

**Credit Management and Company's Profitability (A Study of Zenith Bank Plc)**

**Paul John, ELELEGWU  
LCU/PG/0000/22**

**Being a post Field Presented to the Department of Accounting, Faculty of Management and  
Social Sciences, Lead City University, Ibadan, Oyo State.**

**In Partial Fulfillment of the Requirements for the Award of Master of Science  
Degree in Accounting**

**2022**

### **Certification**

This is to certify that this thesis credit management on company's profitability (A study of Zenith bank PLC) was carried out by Elelegwu Paul John with Matric No. LCU/PG/000022 of Accounting and Finance, Faculty of Environment and Social Science, Lead City University, Ibadan.

---

**Dr. Olaleye John**  
**(Supervisor)**

---

**Date**

---

**Dr. Tina Akinbo**  
**(HOD)**

---

**Date**

### **Dedication**

This project is dedicated to the glory of God Almighty for his love, mercy and provision. I want to use this opportunity to dedicate this project to my late parents Mr. and Mrs. Andrew Chukwuyem and Felicia Elelegwu. And my brothers and family and friends.

DO NOT COPY. LEAD CITY UNIVERSITY, NIGERIA.

## **Acknowledgement**

First I express my sincere gratitude to the almighty God for the successful completion of these. May his belongings continue to be upon us Amen.

My special appreciation goes to my supervisor Dr. John Olatunde Olaleye for the encouragement useful comments, and the valuable suggestions. Sincere thanks to my Head of Department, Dr. T M. Akinbo. I am highly grateful to other course lecturers in the Department of Management and Accounting .I also wish to thank my friends and mentor professor K.A Adeyemo, Vice chancellor, Lead city University for his unflinching support, encouragement and scholarly advices. I am proud of you Sir,

My appreciation also goes to the Lead City University Library who supplied some of the needed material that made this work a reality. Thanks to my course mates: Mr. Godwin Ighiehon, and Mr. Hashin Adetona, Mrs. Funmi Amafa, Mr. Olalekan Akinyosoye, Mr. Babajide Abass and host of others.

I deeply appreciate my mother late Mrs. Felicia Eelegwu, and my father late Mr. Andrew Chukwuyem Elelegwu, my brothers and sisters and most especially Mr. Patrick Jude Elelegwu for his support and encouragement. Thank you all for the support. Also, I sincerely appreciate my close associate, Mrs. Patience Chibuzor, Mr. Philip Elelegwu, and Mrs. Patricia Nwandi for their cooperation and assistance which empowered me to bequeath a worthy legacy.

## **Abstract**

This study critically assessed credit Management Company's profitability using Zenith bank Plc as a study. The study looked at the element that constitute credit management, credit policy and credit terms, collection effort and credit periods and credit standards and guidelines. However, various literatures relating to the subject matter were reviewed, questionnaire were administered to the employees of Zenith bank Plc. So as to elicit the required information needed in determining the study. Moreover, hypothesis formulated where tested using both chi- square and linear regression as the statistics and tools for knowing fully well that the sources of the data were both primary and secondary data. The PV shows that (0.05 or 0.5) from the analysis made. The researcher found out the credit management has a direct and positive relationship with profitability of financial institution. Based on the findings, the researcher recommends among others: Bank must operate within sound, well defined credit, this should be included a clear indication of the Bank's target market and a thorough understanding of the borrower or counterpart as well as the purpose and structure of the credit, and it source of repayment. Furthermore, financial institutions showed therefore establish and maintain a sound credit management system in view of its significance in ensuring adequate capital for cooperation purpose. Lending is the traditional culture of banks and a very important activity in banking. Risks assets forms the bulk of a bank's balance sheet and it's the only asset entrusted in the bank of other people. To earning power of many banks depends on the quality of its risk assets as such banks must develop appropriate lending and credit management strategies in order to safe guard this important asset.

**Keywords:** Credit Management, Profitability, Performing loans, Non-Performing Loans, Credit Risk.

**Word Count:** 283.

## Table of Contents

Title page	i
Certification	ii
Dedication	iii
Acknowledgement	iv
Abstract	v
Table of Content	vi
List of Tables	vii
List of figures	viii
<b>Chapter One: Introduction</b>	
1.1 Background to the Study	1
1.2 Statement of the Problem	2
1.3 Research Questions	4
1.4 Aim and Objectives of the Study	4
1.5 Hypotheses	6
1.6 Scope of Study	6
1.7 Significance of Study	6
1.8 Limitations of Study	7
1.9 Operational Definitions of terms	7
Endnotes	
<b>Chapter Two: Literature Review</b>	
2.1 Conceptual/Theoretical Framework	13

2.1.1	Objectives of Bank Lending	13
2.1.2	Principle of Good Lending	14
2.1.3	Types of Bank Lending	18
2.1.4	Lending Policies	19
2.1.5	The Underlying Factors in Determining Lending Policies	20
2.1.6	Specific Contents of Lending Policy	20
2.1.6	Specific Contents of Lending Policy	21
2.1.7	Credit Management	22
2.1.8	What is Credit Risk Management	23
2.1.9	Measurement	23
2.1.10	Calculation of Credit Risk	23
2.1.11	Prerequisites for Efficient Risk Management	26
2.1.12	Why Manage Credit Risk?	27
2.1.13	Methods of Defining Limits	28
2.1.14	Credit Risk Management Process	30
2.1.15	Credit- approval/sanction	32
2.1.16	Credit Documentation	33
2.1.17	Credit Administration	34
2.1.18	Monitoring and Control of Individual Credit	35

2.1.19	Classification of credit	36
2.1.20	Managing Problem Credits/Recovery	37
2.1.21	Collection Steps	38
2.1.22	Brief history on Zenith Bank Plc.	67
2.1.23	Theoretical Framework	70
2.1.24	Portfolio Theory	72
2.1.25	Information Theory	72
2.1.26	Empirical Frame work	73

Endnotes

### **Chapter Three: Methodology**

3.1	Research Design	78
3.2	The Population of the Study and its Characteristics	79
3.3	Sampling of Study	80
3.4	Sampling Techniques	81
3.5	Description of the Research Instrument	81
3.6	Validation of Research Instrument of the Research (instrument)	82
3.7	Reliability of the Instrument	83
3.8	Method of Data Analysis	83

Endnote	108
---------	-----

### **Chapter Four: Results and Discussion of Findings**

4.0	Introduction	109
4.1	Data Presentation	109
4.2	Analysis of Data/Result	115

4.2.1 Analysis of variable	115
4.2.2 Content Analysis	116
4.3 Presentation Data	119
4.3. Lending Practices in the Nigeria Banking Industry	119
4.4 Causes of Bad and Problem Loans in the Nigerian Banking Industry	121
4.5.1 Significant Effects and Benefit Of An Effective Lending Function	126
Endnotes	
<b>Chapter Five: Conclusion</b>	
5.1 Summary of Findings	133
5.2 Conclusion	133
5.3 Recommendation	137
5.4 Contribution to Knowledge	138
5.5 Area of Further Study	139
Bibliography	140
Appendix	146
Bio- data	148
University Compliance Certificate	150

## List of Tables

Table	page
4.1 Response Rate	9
4.2 There is direct relationship between an effective leading function and credit, management on liquidity profitability and solvency of the firm	86
4.3 There is relationship between lending function and credit management on the growth and stability of the commercial bank.	86
4.4 There is relationship between the problem associated with commercial bank lending preventive measures required to ameliorate the problem.	87
4.5 There is significant relationship between loans and advances (credit) and bad debts (non-performing loans).	87
4.6 Distribution by age	88
4.7 Credit administration as a critical element in maintaining safety soundness of a bank.	89
4.8 level of banks' capital as determinant of credit risk it can undertake	89
4.9 effect of risk weighted method on safeguarding bank solvency	89
4.10 There is significant relationship between loans and advances (credit) and bad debts (non-performing loans).	90
4.11 The goal of credit risk management	90
4.12 fulfillment of contractual obligation	91
4.13 Implementation of written policies as a cornerstone to credit risk	91
4.14 Solvency requirement means that the liable capital of a bank at least ten (10) percent of bank's weighted asset	92

4.15	Relationship between credit risk and other	92
4.16	Techniques in the use of credit and portfolio credit risk measurement mode	93
4.17	Relationship between liquidity management and profit of a bank.	93
4.18	Debtor's turn over effects bank's profitability.	94
4.19	Positive correlation between credit policy and profitability	94
4.20	Credit policy and stock valuation	95
4.21	Efficient credit management minimizes delinquency and bad debt losses	95
4.22	Credit policy influence profitability of a bank	96
4.23	Performance of credit policy in a banking sector	96
4.24	Profitability measures management efficiency	97
4.25	Credit policy control financial resources of a bank	97
4.26	Poor management efficient may threaten profitability	98
4.27	Credit policy ensure stability and provide maximum potential	98
4.28	Relationship between liquidity management and worki Capital on firm's or bank's profitability	99
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	99
4.30	Most banks do not comply with set out guidelines for effective and efficient lending	100
4.31	The distress syndrome in the banking industry is largely Due to poor credit portfolio management	100
4.32	Capital Adequacy requirement is a measure of the solvency of a bank	101
4.33	The level of a bank's capital determine the amount of credit Risk it car undertake on credit risk as low as possible	101
4.34	capital adequacy assessment starts with analysis of component of banks capital and risky exposure.	102

4.35	Capital Requirement for Risk is a Central Elements of Banking	102
4.36	The central bank of Nigeria should set the same capital level For each bank's Credit risk profile	103
4.37	Banks don't obey the legal lending limit concerning a single Customer	103
4.38	The new risk weighted method have been more effective in Safeguarding bank solvency.	104
4.39	The Central Bank of Nigeria don't Sanction Bank that did Not comply with capital Adequacy requirement	104
4.40	The Goal of Credit Risk management is to maximize of a bank's risk adjusted rate of	105
4.41	Banks should assess the risk/reward relationship in any Credit as well as the overall profitability of account relationship	105
4.42	Credit administration is a critical element in maintaining the safety and soundness of a bank	106
4.43	Bank are encourage to develop and utilize an internal risk Rating system in maintaining credit risk.	106
4.44	Credit risk arises because bank borrowers and other counter Parties may not be willing	107
4.45	A cornerstone safe and sound banking is the design and Implementation of written policies relating to credit risk.	107
4.46	The solvency requirement means that the liable capital of a bank must at least 10 percent of bank's weighted assets.	108
4.47	The major drawback of using credit models for assessing Capital adequacy are data quality and ability to validate Output from the model	108
4.48	The banks do not comply with the minimum capital adequacy ratio and risk policies	109
4.49	The increase of capital adequacy ration from 8% to 10% is Armed at imposing a greater demand to bank's capital there By reducing capital adequacy problems	109
4.50	Capital adequacy measurement enable banks to carry out Proper appraisal of credit before disbursement of credit	110

4.51	It is not explicitly suggested that banks may use their own Credit model to access their adequacy requirement.	110
4.52	A bank should disclose the effect of credit mitigation technique including collateral, guarantee credit insurance and legally enforceable meeting agreements.	111
4.53	A bank provide information on the relationship between credit risk and other risks	111
4.54	A bank should disclose qualitative information on its credit Risk management and control policies and practices	112
4.55	A bank should disclose information on its techniques and Method for managing past due and impaired assets.	112
4.56	A bank should provide information on its techniques in the Use of credit and portfolio credit measurement mode.	113
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.	113
4.58	A significant innovation of the revised framework is the Greater	114
4.59	The length of time allowed to customers on credit has an Influence on profitability	114
4.60	The capacity or ability of customers to pay back the credit As at when due	115
4.61	Variables that significantly bring about problem and loans Or Credit In Nigeria Banking Industry	122
4.62	Significant Effect or benefit of an Efficient and Effective Lending function In the Nigerian Banking industry.	126
	Endnotes	