CREDIT MANAGEMENT AND PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA (A SURVEY OF SELECTED DEPOSIT MONEY BANKS IN NIGERIA)

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ABSTRACT
The study investigated the impact of credit management on performance of Deposit Money Banks (DMBs) in Nigeria. Survey method was adopted for the study. The study covered all the Deposit Money Banks in Nigeria (DMBs). Six banks were selected using simple random sampling technique. Secondary data was used through Annual Reports from six banks selected for ten years between 2010 to 2019. Data collected were analyzed using multiple regressions by adopting panel method. This is with a view to providing further empirical evidence on how credit risk policies affect the performance of Deposit Money Banks in Nigeria (DMBs). Panel regression was used to determine the effect of loan loss provision (LLP), loans and advances (LA), non-performing loans (NPL) and shareholders’ funds on return on asset (ROA). The findings revealed that credit management or credit risk policies have impact on the profitability of DMBs. Based on the findings; shareholders’ funds is a major predictor of banks’ profitability. So, it is recommended that DMBs should be well capitalized to maintain good capital adequacy. It is also recommended that appropriate credit risk policies should be instituted in the DMB.

Keywords: Credit Management, Performance, Return on asset, Non-performing loans, Loan and advance, Deposit Money Banks.

INTRODUCTION
Credit risks suffered by the banking industry arising from default in payment of loans and advances and other credit facilities granted by the banks are enormous. These risks are necessitated by the traditional roles of the bank in
providing financial assistance (credit) needed in the economy. Banks play an
intermediation role of bringing the surplus and deficit economy together. Also,
the intermediating role of Deposit Money Banks (DMBs) places them in a
position of trustees of the savings of the widely dispersed surplus economic
units. The rate and shape of the techniques employed by bankers in this
intermediation function should provide them with perfect knowledge of the
outcomes of lending, such that funds will be allocated to investments in which
the probability of full payment is certain. Since banks are merely custodian of
the money they lend, interest must be paid to the depositors and dividend to
the investors, and these payments are made from the profits through credit
facilities advanced to borrowers. Credit management can therefore be seen as
an integral part of lending and as such in its absence; good loans and other
credits can turn bad. Good credit management requires the establishment of,
and adherence to sound and efficient policies of the banking industry. Credits
must be made by banks to people who are capable of utilizing it well and
repaying the loan at its maturity.

The concept of credit can be traced back in history and it was not appreciated
until and after the Second World War when it was largely appreciated in
Europe and later to Africa (Kiiru, 2004). Banks in USA gave credit to
customers with high interest rates which sometimes discouraged borrowers
hence the concept of credit didn’t become popular until the economic boom in
USA in 1885 when the banks had excess liquidity and wanted to lend the
excess cash (Ditcher, 2003).

Deposit Money Banks (DMBs) are the major players in the financial sector of
every country’s economy. The failure or success of these banks will to a large
extent affect the financial sector and the economy at large. In recent times,
DMBs have been wound up leaving customers to their fate. It is important to
note that the major cause of winding up of those banks is the poor
management of their finance and credit. Many of them were writing off huge
amount of debt yearly and also reflected some going concern issues that
related to their management of credit and finance.

STATEMENT OF THE PROBLEM

There is an increase in challenges to banks, posed by incidence of bad debts
and other credit risks. It is worrisome to note that the magnitudes of non-
performing credit are on the increase, thereby making banks lose huge sums of money which consequently reduce their profit margins and customers’ confidence in them. The provision for bad and doubtful debts rises steadily in banks annual reports which send bad signals to the public within the economy. The cases of failed banks in the economy over the years made the investors lose confidence in the banks (Agu and Okoli, 2013). Nawaz et al (2012), posit that the magnitude of non-performing credits in the banking system is a cause for concern to different stakeholders including bank management which granted the loans, depositors whose funds have been misappropriated and trapped, and the regulatory agencies responsible for protecting the banking system.

As a result of high spate of non-performing loans, and its attendant consequences, the Central Bank of Nigeria (CBN) authorities entered into an agreement in December 1988 known as Bassel accord. The accord emphasized on the importance of capital adequacy for mitigating credit risks, which protects against sudden financial loses (Greuing, 2003). The issue of credit management has a profound implication both at the micro and macro level. When credit is allocated poorly it raises costs to successful borrowers, erodes the fund, and reduces banks flexibility in redirecting towards alternative activities. Moreover, the more the credit, the higher is the risk associated with it. The problem of loan default, which is resulted from poor credit control, reduces the lending capacity of a bank. It also denies new applicants' access to credit as the bank’s cash flow management problems augment in direct proportion to the increasing default problem.

RESEARCH OBJECTIVES

The general objective of this study is to determine the impact of credit management on the performance of Deposit Money Banks in Nigeria. It however seeks to achieve the following specific objectives;

i. To determine the impact of loan loss provisions on the profitability performance of Deposit Money Banks in Nigeria.

ii. To investigate the effect of loans and advances on the profitability performance of Deposit Money Banks in Nigeria.

iii. To determine the extent to which non-performing loans affects performance of Deposit Money Banks in Nigeria.
iv. To determine the effect of shareholders’ fund on the performance of Deposit Money Banks in Nigeria.

RESEARCH HYPOTHESES
In order to carry out this research, the following research hypotheses are postulated. These hypotheses serve as a guide in shaping and directing the study to a logical conclusion.

H01: There is no significant impact of loan loss provisions on the profitability performance of Deposit Money Banks in Nigeria.

H02: There is no effect of loans and advances on the profitability performance of Deposit Money Banks in Nigeria.

H03: Non-performing loans do not affect the performance of Deposit Money Banks in Nigeria.

H04: Shareholders’ fund does not affect the performance of Deposit Money Banks in Nigeria.

SCOPE OF THE STUDY
This research focuses on the impact of credit management on performance of Money Deposit Banks in Nigeria, a survey of selected Deposit Money Banks in Nigeria.

There are 22 deposit money banks in Nigeria; however, the study will limit its scope to the following banks: Access Bank Plc, Union Bank Plc, First Bank of Nigeria Plc, Guarantee Trust Bank of Nigeria Plc, United Bank of Africa Nigeria Plc and Zenith Bank of Nigeria Plc. It employed a time series data spanning over the period (2010-2019).

LITERATURE REVIEW
Conceptual Issues
Credit management is the method by which one collects and controls the payments from your customers. Myers and Brealey (2003), described credit control as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management. It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting. A proper credit management will lower the
capital that is locked with the debtors, and also reduces the possibility of getting into bad debts.

According to Edwards (1993), unless a seller has built into his selling price additional costs for late payment, or is successful in recovering those costs by way of interest charged, then any overdue account will affect his profit. In some competitive markets, companies can be tempted by the prospects of increased business if additional credit is given, but unless it can be certain that additional profits from increased sales will outweigh the increased costs of credit, or said costs can be recovered through higher prices, then the practice is fraught with danger. One of the primary functions of deposit money banks is the extension of credit to worthy customers. This has evolved from being a pure accounting function into a front-end customer facing function (Henry, 2003)

**Theoretical Framework**

The important theories that support the study are: Commercial Loan Theory, Shiftability Theory, Anticipated Income Theory, Credit Risk Theory and Liability Management Theory. This study however adopts commercial loan theory because it influences both the bank lending and the general economic activities.

**Commercial loan theory** is the oldest theory of banking and is also called the real bills doctrine. The commercial loan theory holds that banks should lend only on short term, self-liquidating, commercial paper. According to Ezirim (1998), the commercial loan theory is geared to influence persuasively both the bank lending and the general economic activities. Strict adoption of this theory will reveal that it is expected to serve as a monetary supply to changes in aggregate economic activity. The popularity of this doctrine among Money Deposit Banks in Nigeria is evident. Nigerian bankers believe that since their resources were repayable at short notice, such depositors’ monies should be employed accordingly in short-term loans. Ezirim (1998) posited that the strong tie to this conception is rather orthodox if consideration is given to the fact that at the time of the supremacy of the theory, there were little or no secondary reserve assets, which could have served as a liquidity buffer for the bank.
Empirical Review

Al-Khouri (2011), in his study investigated the impact of bank’s specific risk characteristics, and the overall banking environment on the performance of 43 commercial banks operating in 6 of the Gulf Co-operation Council (GCC) countries over the period 1998-2008. Using regression analysis, his findings showed that bad debts or credit risks, liquidity risk and capital risk are the major factors that affect bank performance when profitability is measured by return on assets while the only risk that affects profitability when measured by return on equity is liquidity risk.

Abdus (2004), has examined empirically the performance of Bahrain's commercial banks with respect to credit (loan), liquidity and profitability during the period 1994-2001. Nine financial ratios (Return on Asset, Return on Equity, Cost to Revenue, Net Loans to Total Asset, Net Loans to Deposit, Liquid Asset to Deposit, Equity to Asset, Equity to Loan and Non-performing loans to Gross Loan) were selected for measuring credit, liquidity and profitability performances. By applying these financial measures, this paper found that commercial banks' liquidity performance was not at par with the Bahrain banking industry. Commercial banks are relatively less profitable and less liquid and, are exposed to risk as compared to banking industry. With regard to asset quality or credit performance, this paper found no conclusive result.

Epure and Lafuene (2012), in their work examined bank performance in the presence of risk for Costa Rican banking industry during 1998-2007 using regression analysis. The result of their study showed that performance improvements follow regulatory changes and that risk explains differences in banks and non-performing loans negatively affect efficiency and return on assets (ROA) while the capital adequacy ratio has a positive impact on the net interest margin.

Kolapo, Ayeni and Ojo (2012), using regression analysis for banks in Nigeria for the period 2000 to 2010 found that the effect of credit risk on bank’s profitability measured by the Return on Assets (ROA) of banks is cross-sectionally invariant. They concluded that the nature and managerial pattern of individual firms do not determine the impact.

Mohammed et al. (2012), used descriptive, correlation and regression techniques to study whether credit risk affects banks Performance in Nigeria from 2004 – 2008. They also found out that credit risk management has a
significant impact on profitability of Nigerian banks. Boahene, Dasah and Agyei (2012), used regression analysis to determine whether there is a significant relationship between credit risk and profitability of Ghanian banks. They followed the line of Hosna, Manzura and Juanjuan (2009), by using Return on Equity as a measure of bank’s performance and a ratio of non-performing loans to total asset as proxy for credit risk management. They found empirically that there is a significant effect of credit risk management on profitability for Ghanian banks.

METHODOLOGY

Research design also means the structuring of investigation aimed at identifying variables and their relationships to one another. Therefore, survey design will be used for this study. The study seeks to investigate the impact of credit management on performance of money deposit banks in Nigeria. The population of this research study covers all money deposit banks in Nigeria. There are 22 deposit money banks in Nigeria. Only those banks that met the capitalization requirement of the CBN through mergers and acquisition in the consolidation exercise of the CBN are included. However, simple random sampling was used to select the banks to be studied. Simple random sampling technique is one that allows the researcher to randomly select samples that constitute a reasonable proportion of the population so as to be able to make valid decisions about the research study. The choice of the sample is that it gives each bank an equal chance of being selected in the study sample. The banks are as follows: Access Bank Plc, First Bank of Nigeria Plc, Guaranty Trust Bank Plc, United Bank of Africa, Union Bank Plc, Zenith Bank.

The secondary data was employed and were sourced from the selected bank annual reports using a data sheet that contain the following variables: Return on Assets (profitability) (ROA), Non-performing Loans (NPL), Loans and Advances (LA), Total Deposit (TD), Loan Loss Provisions (LLP) and shareholders’ fund (EQT). The study used multiple regressions model by adopting panel data method in estimating the parameter of the model.

Model Specification

The study was modeled according to the work of Osuka and Jonathan (2015), in their study “Credit Management in Nigeria’s Deposit Money Banks” which measured profitability with Return on Asset (ROA) as a function of the ratio
of Non-Performing Loans to Loans & Advances (NPL/LA), Loans & Advances to Total Deposit (LA/TD), ratio of Loan Loss Provision to Non-Performing Loans (LLP/NPL) and ratio of Shareholders fund to Total Assets (EQ/TA).

\[
\text{ROA} = f \left( \frac{\text{NPL}, \text{LA}, \text{LLP}, \text{EQ}}{\text{LA}, \text{TD}, \text{NPL}, \text{TA}} \right) \underline{1}
\]

Where ROA = Return on Asset (Profitability); NPL = Non-performing Loans; LA = Loans and Advances; TD = Total Deposit; LLP = Loan Loss Provision; EQ = Shareholders’ Fund; TA = Total Assets

The econometric equation for the model is specified as:

\[
\text{ROA}_it = \beta_0 + \beta_1 \text{NPL}_it + \beta_2 \text{LA}_it + \beta_3 \text{LLP}_it + \beta_4 \text{EQ}*_it + u \underline{2}
\]

\[
\text{LA}_it \text{TD}_it \text{NPL}_it \text{TA}_it
\]

Where; NPL* = NPL, LA* = LA, LLP* = LLP, EQ* = EQ

The model in equation 2 can be re-written thus:

\[
\text{ROA}_it = \beta_0 + \beta_1 \text{NPL}_it* + \beta_2 \text{LA}_it* + \beta_3 \text{LLP}_it* + \beta_4 \text{EQ}*_it + u \underline{3}
\]

\[
\text{LA}_it \text{TD}_it \text{NPL}_it \text{TA}_it
\]

\[
\beta_0 = \text{Constant parameter/intercept; } u = \text{Error term. } \beta_1, \beta_2, \beta_3, \beta_4 = \text{coefficient of independent variables.}
\]

### DISCUSSION OF FINDINGS

**Table 1.1: Pooled Regression**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coeffcient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.08468</td>
<td>0.249234</td>
<td>0.339779</td>
<td>0.7353</td>
</tr>
<tr>
<td>NPL</td>
<td>0.06765</td>
<td>0.039486</td>
<td>1.713412</td>
<td>0.0924</td>
</tr>
<tr>
<td>EQT</td>
<td>0.19409</td>
<td>0.005513</td>
<td>35.20487</td>
<td>0.0000</td>
</tr>
<tr>
<td>LA</td>
<td>-</td>
<td>0.013833</td>
<td>-</td>
<td>0.0404</td>
</tr>
<tr>
<td></td>
<td>0.02905</td>
<td>2.100064</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LLP</td>
<td>0.01068</td>
<td>0.007097</td>
<td>1.504734</td>
<td>0.1382</td>
</tr>
</tbody>
</table>
**Pooled Regression Analysis**

Pooled regression is carried out on data that has observations over time for several different units or cross-sections. Pooled regression works similar to regular regression, except an extra intercept or dummy is added for each store. This approach can be used when the groups to be pooled are relatively similar or homogenous. The major assumption under this model is that all coefficients are constant across time period and individual bank. By interpretation, following the objective of this study, the assumption can be summarized as follows:

1. The period used by this study is the period when the global economy witnessed a downward trend in business cycle from recession to depression, popularly called “economic melt-down”. The constant Effect Model thus assumes that all the coefficients in this model remain unchanged across banks during this period of time.

2. The time (melt-down) effect is also constant. That is, all the determinants of Bank performance used in our model (NPL, LLP, LA and EQT) are not affected by economic melt-down.
Fixed Effect

Fixed effects model is a statistical model that represents the observed quantities in terms of explanatory variables that are treated as if the quantities were non-random. Fixed effect model is used when you want to control omitted variables that differ between cases but are constant over time (Samy, 2003). This model helps to track changes in the variables over time to estimate the effect of independent variables on dependents variables. The main technique used for analysis of panel data is fixed effect. Statistically, fixed effect is always a reasonable thing to do with panel data because they give consistent result but may not be the most efficient model to run.

<table>
<thead>
<tr>
<th>Table 1.2: Fixed Effect</th>
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</thead>
<tbody>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>C</td>
</tr>
<tr>
<td>NPL</td>
</tr>
<tr>
<td>EQT</td>
</tr>
<tr>
<td>LA</td>
</tr>
<tr>
<td>LLP</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Effects Specification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section fixed (dummy variables)</td>
</tr>
<tr>
<td>R-squared</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
</tr>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>---------------</td>
</tr>
<tr>
<td>C</td>
</tr>
<tr>
<td>NPL</td>
</tr>
<tr>
<td>EQT</td>
</tr>
<tr>
<td>LA</td>
</tr>
<tr>
<td>LLP</td>
</tr>
</tbody>
</table>

**Table 1.3: Random Effects**

<table>
<thead>
<tr>
<th>Effects Specification</th>
<th>S.D.</th>
<th>Rho</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section random</td>
<td>0.000000</td>
<td>0.0000</td>
</tr>
<tr>
<td>Idiosyncratic random</td>
<td>1.424816</td>
<td>1.0000</td>
</tr>
</tbody>
</table>
### Weighted Statistics

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>R-squared</td>
<td>0.967599</td>
<td>Mean dependent var</td>
<td>3.178339</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.965199</td>
<td>S.D. dependent var</td>
<td>7.540230</td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>1.406642</td>
<td>Sum squared resid</td>
<td>106.8466</td>
</tr>
<tr>
<td>F-statistic</td>
<td>403.1489</td>
<td>Durbin-Watson stat</td>
<td>1.976963</td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.000000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Unweighted Statistics

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
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<td>106.8466</td>
<td>Durbin-Watson stat</td>
<td>1.976963</td>
</tr>
</tbody>
</table>

### Random Effects

This is also called a variance components model, is a kind of hierarchical linear model. It assumes that the data being analyzed is drawn from a hierarchy of different populations whose differences relate to that hierarchy. Random effects are used in the analysis of panel data when one assumes no fixed effect. The random effects assumption is that the individual specific effects are uncorrelated with the independent variables.

### Table 1.4: Hausman Test

<table>
<thead>
<tr>
<th>Test Summary</th>
<th>Chi-Sq. Statistic</th>
<th>Chi-Sq. d.f.</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section random</td>
<td>3.629437</td>
<td>4</td>
<td>0.4585</td>
</tr>
</tbody>
</table>

** WARNING: estimated cross-section random effects variance is zero.**

Cross-section random effects test comparisons:
<table>
<thead>
<tr>
<th>Variable</th>
<th>Fixed</th>
<th>Random</th>
<th>Var(Diff.)</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPL</td>
<td>0.03316</td>
<td>0.067656</td>
<td>0.000447</td>
<td>0.1028</td>
</tr>
<tr>
<td>EQT</td>
<td>0.19126</td>
<td>0.194091</td>
<td>0.000005</td>
<td>0.2007</td>
</tr>
<tr>
<td>LA</td>
<td>0.06055</td>
<td>0.029050</td>
<td>0.000309</td>
<td>0.0731</td>
</tr>
<tr>
<td>LLP</td>
<td>0.00768</td>
<td>0.010680</td>
<td>0.000010</td>
<td>0.3405</td>
</tr>
</tbody>
</table>

**HAUSMAN TEST**
This is a statistical hypothesis test that evaluates the consistency of an estimator when compared to an alternative, less efficient, estimator which is already known to be consistent. It can be used to differentiate between fixed effects model and random effects model in a panel data. In this case, Random effects is preferred under the null hypothesis due to higher efficiency, while under the alternative fixed effects is at least consistent and thus preferred.

**Testing of Research Hypotheses**
From the analysis carried out, random effect is appropriate to test the hypothesis because by comparing both fixed panel and random panel, it was noted that there are substantial differences between error component model and fixed effect but in order to ascertain which of the model is reliable, Hausman test was applied to shed light on the appropriate choice of model to use and the result of the Hausman test clearly cannot reject the null hypothesis as the estimated x square value for the four degree of freedom is highly insignificant and since the null hypothesis were untrue, the probability of obtaining a chi-square value of as much as 3.9 or greater would be practically more than zero , meaning that Random effect is appropriate because the p value is more than 5%.

**H₀₁**: There is no significant impact of loan loss provisions on the profitability of Deposit Money Banks in Nigeria.
In the analysis above, a 100% increase in loan loss provision would lead to 1% increase in return but loan loss provision was not statistically significant in explaining the change that occurs to return on asset as the probability stood at 14%. Therefore the variation in ROA is not being explain by loan loss provision but may be as a result of other factors. The probability value is greater than the level of significance. Therefore, $H_{01}$ will be accepted, which means that loan loss provisions have no impact on the profitability performance of Deposit Money Banks.

$H_{02}$: There is no effect of loans and advances on the profitability performance of Deposit Money Banks in Nigeria.

In the above analysis, a 100% increase in loans and advances would lead to 2.9% decrease in return. The probability value of 4% is less than the level of significance (5%). Therefore, $H_{02}$ will be rejected, which means that loans and advances have effect on the profitability performance of Deposit Money Banks.

$H_{03}$: Non-performing loans do not affect the profitability of Deposit Money Banks in Nigeria.

From the analysis above, a 100% increase in Non-performing Loans would lead to 6.8% increase in return but Non-performing loans was not statistically significant in explain the change that occurs to return on asset as the probability stood at 9.7%. The probability value (9%) is greater than the level of significance (5%). Therefore, $H_{03}$ will be accepted, which means that Non-performing loans have no effect on performance of Deposit Money Banks.

$H_{04}$: Shareholders fund do not affect the performance of Deposit Money Banks in Nigeria.

From the analysis above, a 100% increase in shareholders fund would lead to 19% increase in return. The probability value of (0.000) is less than the level of significance (5%). Therefore, $H_{04}$ will be rejected, which means that shareholders fund have effect on the profitability performance of Deposit Money Banks.

From the regression result above, lots of interesting revelations were made, first and foremost only loans and advances and shareholders fund significantly explained variation in bank performance given their respective p-value of 0.0000, 0.04 and 0.0000, 0.0097 and 0.0000, 0.0429 and 0.2007, 0.0731 for pooled regression, fixed effect, random effect and Hausman test result. The
negative significant relationship between loans and advances and bank performance is not surprising and is in line with the fact that banks with high non-performing loan and assets mismatch are most likely to perform poorly on the basis of ROA or ROE or any other parameters and the result is consistent with the study by kwan and Eisenbeis 1996, Berger and Mester, 1997, Ogboi and Unuafu (2013). The shareholders’ fund which was used to measure the bank’s capital adequacy show a positive and significant relationship with bank performance and it is an indication that well capitalized banks have buffer to withstand any shock and international capital standard and perform better. This result however corroborates the study by Gurdumssoa, Ngoka-Kisingula and Odongo (2013) for Kenya, Oladejo and Oladipupo (2011) for Nigeria.

Out of the four selected independent variables that are critical to bank performance, non-performing loan and loan loss provision have positive but insignificant effect on bank performance and this is in line with the study by Kithinji (2010). The model captured 96.7% variation i.e. R squared of 96.7%, this measures the goodness of fit of the model. The R squared indicated that 96.7% change in return is being explained by the explanatory variables (shareholders’ fund, loans and advances, loan loss provision and non-performing loans). The adjusted R square of 96% correct the tendency that R squared is likely to exaggerate the fitness of the model as more explanatory variables are being added. The f statistic of 403.1489 with the probability value of 0.000000 implies that the explanatory variables used in the model are highly relevant. The Durbin Watson statistic (d=1.976963) indicate absence of multicollinearity or no evidence of serial correlation.

CONCLUSION AND RECOMMENDATION
The study has examined the impact of credit management on the performance of DMBs in Nigeria using loan loss provision, loans and advances, non-performing loans and shareholders’ fund as the variables for independent on Return on Asset. From the statistical analysis carried out, shareholders’ fund exerts most significant positive effect on the performance of DMBs. the study concludes that banks management should establish sound lending policies, adequate credit administration procedure and an effective and efficient machinery to monitor lending function with established guidelines, banks with
good credit management or credit risk policies have higher profitability performance on shareholders’ fund, and loans and advances, and banks with good credit management or credit risk policies have lower loan loss provisions and non-performing loans.

Based on the findings of the study, it was recommended that:

(i) Deposit money banks in Nigeria should put in place growth monitoring system, asset growth screen, and real estate stress test because of the volatility of the industries.

(ii) For Nigerian banks to achieve enhanced and sustained profitability from Loans and Advances, appropriate credit management should be instituted. Banks therefore need adequate and accurate information from both internal and external sources in order to access the multiplicity of credit risks they face when presented with loan proposals.

(iii) Deposit money banks in Nigeria should enhance their capacity in credit appraisal and analysis. Banks are to ensure that adequate and correct credit information is gathered from credit bureaus.

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