Percentage
Strongly Agree	16	26.7
Agree	15	25.0
Disagree	15	25.0
Strongly Disagree	10	16.7
Undecided	4	6.6

Total	60	100
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Sources: Field Survey (2019)

From the above table, 16 (26.7%) of the respondents strongly agreed it is not explicitly suggested that banks may use their own credit model to access their adequacy requirement., 15(25%) agreed, 15(25%) disagreed, 10(16.7) strongly disagreed while 4(6.6%) were undecided.

Table 4.52: A bank should disclose the effect of credit mitigation technique including collateral, guarantee credit insurance and legally enforceable meeting agreements.

Options	Responses	Percentage
Strongly Agree	12	20.0
Agree	38	63.3
Disagree	5	8.3
Strongly Disagree	3	5.0
Undecided	2	3.3
Total	60	100

Source: Field Survey (2019)

From the above table, 12(20%) of the respondent strongly agree that the banks should disclose the effect of credit mitigation technique including collateral, guarantee credit insurance and legally enforceable meeting agreements.38(63.3%) agreed, 5(8.3%) disagree, 3(5.0%) strongly disagree, while 2(3.3%) were undecided.

Table 4.53: Banks should provide information on the relationship between credit risk and other risks.

Options	Responses	Percentage
Strongly Agree	15	25.0
Agree	31	51.7
Disagree	5	8.3
Strongly Disagree	4	6.7

Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 15 (25%) of the respondents strongly agreed that banks should provide information on the relationship between credit risk and other risks , 31(51.7%) agreed, 5(8.3%) disagreed, 4(6.7) strongly disagreed while 5(8.3%) were undecided.

Table 4.54: Banks should disclose qualitative information on its credit management and control policies and practices.

Options	Responses	Percentage
Strongly Agree	15	25.0
Agree	31	51.7
Disagree	5	8.3
Strongly Disagree	4	6.7
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 15 (25%) of the respondents strongly agreed that banks should disclose qualitative information on credit r management and control policies and practices.31(51.7%) agreed, 5(8.3%) disagreed, 4(6.7) strongly disagreed while 5(8.3%) were undecided.

Table 4.55: Banks should disclose information on its techniques and method for managing past due and impaired assets.

Options	Responses	Percentage
Strongly Agree	20	33.3
Agree	15	26.7

Disagree	5	8.3
Strongly Disagree	10	25.0
Undecided	4	6.7
Total	60	100

Sources: Field Survey (2019)

From the above table, 20 (33.3%) of the respondents strongly agreed that banks should disclose information on its technique and method for managing past due and impaired assets 15(26.7%) agreed, 5(8.3%) disagreed, 10(25%) strongly disagreed while 5(6.7%) were undecided.

TABLE 4.56 Banks should provide information on its techniques in the use of credit and portfolio credit measurement mode.

Options	Responses	Percentage
Strongly Agree	24	40.0
Agree	22	36.6
Disagree	5	8.3
Strongly Disagree	4	6.7
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 24(40%) of the respondent strongly agreed that banks should provide information on its techniques in the use of credit and portfolio credit measurement mode. 22(36.6%) agreed, 5(8.3%) disagreed, 4(6.7) strongly disagreed while 5(8.3%) were undecided.

Table 4.57 Capital standard should be design to allow a firm to absorb its losses and protect financial organization depositors and counter parties from the risk of the instruction and off balance sheet risk.

Options	Responses	Percentage
Strongly Agree	26	43.3

Agree	20	33.3
Disagree	5	8.3
Strongly Disagree	4	6.7
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 26 (43.3%) of the respondents strongly agreed that capital standard should be design to allow a firm to absorb its losses and protect financial organization depositors and counter parties from the risk of the instruction and off balance sheet risk.20(33.3%), 5(8.3%) disagree, 4(6.7%),strongly disagree, while 5(8.3%) were undecided.

Table 4.58 A significant innovation of the revised framework is the greater use of assessments of risk provided by banks internal systems as inputs to capital calculation.

Options	Responses	Percentage
Strongly Agree	24	40.0
Agree	22	36.7
Disagree	5	8.3
Strongly Disagree	4	6.7
Undecided	5	8.3.
Total	60	100

Sources: Field Survey (2019)

From the above table, 24 (6.7%) of the respondents strongly agreed that a significant innovation of the revised frame work is the greater use of assessments of risk provided by banks internal systems as inputs to capital calculation.22(36.7%) agreed, 5(8.3%) disagree, 4(6.7%) strongly disagree, while 5(8.3%) were undecided.

Table: 4.59 The length of time allowed to customers on credit has an influence on

profitability

Options	Responses	Percentage
Strongly Agree	16	26.6
Agree	15	25.0
Disagree	15	25.0
Strongly Disagree	10	16.6
Undecided	4	6.7
Total	60	100

Sources: Field Survey (2019)

From the above table, 16 (26.6%) of the respondents strongly agreed that the length of time allowed to customers on credit has an influence on profitability, 15(25%) agreed, 15(25%) disagreed, 10(16.6) strongly disagreed while 4(6.7%) were undecided.

Table 4.60 The capacity or ability of customers to pay back the credit as at when due

Options	Responses	Percentage
Strongly Agree	15	25.0
Agree	31	51.6
Disagree	5	8.3
Strongly Disagree	4	6.7
Undecided	5	8.3
Total	60	100

Sources: Field Survey (2019)

From the above table, 15 (6.7%) of the respondents strongly agreed that the capacity or ability of the customers to pay back the credit as at when due. management is to maximize a banks adjusted rate of return by maintaining credit risk exposure within acceptable parameters, 31(51.6%) agreed, 5(8.3%) disagreed, 4(6.7%) strongly disagreed while 5(8.3%) were undecided.

4.2 Analysis of Data/Result

The linear regression analysis was employed to find the possible relationship that exists between the dependent and independent variables. The profit level and loan portfolio of a bank should indicate a positive relationship though some of the overall impact would be positive.

4.2.1 Analysis of the Variables

Each of these variables contributed positively to the growth of bank profit. The greatest contribution from the total loan portfolio is from oil and gas with 0.956 degree of relationship. Agriculture has the lowest contribution within the time considered while manufacturing and others sectors contributed marginally. Special preference is given to oil and gas when regression analysis was conducted.

4.2.2 Content Analysis

In addition to the regression earlier conducted, the use of content analysis was employed in establishing the relationship between profitability, growth and the bank's loan portfolio. With content analysis, the bank performance in line with its lending function was examined between the periods of 5 years (2014-2018). The reason behind this was to provide substantial proofs to support the hypothesis formulated in chapter three. In these wise, the bank annual report for the started period was used as secondary source of data collection.

Figure I-The Result of 5 Years' Gross Earning Of Zenith Bank of Nigeria Plc (2014-2018)

2014

(₦' Million)

372,015

2015	396,653
2016	454,803
2017	673,636
2018	538,004

Source: Zenith Bank Group Financial Statement 2014 - 2018

The above figures summarize the performance of Zenith Bank of Nigeria Pic vis-a-vis with the operating environment of the nation's banking operation. The figures show that the bank's strategic review of its lending and credit policies and procedures between 2015 and 2017 was the launching pad for its financial performance. The bank strategic review exercise makes it possible for the bank to increase its gross earnings from N31.8 billion for the year ended 2002 to N71, 090 billion 007. (See figure 1 for clarification). Similarly, the bank witnessed another set of increment positive result) in its gross earning. This is evidenced between the periods 2014 to 2018. In the year 2014, the bank gross earnings rose upwardly by significant percentage, particularly in 2015, 2017 and 2018.

In another development, figure also shows the upward movement of the bank's profit before tax between the years 2014-2018. In figure III also shows an upward movement in the values of the banks and advances between the years 2014 - 2018.

Figure II- Result of the Bank Profit after Tax (2014-2018)

	(N' Million)
2014	92,479
2015	98,784

2016	119,285
2017	157,145
2018	165,480

Source: Group Financial Statement of Zenith Bank Plc from (2014 – 2018)

Figure III – Zenith Bank Loan and Advances From (2014– 2018)

	(₦' Million)
2014	1580,250
2015	1,849,225
2016	2.138,132
2017	1,980,464
2018	1,736,066

Source: Group Financial Statement of Zenith Bank Plc from (2014 – 2018)

It is obvious from the chart above that there is a direct relationship between an effective lending function and credit management and the liquidity, profitability and long-term solvency of a Nigerian bank. Again, the hypothesis which stipulates that "there is a direct relationship between an effective efficient lending function and the operating environment as influenced by government policies and directives and guidelines of the monetary/regulatory authorities" also remain valid. This is evident in bank performance (in terms of its profit) between the periods (See Figure II). Above all the foregoing has been able to limit the influence of an effective lending and credit management on Zenith Bank Nigeria Plc profitability growth.

We also use the Correlation Coefficient (r) measure the strength or relative importance of the linear relationship between the dependent variable Y and the independent variable X. The

correlation coefficient (r) can be calculated using the following equation:

Profit Index for Zenith bank Plc (Bad loans, loans and advances where x rep bad loans and y

	X	Y	X^2	Y^2	XY
2014	2.62	15.50	6.36	249.64	41.396
2015	4.29	18.49	18.40	341.88	79.322
2016	7.14	21.38	50.97	457.10	152.655
2017	9.52	19.80	90.63	392.04	138.496
2018	9.53	17.36	90.32	301.36	165.44
Σ	33.1	92.83	257.18	301.36	627.308

$$R = \frac{n \sum XY - \sum x \sum Y}{\sqrt{\sum X^2}}$$

The value of r ranges between -1 and $+1$ where:

$R = -1$ means perfect negative relationship between Y and X

$R = 0$ means no relationship exist between Y and X

$R = +1$ means perfect positive relationship

The value of r must not be greater than 1 or less than -1 . It can take any value between -1 and

1 such as –

0.05 or 0.5. When the relationship i.e. r measure is greater than zero, we talk about positive correlation.

Table IV: Computation of Correlation Coefficient between Bad Loans, Loans and

Advances

$$R = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \times \sqrt{n \sum y^2 - (\sum y)^2}}$$

$$R = \frac{5(627.308) - (33.1)(92.83)}{\sqrt{5(257.18) - (33.1)^2} \times \sqrt{5(1742.02 - (92.83)^2)}}$$

$$R = \frac{(3,136.54) - 3,072.673}{\sqrt{1285.9 - 109.61} \times \sqrt{8,710.1 - 8,617.41}}$$

$$R = \frac{3,136.54 - 3,072.673}{\sqrt{190.29} \times \sqrt{92.69}}$$

$$R = \frac{3,136.540 - 3,072.673}{13.7945 \times 9.6275}$$

$$R = \frac{63.867}{132.8065}$$

$$R = 0.48 \sim 0.5$$

The correlation coefficient $r = 0.5$ shows that there is a positive correlation between bad loans and advances. Hence, we accept the hypothesis and conclude that there is a significant relationship between bad loans and loans and advances. That is, as credit increases, the risk attached to credit also increases.

4.3 Presentation of Data

4.3.1 Lending practices in the Nigerian Banking Industry

Here the descriptive statistics of the responses from questionnaire obtained from 100 respondents on their opinions on the various aspects of lending practices as found in the Nigerian banking industry. The descriptive statistics that are of interest were the mean, the standard error, the standard deviation, variance and whether they agree with their existence or not. In general terms, all variables whose mean were at least 2.70 could be considered significant practice in the opinion of respondents.

From the description as shown in the appendix, the respondents are of the consensus that Nigerian banks have well-articulated and detailed. In addition, the respondent is in agreement that government policies and Central Bank of Nigeria (CBN) guidelines and directives have significant effect on the lending policy and procedures of our banks. Furthermore, they agreed that there is need for every bank to consciously manage its credit/lending risk. Also, the respondents could not come to a consensus on whether lending officers adhere strictly to their bank's lending policy and procedures nor was there an agreement that bank managers are always eager to approve lending proposals. In addition, the respondents were of the opinion that Nigerian banks do not follow strictly their lending policy and other procedures irrespective of government policies and Central Bank of Nigeria's directives and guides. Finally, the respondents could not arrive at a consensus on whether Nigerian Banks classify their loan and advances strictly in accordance with the prudential guidelines and BOFID provisions. Several underlying factors are often recognized by Nigerian banks in determining and establishing their lending policies. The respondents ranked the factors as follows in order of importance:

- a. The size of the loan portfolio they carry at any point in time, which is normally influenced by the loan-to-deposit ratio.

- b. Agreement with the canons of good lending.
- c. The type of loan to make i.e. the section of the borrowing market the bank wants to serve, as well as the maturity of bank's loans portfolio.
- d. The intensity of competition in the banking industry which is becoming fiercer each day.
- e. The profitability of each loan facility to the bank,
- f. The need for safety of the funds, especially with regard to the extent of risk the bank would want to carry.
- g. The economic, political and other environmental factors, including the policies and directives of government and the regulatory authorities.
- h. The size of bank's shareholders' fund.
- i. Social responsibility.

The respondents also outlined some general and important items found in the lending policies of Nigerian banks, and they are stated below in order of importance:

- * Credit limits for secured and unsecured advances, including specification of discretionary limits for lending officers.
- * The terms and conditions of each loan facility granted by the bank, including restrictive covenants.
- * The need to achieve a prudent and balanced portfolio.
- * The area of concentration of the banks, lending activities in terms of sectors, geographical location, size of businesses etc.
- * The type securities (collateral) acceptable to the bank and percentage of loan that can be granted as a proportion of the value of such item i.e. value to loan ratio.

- * The goals of the lending function and the organization set-up require working for the attainment of the goals.
- * The rules and procedures to be followed in the lending process.
- * How to manage accounts and problems loans.

4.4 Causes of Bad and Problem Loans in the Nigerian Banking Industry

The table below summarized the descriptive statistics of the responses obtained from the 100 respondents on the causes of bad and problem loans in the Nigeria banking industry. The descriptive statistics of interest were the mean, standard error, standard deviation, variance and cumulative frequencies of the responses.

In general terms, all variables whose mean were at least 3.50 could be considered as significant factors affecting the research measure number consideration. However, the researcher considered the mean measure of at least 4,000 more accurate with lower level of significance. Therefore based on the classification adapted for these variables, the table below (Table 4.1) showed those factors or variables that significantly bring about the problems and bad loans while carrying out the lending functions in the Nigeria banking industry.

Table 4.61 Variables That Significantly Bring About Problem And Loans Or Credits In The Nigeria Banking Industry.

Classes of causes	Causes of bad debts	Mean Value
Moral and ethical question and Professionalism	1. Moral and ethical factors	4.712
	2. Fraudulent practices in the lending process	4.507
	3. Insider dealings / abuses	4.474
	4. Greed on the part of management	4.145
	5. Poor analysis of financial data	4.211
	6. Lack of knowledge of customer's activities	4.243
	7. Poor management and monitoring of accounts	4.724
	8. Inadequate project monitoring	4.566
Causes emanating from the customer	1. Matters beyond the customer's control	4.254
	2. Misrepresentation and dishonesty of the customers	4.867
	3. Customers inability to properly analyse the project	4.158
	4. Failure of the project for which loan was granted	4.347
	5. Deliberate refusal by the customer to pay back	4.240
Causes Emanating from the Banks management	1. Matters beyond the customer's control	4.276
	2. Excessive dependence on securities	4.271
	3. Inadequate internal control system	4.270
	4. Poor credit policy administration	4.092
	5. Non – compliance with BOFID provisions	4.373
	6. Non – compliance with prudential guidelines	4.270
	7. Management inefficiency and negligence	4.173

Causes associated with legal and regulatory inefficiencies	1. Dearth of credit information	4.068
Causes associated with Government and the economy	1. Inconsistencies in fiscal and monetary Policy	4.027
	2. Frequent changes in government policies	4.039
	3. High interest rate	4.397
	4. Instability in the foreign exchange market	4.333
	5. Recession in the economy	4.419
		4.267

Table 4.1 is very important because with the mean values obtained, one concludes that to measure moral and ethical question and professionalism, poor management of account should be used. Also to measure cause emanating from the customer, misrepresentation and dishonesty of the customers gave the best result, while non-compliance with prudential guidelines should be the best measure of cause emanating the bank's management. For causes associated with legal and regulatory inefficiencies, dearth of credit information gave the best result. Talking about causes associated with government and the economy, inflationary pressures gave the variable that measure it. The significant remedial strategies to be adopted in curbing the incidence of bad and problem loans in the Nigeria banking industry were regarded as variables whose codes had a mean value of at least 4.00 for a high accuracy measure.

Table 4.2 Significant Remedial Strategies for Incidence of Bad and Problem Loans

Class of strategies	Solution strategies for bad and problem loans	
Strategies bothering on ethics and professionalism	1. Readiness to apply professional skills	5.253
	2. Closer understanding of the customer s activities	5.189
	3. Use of project plans and feasibility reports	4.459
	4. Financial discipline	4.635
	5. Effective use of cash flow statement	5.096
	6. Enthronement of high ethical standards	5.081
Remedies from customer's Action	1. Customer taking appropriate insurance covers	4.397
	2. Keeping proper books of accounts	4.667
	3. Sincerity and Honesty on the part of the customer	4.292
Management Remedial Strategies	1. Compliance with prudential guidelines	4.890
	2. Compliance with BOFID provision	4.836
	3. Good and effective lending policy	5.329
	4. Adequate monitoring, classification and follow-up	5.278
	5. Good recovery policy, strategies and tactics	4.722
	6. Engagement of professional bankers	5.068
	7. Proper training and re-training for credit officers	4.431
	8. Diversification of loans and advance portfolio	4.699
	9. Establishment of credit administration department	4.694

	10. Use of management and board credit committees	4.662
	11. Use of risk assessment acceptance criteria	4.932
	12. Carrying out detailed risk analysis of proposals	4.466
	13. Strengthening the internal control system	4.465
Legal and regulatory	1. Reducing credit frauds through proper legal system	4.056
remedial strategies	2. Strengthened supervision and regulation systems	4.662
	3. Prosecution of loan fraudsters	4.437
	4. Credit insurance scheme	4.197
	5. Strict enforcement of BOFID provision	4.609
	6. Prosecution of unethical directors / board members	4.845
	7. Comprehensive audit exercise by external auditors	4.583
Government and economic	1. Harmonizing fiscal and monetary policies	4.366
Remedial strategies	2. Political and economic stability	4.750
	3. Stabilizing the foreign exchange market	4.736
	4. Rehabilitation of social services and infrastructures	4.111

4.5.1 Significant Effects and Benefits Of An Effective Lending Function

Table 4.3 summarized the descriptive statistics of respondents obtained from one hundred respondents. For significant measure regarded as at least 4.00, the cumulative high frequencies were at least 70.5%.

The significant effect of benefits of having an efficient and effective leading function that is associated with little or no incidence of problem loans in the Nigerian banking industry were regarded as variable whose codes had a mean value of at least 4.00, for a high accuracy

measure. Therefore, based on the classification adopted for the variables (see table 4.2), the variable below showed those effects or benefits of having efficient and effective lending function in the Nigeria banking industry.

TABLE 4.62 Significant Effect or Benefits of an Efficient And Effective Lending Function In the Nigerian Banking Industry.

Type of effect or benefit	Benefits of Effects	Mean Value
Bank Liquidity	1. The liquidity of the bank	5.403
	2. The dividend payable to the shareholders	4.620
	3. The ability of the bank to continue to grant credits	5.197
	4. The liquidity of the bank loan portfolio	5.086
Bank's profitability	1. The profit before tax of the bank	4.814
	2. The profitability of the loans portfolio	5.000
	3. Protecting the banks from huge losses	5.254
Long – Term Solvency of The bank	1. The safety of the depositors funds	5.292
	2. The safety of shareholders funds	5.125
	3. Reduction and / or elimination of the distress syndrome	5.268
	4. The long – term solvency of the bank	5.143
	5. Reduction problems of bad debt and credit fraud	5.194

Source: Nigerian Banking industry Prudential guidelines

Hypothesis One

H0: There is no direct relationship between an effective lending function and credit management on liquidity profitability and solvency of the Bank.

H1: There is direct relationship between an effective lending function and credit management on liquidity profitability and solvency of the Bank.

Table 4.2: Relationship between an effective lending function and credit management

Response	Fe	F0-Fe	(F0-Fe)	$\frac{(F0-Fe)^2}{Fe}$
14	12	2	4	0.33
34	12	22	48.4	40.33
6	12	-6	36	3.0
4	12	-8	64	5.33
2	12	-10	100	8.33
Df=(r-1)	(-1)	(5-1)-4	X ²	9.488

Source; Field Study 2019

The critical value $X^2=0.05$ at df is 9.488

Decision Rule

Since the computed value is greater than the value derived from the statistical table, we should reject the null hypothesis and accept the alternative hypotheses (H₁)

Interpretation: Based on the above analysis, we can conclude that there is direct relationship between an effective lending function and credit management on liquidity, profitability and solvency of the Bank.

1. Hypotheses Two

Ho: There is no significant relationship between loans and advances (credit) and bad debts (non-performing loans)

HI: There is significant relationship between loans and advances (credit) and bad debts (non-performing loans)

Table 4.3: Relationship between loans and advances (credit) and bad debts

Options	Responses	Percentage
Strongly Agree	15	25
Agree	31	51.7
Disagree	11	18.3
Strongly Disagree	-	-
Undecided	3	3.3
Total	60	100

Source: Field Survey (2019)

Decision Rule

Since the compound value is greater than the value derived from the statistical table, we should reject the null hypothesis and accept the alternative hypotheses

(HI).

Interpretation: Based on the above analysis, we There is significant relationship between loans and advances (credit) and bad debts (non-performing loans)

Hypothesis Three

Ho: Commercial banks do not have articulated lending policies that are efficiently and effectively implemented

HI: Commercial banks have articulated lending policies that are efficiently and effectively implemented.

Table 4.4:Commercial banks have articulated lending policies that are efficiently and effectively

	Fe	F0-Fe	(F0-Fe)	$\frac{(F0-Fe)^2}{Fe}$
15	12	3	4	0.33
31	12	19	361	0.75
11	12	-1	1	30.03
0	12	-12	144	0.08
3	12	-9	81	12
Df=(r-1)	(-1)	(5-1)-4	X ²	6.75

Source: field study 2019

$$X^2=49.66$$

$$DF=(r-1)(c-1)$$

$$(5-1)=4$$

The critical value $X^2_{0.05}$ at 4 df is 9.488

Decision Rule

Since the compound value is greater than the value derived from the statistical table, we

should reject the null hypothesis and accept the alternative hypotheses

HI).

Interpretation: Based on the above analysis, we There is significant relationship between loans and advances (credit) and bad debts (non-performing loans)

Hypothesis Four

(Ho) There is no relationship between lending function and credit management on the growth and stability of the commercial bank.

(HI): There is relationship between lending function and credit management on the growth and stability of the commercial bank.

Table 4.5: Relationship between lending function and credit management on the growth and stability of the commercial bank.

Response	Fe	F0-Fe	(F0-Fe)	$\frac{(F0-Fe)^2}{Fe}$
14	12	2	4	0.33
34	12	22	48.4	40.33
6	12	-6	36	3.0
4	12	-8	64	5.33
2	12	-10	100	8.33
Df=(r-1)	(-1)	(5-1)-4	X ²	9.488

Source: Field Study 2019

The critical value X²=0.05 at df is 9.488

Decision Rule

Since the compound value is greater than the value derived from the statistical table, we should reject the null hypothesis and accept the alternative hypotheses

(H1).

Interpretation: Based on the above analysis, there is relationship between lending function and credit management on the growth and stability of the commercial bank.

Hypothesis Five

(H0): There is no relationship between the problem associated with commercial bank's lending preventive measures required to ameliorate the problem.

(H1): There is relationship between the problem associated with commercial banks' lending preventative measures required to ameliorate the problem.

Table 4.6: Relationship Between the Problem Associated with Commercial Banks'

Options	Responses	Percentage
Strongly Agree	15	25
Agree	31	51.7
Disagree	11	18.3
Strongly Disagree	-	-
Undecided	3	3.3
Total	60	100

Source: Field Survey (2019)

Decision Rule

Since the compound value is greater than the value derived from the statistical table, we should reject the null hypothesis and accept the alternative hypotheses

(H1).

Interpretation: Based on the above analysis, there is relationship between the problem associated with commercial banks' lending preventative measures required to ameliorate

End Note

1. Group Financial Statement of Zenith Bank from the period of 2014-2018.
2. Nigerian Banking industry Prudential guidelines on the

Chapter Five

Conclusion

5.1 Summary of Findings

This study was conducted primarily to look into problems of lending and its effect on commercial banks profitability growth in Nigeria, and to offer useful recommendation that will help ease the situation, if not eradicating it completely. This decision was prompted by the alarming rate at which some banks were kicked out of the clearing house because of liquidity reasons and excluded from banking operations particularly before the recapitalization era. So as to avoid the mistakes of the past, consultations were actually made, ranging from visiting libraries, to attending public lectures, conducting interview with experience people in the industry. This was done in order to gather useful information on the study and most importantly achieving the objectives of the study became very expedient.

5.2 Conclusion

To start with, this research study commenced with the overview of the Nigeria banking industry. This showed that the intermediation role of banks is very important in the national economy, bridging the gap between the surplus and the deficit unit of the economy. It is this process that help in achieving efficiency in the allocation of resources in the economy, thereby ensuring that all the sectors of the economy might have access to financial resources which they needed for their continued operations.

Over the years, Nigerian banks have consistently carried out this role of intermediation in the country national economy. This is also evident in the continued growth in the level of credit to the economy. However, the re-occurring problem of bad and doubtful debit/credit has

continued to highlight the dearth of efficient lending principle in the Nigerian banking industry. The continued recession of the economy also has not helped matters as it has put enormous pressure on the Nigerian banks on one hand, and on the banks customers themselves on the other hand.

The importance attached to this issue of bad and doubtful debts/credits is further explained by the decision of the Central Bank of Nigeria (CBN) to launch its credit bureau, where all banks in Nigeria are expected to supply credit information concerning their customers, so that other banks can share such information, thereby assisting them in their lending decision-making process. Additionally, Nigeria Banks has come together to form the National Association of Credit Risk Managers (NACRM). The chief objective of the association is to come together in the fight against problem of bad debts. They want to share information, facts and opinions on how best to manage credit risks and ensure a drastic reduction in the incidence of the problem, thereby enabling the banks to continue to perform their role of financial intermediation. Besides, this summary shall be inconclusive without quoting the general opinions of the respondents on the issue of credit/lending management and the problem of bad and doubtful debts in the country's banking industry,

The following, therefore provide answers to some of the research questions.

1. The banking system has been insincere in the past with its lending and credit management function. But, today, it has been generally agreed that banks must know the character of their customers, as well as the ability of the customer to repay loans. Bad debts and credit frauds arise when sound credit guidelines are not strictly adhered to and the giver of the credit had not applied prudence in the granting of such loans.

2. Bad debt and credit frauds have become the order of the day in the recent times and thus took toll on the banking system and the economy. Credit management has been neglected to the background.
3. Fraud is a criminal means of deceit. It damages and impedes the liquidity growth of a bank. The government should set up more stiff and punitive sanctions against fraudsters. Bank management should adhere strictly to their credit policies without any variations. Lending rates and rates and exchange rate should be established.
4. There is need to manage the risk assets portfolio of the bank effectively to ensure that good quality loans are booked and to minimize the incidence of non-performing loans. There is also the need for adequate and effective internal control system. All these will help the bank to become more liquid, profitable and solvent.
5. Most banks do not comply with set out guidelines for effective and efficient lending. Too much emphasis is placed on the collateral (which in most cases, are not realizable) instead of the character of the borrower. Lending and credit management is most time based on a lot of subjectivity, unethical practices by the credit officers, interferences by management and other stakeholders. These are largely the main crux of the incidence of bad debts and credit frauds.
6. There is the need for moral - orientation as come Nigerian believe that bank credit is a form of national cake, hence they consider loans as their share of national cake and they collect loans without any intention of repayment.
7. Bad debts are mostly a result of top management interference in the credit administration process. Though, it must also be stressed that policy reversals on the

part of the government often catch small and medium scale business unaware and these have adverse effect on the repayment ability of the borrowing customers.

8. The distress syndrome in the banking industry is largely due to poor credit portfolio management. In most cases, banks extend credit facilities to companies without proper credit analysis. In some cases, credit analysis is a silent issue whether or not the securities pledged as collateral are adequate enough to repay the loan on the event of -default. Some credit officers sometimes mislead their banks by not reporting the exact value of the property the customers is willing to give as collateral. Experience has shown that banks rely on the valuation reports usually conducted by customers as against the one carried out by independent valuer's appointed by the bank.
9. It is my personal conviction that lending is not usually done arms length in Nigeria as management of banks in most cases lend only to those they know or rather to themselves. There is therefore management override of controls regarding lending and credit management. As long as this scenario persists, effective and efficient lending and credit management will continue to elude the country and issues of bad debts and credit fraud will continue to be on the increase.
10. Government should encourage the business of lending by putting up enabling environment, so that banks can lend to local investors. Reduction of high interest rates paid by borrowers, and enforcement of laws that regulate all financial practices should be given evenly attention by the government.
11. A very high level of ethical conduct will help to reduce the incidence of bad debts and credit frauds. Customers should also exhibit a sense of honesty. The regulatory bodies should also be more serious in doing their jobs without fear or favour.

Professionalism will also go a long way to reducing the occurrence of bad debts and credit frauds.

12. Well trained credit officers, good credit policy in place and a defined credit market, banks are likely to have less bad loans. Also daily/regular facility monitoring system must be in place.
13. Single obligor lending has been a kind of blessing to some banks in Nigeria as it streamlines the level of exposure to concentration risk. But the issue of bad debts in Nigeria is an inherent factor that can only be solved by truth.
14. There is still a lot more to be done in the area of credit risk measurement, assessment and management.
15. Bankers are not strictly adhering to banks ending policy and procedures. Secondly, government policy and the state of the economy are contributing factors to bad debt in the banking industry
16. Lending is a very critical issue in the banking system because any wrong step could trigger a collapse of the financial system. Generally, I believe that bankers should share information on their debtors in order to reduce the incidence of credit frauds.

5.3 Recommendation

1. The topmost causes of the problem of bad and doubtful loans and credit frauds bothered on the customer, and these are followed closely by issues bothering on moral, ethics and professionalism. The meaning of this is that, while the bank may not be able to do much about what customers can do, it can do much on its lending officers. This explains while the topmost remedial strategies have to come from the

bank's management. Therefore, the researcher recommends further studies on the extent of these factors bothering on the customer, moral/ethical professionalism. And the roles of management of banks in this problem: the impact of these factors cannot be over-emphasized, and thus, studying them, further by other researchers would be more revealing.

2. The Central Bank of Nigeria (CBN) should strengthen the credit bureau for more effective functioning. The problem occasioned by dearth of credit information, has contributed to high incidence of bad and doubtful loans in the banking industry. Central Bank of Nigeria (CBN) should take the bureau very seriously by re-organizing it for effectiveness. The idea of blaming the bank for not supplying enough information on their credit customers is regrettable. The Apex Institution should find a way of making the bureau a very strong and reliable source of credit information. The banks too should understand that sending wrong or half information to the bureau is injurious to the banking system at large. Above all, access to the software should be enhanced and made more effective.
3. The Board of Directors and management of Nigerian Banks should arise to this issue of bad debt. It is high time integrity began & to reign in our banking industry. The culture, ethics, norms and orientation the Nigerian banking industry should begin to change. The distress of the later part of the 1990s should be avoided in the post re-capitalization era. Like even- Nigerian sector, the problem of corruption should be tackled, the Economic and financial crimes commission should beam its searchlight on the sharp practices in the banking sector.

4. The legal system covering the Nigeria should be reviewed The situation where bank debtors find it very easy to drag the banks to court and are able to secure quick injunctions against the banks is rather unfortunate and should stop, particularly where it is not in doubt that such persons are debtors to the bank. The Chief Executives of banks should also constitute themselves into a pressure group that will mobilize the National Assembly towards repealing or amending those laws whose provisions are totally out-of-date with the realities of today's banking system. The relevant committees in both houses in the Senate and in the House of Representative must identify and review any laws that may encourage a fraudulent debtor to evade justice. Concomitantly, the judicial service commission in conjunction with the Chartered Institute of Bankers of Nigeria (CIBN) or the Financial Institutions Training Centre (FITC) should organize seminars and workshops for lawyers and judges on the imperative of an effective and efficient legal system on the banking industry, particularly in the area of problem loans and advances.
5. The results of this study would be very useful to the financial analyst, regulatory and supervisory body, depositing customer, the borrowing customer, the investing public, other researchers, University dons, students and even to the banker. In addition, other financial and non-financial institutions would find the findings of this research exercise very useful.
6. The Institute of Chartered Accountants of Nigeria (ICAN), the Chartered Institute of Bankers of Nigeria (CIBN), the Central Bank of Nigeria (CBN) and the Nigerian Accounting Standards Board (NASB) should immediately review the accounting standards on banks and to her related financial institutions. There is need to enlarge

the scope of roles of external auditors, particularly as it relates to auditing of banks, so that

7. auditors can play some roles with respect to this problem of bad debts. Banks should achieve compliance with the prudential guideline.

5.4 Contributions to Knowledge

The essence of the research work is to make contributory impact to knowledge and to extend or validate the wisdom of mankind. Therefore, contributions to knowledge are as follows:

- 1) The study has contributed to the Management of Credit by Deposit Money Banks. It therefore shows the possible combination of credit management indicators.
- 2) The work provides additional literature for further research in credit management and profitability.
- 3) The study covered knowledge gap by extending the period of studies captured up to 2014 – 2019) and has put the research in the Nigerian context using all the deposit banks, and covering all geographical gaps. The study also attended :Olanisakan, C. F(2017), Onanuga, A. T, (2018), Onwudiegwu, L.M. (2015), Onyiriuba, L(2019), Skully. M. (2017) .

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5.5 Area of Further Studies on Research Work

- 1) The researcher should focus on moral, ethics, culture and religion background of the customers
- 2) The researcher should focus on the repayment periods for loans and advances.
- 3) The researcher should focus on how to enlarge the scope, roles of external auditors, particularly as it relates to auditing of banks.
- 4) The researcher should focus on compliance and prudential guidelines.

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Appendix I

Questionnaire

Sir/Madam,

I am currently undertaking study on credit management on company's profitability (A Case Study of Zenith Bank Plc) . It is purely an academic exercise, which is in partial fulfillment for the requirement leading to the award of Masters of Science (M.Sc) from Lead City University, Ibadan, Oyo State.

I depend largely on your wealth of experience and/or knowledge of the subject matter. As this is not an examination paper, there is no right or wrong answer, however I expect that your responses will not only be as objective as possible, but also to the best of your knowledge.

Your response shall be collated, analysed, interpreted and presented to add to the body of knowledge the subject matter.

Thank you for sparing your time.

Yours truly,

Elelegwu Paul John

1. Commercial banks doesn't have articulated lending policies that are efficiently and effectively implemented.

1() 2() 3() 4() 5()

2. There is direct relationship between an effective lending function and credit

management on liquidity, profitability and solvency of the firm.

1() 2() 3() 4() 5()

3. There is no relationship between lending function and credit management on the growth and stability of the commercial bank.

1() 2() 3() 4() 5()

4. There is no relationship between the problem associated with commercial banks lending preventive measures required to ameliorate the problem.

1() 2() 3() 4() 5()

5. There is no significant relationship between loans and advances (credit) and bad debts (non-performing loans).

1() 2() 3() 4() 5()

6. Credit administration as a critical element in maintaining safety of Banks

1() 2() 3() 4() 5()

7. Level of Bank's capital as determinant of credit risk it can undertake

1() 2() 3() 4() 5()

8. Effect of risk weighted method on safeguarding bank solvency

1() 2() 3() 4() 5()

9. There is no significant relationship between loans and advances (credit) and bad debts (non-performing loans).

1() 2() 3() 4() 5()

10. Solvency requirement means that the liable capital of a bank at least en (10) percent of bank's weighted asset

1() 2() 3() 4() 5()

11. Relationship between credit risk and other risks

1() 2() 3() 4() 5()

12. Techniques for credit and portfolio risk measurement mode.

1() 2() 3() 4() 5()

13. Relationship between liquidity management and profitability of a bank

1() 2() 3() 4() 5()

14. Debtor's turn over affects bank's profitability

1() 2() 3() 4() 5()

15. Positive correlation between credit policy and profitability
1() 2() 3() 4() 5()
16. Credit policy and stock valuation
1() 2() 3() 4() 5()
17. credit management minimizes delinquency and bad debt losses
1() 2() 3() 4() 5()
18. Credit policy influence profitability of a bank.
1() 2() 3() 4() 5()
19. Performance of credit policy in a banking sector.
1() 2() 3() 4() 5()
20. Profitability measures management efficiency.
1() 2() 3() 4() 5()
21. Credit policy control financial resources of a bank.
1() 2() 3() 4() 5()
22. Poor management efficient may threaten profitability
1() 2() 3() 4() 5()
23. Credit policy ensure stability and provide maximum potential for growth
1() 2() 3() 4() 5()
- 24 .Relationship between liquidity management and working capital on firm's or bank's profitability
1() 2() 3() 4() 5()
25. Bad debts and credit fraud have become the order of the day in the recent times and thus took tollon the banking system and economy
1() 2() 3() 4() 5()
26. Most banks do not comply with set out guidelines for effective and efficient lending
1() 2() 3() 4() 5()
27. The distress syndrome in the banking industry is largely due to poor credit port folio management
1() 2() 3() 4() 5()
28. Capital Adequacy requirement is a measure of the solvency of a bank
1() 2() 3() 4() 5()

29. The level of a bank's capital determine the amount of credit risk it car undertake on credit risk as low as possible

1() 2() 3() 4() 5()

30. Capital adequacy assessment starts with analysis of component of banks capital and the risky exposure.

1() 2() 3() 4() 5()

31. Capital Requirement for Risk is a Central Elements of Banking Credit is the principal Sources and losses.

1() 2() 3() 4() 5()

32. The central bank of Nigeria should set the same capital level for each bank's Credit risk profile

1() 2() 3() 4() 5()

33. Banks don't obey the legal lending limit concerning a single Customer

1() 2() 3() 4() 5()

34. The new risk weighted method have been more effective in safeguarding bank solvency.

1() 2() 3() 4() 5()

35. The Central Bank of Nigeria don't Sanction Bank that did not comply with capita' Adequacy requirement.

1() 2() 3() 4() 5()

36. The Goal of credit Risk management is to maximise a bank's risk adjusted rate of return by maintaining Credit risk exposure within acceptable parameters.

1() 2() 3() 4() 5()

37. Banks should assess the risk/reward relationship in any credit as well as the overall profitability of account relationship

1() 2() 3() 4() 5()

38. Credit administration is a critical element in maintaining the safety of banks.

1() 2() 3() 4() 5()

39. Bank are encourage to develop and utilize an internal risk rating system in maintaining credit risk.

1() 2() 3() 4() 5()

40. Credit management arises because bank borrowers and other counter parties may not be willing or able to fulfil their contractual obligation.

1() 2() 3() 4() 5()

41. A cornerstone safe and sound banking is the design and implementation of written policies relating to credit risk.

1() 2() 3() 4() 5()

42. The solvency requirement means that the liable capital of a bank must at least 10 percent of bank's weighted assets.

1() 2() 3() 4() 5()

43. The major drawback of using credit models for assessing capital adequacy are data quality and ability to validate output from the model.

1() 2() 3() 4() 5()

44. The banks do not comply with the minimum capital adequacy ratio and risk policies

1() 2() 3() 4() 5()

45. The increase of capital adequacy ratio from 8% to 10% is aimed at imposing a greater demand on bank's capital thereby reducing capital adequacy problems

1() 2() 3() 4() 5()

46. Capital adequacy measurement enable banks to carry out proper appraisal of credit before disbursement of credit.

1() 2() 3() 4() 5()

47. It is not explicitly suggested that banks may use their own credit model to assess their adequacy requirement.

1() 2() 3() 4() 5()

48. Bank should disclose the requirements for granting credit including collateral, guarantee credit insurance and legally enforceable meeting agreements.

1() 2() 3() 4() 5()

49. Banks provide information on the relationship between credit management and other risks

1() 2() 3() 4() 5()

50. Banks should disclose qualitative information on its credit risk management and control policies and practices.

1() 2() 3() 4() 5()

51. Banks should disclose information on its method for managing past due and impaired assets.

1() 2() 3() 4() 5()

52. Bank should provide information on its techniques for credit and portfolio credit measurement mode.

1() 2() 3() 4() 5()

53. Capital standard should be design to allow a firm to absorb its losses and protect financial organization depositors and counter parties from the risk of the instruction and off balance sheet risk.

1() 2() 3() 4() 5()

54. A significant innovation of the revised framework is the greater use of assessments of risk provided by banks internal systems as inputs to capital calculation.

1() 2() 3() 4() 5()

55. The length of time allowed to customers on credit has an influence on profitability

1() 2() 3() 4() 5()

56. The capacity or ability of customers to pay back the credit as at when due

1() 2() 3() 4() 5()

57. The size of bad debt losses depends on the quantity of account accepted by the firm Bank.

1() 2() 3() 4() 5()

58. Bad debt losses arise when the firm is unable to collect its account receivable.

1() 2() 3() 4() 5()

59. Corporate profitability is a measure of the amount by which a company's revenue exceeds its relevant expenses.

1() 2() 3() 4() 5()

60. The primary goal of credit management is to control current financial resources of a

firm and risk associated with that profitability

1() 2() 3() 4() 5()

Turabian

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An Article in a print in Journal	Pass R and Pike C Working Capital Management and Corporate Financing Management Vol 3 Ppl-10 (2017)	R Pass and C Pike Working Capital Management and corporate Financing Management Vol 3 Ppl-10 (2017)
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An Article in a print in Journal	Financial Management Paper F9 BPP learning Media P.202	
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Journal		
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Faculty of management and social science

Department of Accounting and Finance

Lead City University

Ibadan Oyo State

Dear Sir/Madam,

LETTER OF INTRODUCTION:RESEARCH QUESTIONNAIRE

Please find below questionnaire that requires your opinion on exploring the effect of Credit management on company's profitability using Zenith Bank BankPlc as a study.

The study is purely on academic exercise and in partial fulfillment of M.Scprogramme at Lead City University, Ibadan Oyo State.

Please be kind enough to provide the necessary information required, do not write your name or your position. All information given shall be treated with utmost confidentiality.

Thank for your co-operation.

Elelegwu, Paul John

Researcher

Questionnaire

This questionnaire is strictly for academic Research on exploring the impact of risk management on bank financial viability.

A Study of Zenith Bank Plc

SECTION A

PERSONAL DATA

1. Gender

(a) Male

(b) Female

2. Age

(a) 18-25 (b) 26-35 (c) 36-45 (d) 46-55 (e) 56 and above

3. Academic and professional Qualification

(a) HND (b) B.Sc (c) M.Sc (d) Phd (e) ACB (f) ACA

(g) MBA

4. Designation

(a) Top Management (b) Middle management (c) Lower management

SECTION B

Tick the following options as appropriate

Strongly Agree = 5

Agree	=	4
Disagree	=	3
Strongly Disagree	=	2
Abstention	=	1

Bio-data

Name	Paul John ELELEGWU
State of Origin:	Delta State
Local Government:	Ika South
Gender:	Male
Date of birth:	31 st August, 1978
Marital Status:	Single
Mobile	08027884874
Email	<u>elelegwu123@gmail.com</u>
Name & Address of Next of Kin:	Mr. Philip James Elelegwu 27, Ogundele road, Alagbole, Akute, Ogun State.

QUALIFICATIONS AND EDUCATIONAL INSTITUTION

2015 MBA, Masters in Business Administration.

Ladoke Akintola University of Science and Technology, Ogbomosho, Oyo State.

2013 PGD, Post Graduate Diploma in Accounting.

Ladoke Akintola University of Science and Technology, Ogbomosho, Oyo State.

2005 HND, Higher National Diploma (Lower Credit) Accounting.

Lagos State Polytechnic, Ikorodu, Lagos State.

2002 ND, National Diploma (Lower Credit) Accounting, Lagos State Polytechnic, Ikorodu, Lagos State.

1996 Senior Secondary School Certificate, SSCE, Ogudu Grammar School, G. R.A ,Ogudu.,Lagos State.

1995 Senior Secondary School ,Certificate, SSCE, Lagos State.

1990 First School Leaving Certificate, Ojota Primary School, Ojota, Lagos State.

PROFESSIONAL CERTIFICATE

Institute of Chartered Accountants of Nigeria, (Skills Level in view)

CURRENT/PREVIOUS EMPLOYERS

The Orion Private School, Gberigbe, Ikorodu, Lagos State.	2020	till	Date
Limeridge Hotel,Lekki, Lagos State	2018		
Matog Consulting Limited (Chartered Accountants)	2016	-2017	
M. A Allison and Sons	2010-	2015	
Akebono Industrial Company	2006	-2010	

AWARD OBTAINED

None

University Compliance Form

This is to certify that, this thesis by Paul John **ELELEGWU** with Matric Number **LCU/PG/0000/22** in the Department of Accounting, Lead City University, Ibadan is in **FULL** compliance with the approved University format and style.

Name

Date

DO NOT COPY