CREDIT MANAGEMENT IN NIGERIA:

A STUDY OF SOCIETE GENERALE BANK NIGERIA LIMITED

BY

HUSSEINA MOHAMMED BAYOLA
G97BAP7033
MBA/ADMIN/13140/1997-98

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CERTIFICATION

This project entitled 'Credit Management in Nigeria: A case Study of Societe Generale Bank Nigeria Limited' by Husseina Mohammed Bayola, meets the requirements of the regulations governing the award of Master of Business Administration degree of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

Prof. Sheikh Abdullahi — 3/4/01
(Supervisor) — Date

External Examiner — 18/12/2001
Professor Usman A. Zakiradeen — Date

Head of Department — 27/8/04
DEPT. OF BUSINESS ADMIN. INSTITUTE OF ADMIN A.B.U. ZARIA
Date

Dean, Postgraduate School — 4/6/05
Date

DECLARATION

I hereby declare that the materials used in this research project have been adequately acknowledged.

I bear full responsibility for the errors that may arise from the materials published in this project.

Husseina Mohammed Bayola

2024-03

Date

DEDICATION

This research project is dedicated to the love of my life, my husband **Mohammed Tukur Modibbo.**

ACKNOWLEDGEMENTS

To the Glory of Allah, the creator of Heaven and Earth and all that is within, to Whom I owe life.

Many individuals, all of whom I cannot mention here, contributed immensely in various ways to make this research project possible, and more importantly put meaning into my life. My sincere gratitude goes to my supervisor Professor Sheikh Abdullahi for going an extra mile to make this work a success.

To my father and two mothers (Hajiya Fatima Kyari and Hajiya Rakiya Moh'd), I say "there would have been no me without you".

Most of all, I pay tribute to my husband – Moh'd Tukur Modibbo who is my source of inspiration. I thank him for always being there for me.

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Finally, to my most precious gems, my grannies – Alh. M. Bayola, and Hajja Babba, I wish they had stayed on. I miss them so much. May Allah forgive them and grant them a place in paradise (Amin).

ABSTRACT

Recently, financial institutions have been crying out loud on the pains of debts in the Industry; many banks have gone out of business because of the strong wave of bad debts while some are left staggering. These prevailing circumstances have provided impetus to determine the cause of bad debts and proffer solution.

The approach adopted was through personal interviews and administration of questionnaires to bank officials and customers.

The study discovered that banks generally have excellent credit policies but have problems with management of credit. Personal motivation, lack of transparency, lack of collateral and indiscipline of fund managers were highlighted as some of the problems associated with credit management.

In view of the serious impact of poor credit management on banks, the following recommendations were made; that collateral offered to cover any bank loan must be duly perfected before any disbursement of fund; that the dreadful activities of insiders abuse must be stopped and properly checked so as minimize the high rate of untimely death of banks; and that our legal system should be made more effective in debts recovery. More so, the snail pace at which our law courts handle debt recovery cases has left much to be desired

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study:

The development and indeed growth of a modern economy to a large extent depends not only on the width but also the depth of its financial sector. Commercial Banks are charged with the responsibility of creating more and more money for utilization of those who engage in productive activities in the economy. They mobilize deposits from both individuals and corporate bodies and extend such monies to the productive sector in the form of Loans and Advances. This is the fulcrum of banking operations; laying the onerous role of financial intermediation.

Credit arises as a result of monies advanced to borrowers for specific project financing. Repayments of both principal and interest are scheduled over a specific period of time as contained in the loan agreement between the banker (the benefactor) and the borrower (called the customer), as the beneficiary.

When banks lend out money, the purpose is to make a profit out of the money so parted that is the principal plus interest and to replough such monies back into the system towards extending further credit. The net income from loans in usually (40%) forty to (60%) sixty of the Bank's total earnings. It is also the Banks largest exposure to risk, the credit risk (Agusto & Co.).

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Credit Management has become a major dilemma in the financial sector. Some Banks now shy away from granting facilities to their customers and concentrate on other forms of trading.

1.2 Statement of the Problem:

The central problem of the study in terms of the investigation centers on the following questions: To what extent is the concept of Credit Management reflected in the performance in the banking sector in particular, and the financial institutions in general?

What are the probable dangers of poor credit Management in Nigeria? What are the factors responsible for the unhealthy situation? What professional diagnosis will be given to improve the present ill-health of the banking sector and who is to administer the treatment to ensure proper and efficient Credit Management so as to salvage the industry from the verge of total collapse?

Prior to the period of distress in the banking industry, Banks in Nigeria enjoyed large patronage from customers. With the event of distress in the industry, customers in an attempt to avert the risk of loosing their deposits started spreading their deposits among various banks. This is because NDIC insures only Fifty Thousand Naira (N50,000.00) for every customers in each bank.

This study is to examine the procedures of Credit Management in commercial banks in Nigeria.

1.3 Purpose of the Study:

The purpose of this study is hinged on the following objectives.

i. To examine the various banking credit facilities;

ii. To highlight the various problems faced by Banks in their effort to recover credit facilities;

iii. To identify the extent to which banks follow loans granted to customers;

iv. To investigate the modalities being adopted by Societe Generale Bank on credit management; and

1.4. Significance of the Study:

Credit Management is one of the most important functions in the banking industry. Any method that can improve the efficiency in this function can be of tremendous assistance to the industry. This is where this effort may be useful. More so, the findings of the study are of the study are of assistance to the bank under study; in terms of formulation of appropriate polices for effective debt management and credit administration.

1.5. Scope and Limitation:

This study is concerned with Credit Management in Societe Generale Bank Nigeria Limited.

Staff in the credit department, as well as those with credit granting authority would from the larger part of those that will be interviewed and observed for the purpose of this study. Other bank staff who are in one way or the other connected with credit management of the bank are also covered by the process of the investigation.

The research also covers the determination, probable avoidance, minimization and management of credit facilities as well as bad and doubtful debts of the bank under study from 1994 to 1999; a period of five years.

1.6. Organization of the Report:

The report on the findings of the study is organised on the basis of the chapters.

The second chapter reviews the related literature. The chapter explores the general literature on the banking system (examine the various types of bank), the intricacies of the lending (or credit) facilities, the policies which affect the credit administration or management and the responsibilities of the beneficiaries, who are regarded as the customers of the bank.

The third chapter deals with the research methodology.

The fourth chapter reviews data presentation and analysis.

The last chapter provides the summary of the findings, conclusion on the study and the recommendation.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 Introduction:

This chapter attempts to look at the definitions of a Bank, types of Banks and their functions, types of credit, management of debts, credit and risk assessment in bank lending, legal framework on bank credit facilities as well as cause of bad debts.

2.1. Conceptual Framework:

Hart (1978) defines a banker or bank as a person or company carrying on the business of receiving monies, and collecting drafts, for customers subject to the obligation of honouring cheques drawn upon them from time to time by the customers to the extent of the amounts available on their current accounts.

Sheldon (1978) ascertains that a banker's business is to receive money from his customers, and to collect instruments representing money from his customers, on the understanding that he will refund all moneys received or collected, either on demand or at some definite date agreed upon between him and his customers.

Lord Paget (1966) contends that a 'bank or banker is a corporation or person (or group of persons) who accept monies on current accounts, pay cheques drawn upon such account on demand and collect cheques for customers; that if such minimum services are afforded to all and sundry without restriction of any kind, the business is a banking business, whether or not other business is under-taken at the same time.

Halsbury in his book "Law of England" defines bank to mean the same as the contention of Lord Paget just like the views of other writers. He defines the bank as an individual or partnership or co-operation who sells a predominating business, that is, the receipt of money on current or deposit account and the payment of cheques, drawn by and the collection of cheques paid in by customers.

The early legal definitions like the Bills of Exchange Act of 1882 regards a banker as "any person or body whether incorporated or not who carry on the business of banking". The Negotiable Instruments Act of 1881 has identified the above principal banking business in its definition of a banker as 'a banker means a person transacting the business of accepting for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdrawable by cheques, drafts or otherwise.

The 1969 Banking Decree is explicit as to the business of banking in Nigeria. The Decree defines banking business as "the business of receiving monies from outside sources as deposit irrespective of the payment of interest or the granting of money loans and acceptance of credits or the purchase of bills and cheques or the purchase and sale of securities for account of others or the incurring of the obligation to acquire claims in respect of loans prior to their maturity or the assumption of guarantees and other warranties for others or the effecting of transfers of clearings and such other transactions as the commissioner, (that is Minister) may, on the recommendation of the Central Bank; by order published in the Federal Gazette designate as banking business".

Based on the various definition above, it can be assumed that all conceivable money lending institutions can be regarded as banks or banking companies. Nonetheless, a bank can thus be distinguish from other credit institutions by the functions it performs. For example, for an institution to qualify to be regarded as a bank, it must be able to discount bills and promissory notes, lend money on current account either as loan or overdraft, issue legal tender currency (limited to Central Banks in modern economies) and be able to issue letters of credit, drafts and perform other foreign services.

2.2. Types of Banks:

Agusto and Co. generally classified banks into the following:

i. Commercial Bank
ii. Merchant Bank
iii. Development Bank
iv. Central Bank

2.2.1. i. Commercial Banks:

Commercial Banks accepts deposits from their customers to the credit of their accounts and provide short term financing in the form of loans and overdrafts. They also perform other related services. They carry out what is called retail banking.

ii. **Merchant Banks:** These are wholesale bankers that deal with money and other securities on long-term basis. Their functions include the following, among others: Project Financing, Debt equity conversion, Equipment leasing, Acting as issuing houses, Funds management services, Loan syndications, Debts factoring etc.

iii. **Development Banks:** Development banks are established to finance and promote agricultural and industrial development. Development banks encourage the inflow of foreign investment capital, promote industrial development policies and provide solid base for effective take off of agricultural projects. They also underwrite securities and loan guarantees.

iv. **Central Bank:** Central Bank is the Apex bank for the country and there is only one of its kind in any economy. The Central Bank regulates the activities of other banks on behalf of the government through the use of a number of instruments like Bank rate, open market operations; cash reserve ratio, special deposit, credit control etc. The Central Bank acts as banker to the government and commercial banks. It controls the issuance of currency notes/coins and manages the country's foreign exchange.

2.3 Bank Lending and Management of Debts:

Banks in Nigeria, as well as in other countries engage in a number of activities aimed towards the twin objectives of providing competitive and qualitative services to customers, and in the process raking in respectable profit margins. These activities range from accepting deposits of many varieties to leasing out of equipment and lending of money to customers; but by far the singular most important activity banks engage in, at least from the angle of profit – making – which in itself underpins the commercial activities of banks, is lending.

It is thus imperative that this most profitable of a bank's ventures be undertaken with the utmost care, and that such loans as the banks has granted to its customers, are properly managed.

2.3.1 **Bank Lending:**

Lending constitutes one of the primary functions of banking. The reason for this is two-fold. In the first place, with performance of the lending function, HEANDERSON R. F; (1980) asserts that banks act as agents of capital formation. This denotes that bank lending can promote the financing of capital formation and enhance business development and economic growth, if it is channeled into the productive sectors of the economy.

Secondly, it has been shown empirically, that a bank's lending portfolio comprises the bulk of its assets that provide the major sources of its earnings and profits. Thus, ADEWUNMI (1985), reports that interest earned on loans represented between 58% to 94% of the gross earnings of individual banks.

In a free-market economy, commercial banks act as the intermediaries between the demand side and the supply side of money. They do this by transferring funds from the savings – surplus units to the savings – deficit units. The surplus units in the economic system provide the funds needed by the deficit units for purposes of investment, which is essential in ensuring the economic growth of a country.

In the process of acting out their roles of financial intermediation between the surplus units and the deficit units in the economy, banks create deposits. The ability of a commercial bank to grant loans depends on the level of deposits it has generated and its ability to meet the legal reserve requirements imposed by the law and directives from the Central Bank of Nigeria.

A bank earns a return for performing the role of mobilizing funds, which is the interest it charges on the loans it disburses, or the commission payable to it for rendering other services to its clients. The bank pays a price, which is the interest it pays to the supplier of funds as reward or incentive for parting with his money. The bank then exacts interest from the user of the fund (borrower) at a price or rate higher than that payable to the owner of the fund, the difference representing the profit it makes for performing the role of an intermediary. Bank Lending in this process if generating investment, thus helps in crating employment opportunities, raising standards of living, furthering investments and facilitating savings. In short, lending of money by banks makes the economic wheel of a country turn.

2.3.2 **Management of Debts:**

The issue of management of debt centers around the effort of banks in ensuring that the loans they have disbursed to clients do not go bad and so constitute a loss of capital and earnings. The ability to meet deposit withdrawals of customers at any time, hold minimum cash requirements, hold substantial assets which can easily be liquidated, all constituted conditions precedent to a bank investing the reminder of their assets in business loans, installment loans, mortgage loans, etc. to their customers or in investing in corporate bonds and other securities.

The above conditions are very important in t hat adherence to them before granting loans coupled with proper monitoring of the loans disbursed will ensure that even if unavoidably a proportion of the loan amount goes bad, it will not have a significant effect on the operations of the disbursing or grantor bank.

GOLDFIELD (1966) and PARKIN (1970) proponents of the risk aversion model associated with commercial banks assert that the quality of loans is a supply function derived from general portfolio theory. Loans are viewed as a risky asset which banks purchase because of the existence of positive risk premiums over the return on the riskless security, therefore optimal asset and liability choices are interdependent. Banks use an arbitrage process to exploit the difference in the expected rates of return between deposits and leans, which is eventually eliminated by aversion to increased risk.

The process of lending by banks to its customers, be they individuals, corporate bodies or government departments, is made according to laid-down rules and regulations. Careful consideration is needed however in the application of such rules, to enable both parties the lending bank and the borrowing customer, derive optimum satisfaction and benefits from the exercise. The principles involved, according to MATLOR (1972) must always be carefully judged and weighed with an open mind. He posited that the three basic principles which serve as guides to bank lending are profitability, safety and suitability.

Profitability: Banks are in business primarily for profit. They are not charitable institutions. It therefore becomes imperative that loan facilities yield profits-hence every bank tries to ensure that the profitability of an advance before making it. Determinants of the banks' profit include the volume of loan disbursed and the rate of interest charged therein. Other important factors include the value of the loan or advance, the loan period, the loan repayment programme, past performance of the borrower (if any), integrity of the borrower and his financial strength, the liquidity and convertibility of the security provided for the loan, as well as credit

information on potential borrowers which banks are well advised to obtain, keep and update. All these go a long way in ensuring that the loans once advanced do not go bad and ends up earning respectable profit margins for the lending bank.

Safety: The importance of it being "safe" for a bank to grant a particular loan to a client cannot be over-emphasized. Safety of a loan connotes that there exists not only reasonable assurance but also reasonable grounds for believing that loan advanced to a customer can be repaid by the customer. Hence the source and method of repaying the loan must not be doubtful. The character, integrity and (financial) reliability of the borrower thus become crucial. The nature of the venture for which the loan is meant and the fact that acceptable and value-added security is provided by the borrower as a guarantee for repaying the debt are also of paramount importance.

Suitability: The lending bank has a duty to ensure that the purpose of the loan monetary policies of the government, nor goes against the law of the land. This requirement makes the regulation of bank lending in Nigeria by the Central Bank of Nigeria very relevant for it the purpose for which the loan is disbursed fails it is almost inheritable that repayment also fails.

2.3.3. **Types of Credit Facilities:**

The credit facilities which a bank can grant its customers are varied and include:

i. Term loans
ii. Current lines
iii. Overdrafts
iv. Deposit placement limits

v. Bankers acceptance

vi. Commercial papers

vii. Leasing facilities

viii. Foreign Exchange Position Limits

ix. Foreign Exchange Settlement Limits

i. **Term Loans:**

These are non-revolving credit facilities where final maturity extends beyond one year from the (approved) date of disbursement. They are usually granted to finance capital projects such as plant expansion programme. They basically represent cash flow lending since repayments come from the cash generated by the project being financed.

ii. **Current Lines:**

These are structured to allow drawings by way of overdrafts and short term advances. They expire within twelve months from the date of approval.

iii. **Overdrafts:**

These are approved extensions of credits and are structured as current line facilities. They are usually granted to those who are already customer of the lending banks and who, for satisfactory reasons, wish to overdraw on then accounts with the lending bank.

iv. **Deposit Placement Limits (DPL):**

These are documented approved limits for deposits placement and are structured as internal Guidance facility (IGF)

v. **Bankers acceptance (BA):**

The purchase of a bankers acceptance represents the extension of credit to a non-customer of a bank with secondary resources to the issuing bank. The bank guarantees payment of the bill. Most revolving credit facilities are usually structured as bankers acceptance with a maximum tenor of 365 days. Usually, the Bankers Acceptance "line" is open or on standby to fund specific transaction for which it was approved.

Bankers acceptance are food instrument that help a bank to manage its balance sheet position because of their discounting nature in which case they can be sold to a third party at a discount Liquidating/ funding purposes. Acceptance lines must be fully secured just like overdrafts, except when they are used as instrument to structure asset based lending, for example a bonded warehousing facility.

vi. **Commercial Papers (CP):**

These are issued on behalf of companies only, where credits classification is not a function of guarantee.

vii. **Leasing Facilities:**

These represent banks letting out some equipment or product for a fee that is or playable on installments for a fixed time or after which the equipment or product becomes that of the lessor. A leasing facility is a risk asset like any other credits exposure.

viii. **Foreign Exchange Position Limits:**

These were established to restrict credit exposure to settlement of default arising from foreign exchange transaction was in the inter-bank market

ix. **Foreign Exchange Limits:**

These represent the commitments by the foreign exchange dealers of a bank to purchase specified amounts of foreign exchange from other authorized dealers or other sources at specified rates.

2.3.4. **Classification of Debts:**

The Advanced Learner's Dictionary of Contemporary English defines a debt as "payment which must be, but has not yet been paid to somebody: obligation".

In banking terms, a debt represents any money lend or loan facility granted to a borrower which has not been repaid or fully repaid.

Debts can be grouped into good, bad, bad and doubtful, and lost. A debt because good only in so far as all prudent measures to ensure its repayment, coupled with adherence to the three principles of profitability, safety and suitability, have been followed, so that its repayment no longer becomes a problem.

The Banks and other Financial Institutions Decree 1991 classifies other debts into

- Bad Debts
- Bad and Doubtful Debts, and
- Lost Debts.

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Bad Debts: Debts are bad when their repayment has stopped or has become difficult to repay. This inability or difficulty in repayment attaches to both the principal sum cent and the interest payable thereon contrary to the terms and conditions of the loan agreement entered into.

Bad and Doubtful Debts: Debts become bad and doubtful when their repayment is not only difficult but the chances of their ever being repaid are very slim, so that recovering the debt becomes very doubtful

Lost Debts: Debts are lost when all efforts deemed necessary to recover them have been exercises without success. It is therefore believed by the lending bank that there is absolutely no hope of recovering the debt. so that debt has to be written off and so represents a loss of the bank's assets and a loss on its profit earnings.

2.3.5. **Causes of Bad Debts:**

The causes of bad debts are many and range from dishonesty, ineptitude to natural disasters. Some of the causes of bad debts disasters. Some of the causes of bad debts are attributable to the lending bank, others are attributable to the borrowers, but some stem form the general economic climate.

In the first place, the economic and monetary policies of the government can considerably affect the incidence of bad debts in an economy. For example, high interest rates on loans and overdrafts makes it difficult for borrowers to meet both the principal and interest repayments on the sum borrowed.

Secondly the state of the economy affects the incidence of bad debts. A comatose economy will make it difficult for borrowers to repay the amount they have borrowed. This may result form declining spending income of the borrower, decreased sales, or manufacturing plants operating below capacity.

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We may now consider in some detail the causes of bad debts attributable to either the lending bank or the borrower or to both.

Cause Attributable to the Bank:

There are many and include:-

i. Poor analysis and quality of financial data
ii. Bad judgment and in competence
iii. In effective project monitoring
iv. Imprudent financial management
v. Lack of Transparency by Credit Officers
vi. Insider's abuse
vii. Inexperienced Credit Officers
viii. Tough competition from other banks

Poor Analysis and Quality of Financial Data:

A good number of Financial Statements prepared for clients by accounting and auditing firms, to help them secure loan facilities are simply not true and reflective of the true state of financial affairs. These are mere window dressings and tailor-made to suit the loan requirements of the banks. Lack of data help in giving rise to the incidence of bad debts. The banks have to dig deep to unearth deficiencies and financial misrepresentations. Credit proposals that are poorly analysed will lead to poor judgment and result in the granting of loans that are already bad from the moment of their approval.

Bad Judgment and Incompetence:

Errors in judgment of ten lead to the granting of loans that will never be repaid. Many loan decisions depend on a hairpin of probability. It is in

this regard that experience, perspicacity and thoroughness becomes invaluable. The exercise frequently demands that a mass of information about the prospective borrower and his project be gathered and exhaustively examined. Poor knowledge of a customers (prospective) borrower's activities is dangerous as it may resulting channeling the bank's funds into cross-firing, over-trading, over-expansion or diversion into projects that the lending back would not normally finance.

Imprudent Financial Management:

With particular emphasis to lending, this occurs when the banker continues to grant excesses over the approved limit without examining the account and how it is operated, which is an integral part of his functions. One of the most obvious danger signals is a large turn-over with a low balance especially when large sums are paid in and almost immediately drawn out.

Ineffective and Inadequate Project Monitoring:

Some lending banks make the big mistake come to the decision to grant a loan, all they need do thereafter is sit back and wait for the interests on the loan to start should actually be the case. Lack of regular visits to projects financed with bank money and on-the-site assessment and evaluation of such concerns can lead to very disastrous results for the lending bank. Even if the sincerity of the borrow is not in question, through careful and regular monitoring of the project, the bank can offer useful suggestions that can turn around an otherwise failure – bound project, which in turn will ensure that the debt owed it is repaid.

Lack of Transparency by Credit Officers:

Insincerity of the credit officers of banks can, and have in fact, caused a lot of havoc in the debt management of many banks. It may be that the

credit analyst deliberately refuses to disclose the true merits of a prospective borrower's case, because of personal gains accruable to him, so that a project is eventually financed by his bank which is only good on paper but dead in reality. Lack of transparency will necessarily result in incorrect assessments of loan proposals, securities offered, and profit earnings for the lending bank.

Insider's Abuse:

This is similar to the problem just discussed. It entails bank officials using their positions in the bank to grant loans to themselves, which otherwise they would not have granted outsiders using found economic and financial criteria, or granting such loans to concerns or establishments in which they have some interest, and in all these cases it so often happens that the sums granted are never fully, if at all repaid. In other-words such loan facilities are not risk of failure and its occurrence is always very high.

A corollary to this is the lack of independence of credit offices in some banks. A good number of credit analysts are not independent in the exercise of their professional judgment over the granting or non-granting of a particular loan. As such their opinions and judgment are influenced by their superiors who have an interest or a stake in the proposed loan facility. As a result of this kind of overt and subtle pressure exerted on the credit officer, to ensure that a particular loan proposal is passed and approved, distortions occur, and loans that have no hope in hell of ever being repaid are disbursed.

Inexperienced Credit Officers:

It has to be pointed out that some credit officers are really inexperienced or are in competent and, thus, are wholly unsuitable for the arduous tasks

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facing them. Some credit officers lack the very basic qualifications and skills needed for the job. They are employed on the basis of who they know and the interests they represent rather than on the basis of what they can do. In this scenario, true professionalism is thrown over board. and it is little wonder that the actions of such in competent credit officers bring financial disaster for their banks.

Tough Competition from other Banks:

Faced with increasing and break-neck competition from other banks. some banks become precipitate in the approval and disbursement of loans. Such banks may deliberately charge very low interest rates on loans in order to attract customers, - it is logical to assume that if they can resort to this desperate measure to win a customer, they may not be very prepared to look too hard into all the pre-conditions for granting successful or good loans, as that they may lose them the customers. Also the incidence of tough competition from other banks may result in the scarcity of qualified and competent credit analysts which will also affect the quality and success of the loans disbursed if the basis for such loans was the assessment and judgment of mediocre credit analysts and officers.

Causes Attributable to the Borrower:

Borrowers contribute a lot to the failure of the loans granted them afteral they bear the primary responsibility for repaying the loans and the interests repayable on them. Borrowers effect the non-repayment of credit facilities granted them in the following ways, among others:

i. Insincerity and Diversion of Funds;
ii. Misrepresentation and Dishonesty;
iii. Misconception about the exact nature of their obligation,

iv. Collusion with bank staff;

v. Inexperience in managing loan-financed projects.

Insincerity and Diversion of Funds:

Many borrowers are simply insincere. From the beginning they have no intention of ever repaying the loan they are requesting for, if granted. Many of them by applying for credit facilities are just gambling on the bank's gullibility, and have already perfected their plans on how to siphon the loans and possibly abscond. Other insincere borrowers simply collect the loans and divert them for projects for which they were not meant. It has been known that some borrowers spend their loaned funds in acquiring chieftaincy titles, marrying new wives and buying new exotic cars.

It is in this regard that the experience, professionalism, and astuteness of meticulous credit analysts become invaluable in sifting through the pack and making sure that loans are disbursed to financially responsible loan seekers.

Misrepresentation and Dishonesty:

Some dishonest borrowers deliberately mislead the lending banks by providing inaccurate or completely false financial statements and loan proposals. They engage the services of unprofessional accountants and auditors to "dress-up" their proposals and to "beak-up" their financial statements to a fine gloss. Banks that have not done their home work very will and do not particularly favour exhaustive analysis and "check-ups" on the financial statements and proposals will of course fall easy prey to the wiles of such dishonest barrowers.

Misconception About Their Obligations:

Ridiculous it may sound, but it is nonetheless true that some borrowers do not in fact understand nor believe that they are supposed to repay the loans they have been granted by banks. NWANKWO (1980) thus asserts that very often, borrowers regard bank loans as their own share of the national cake. It is against this background that the recipients of agricultural loans have had the misconception that the loans were actually money given to commercial banks by the government to disburse to farmers. Needless to say financial loss and sometimes-financial ruin to banks do result from this misconception.

Collusion with Bank Staff:

In cahoots with disreputable and corrupt bank staff, borrowers conspire to secure loans that would otherwise not be granted, and to deprive the bank of both the principal sum of the loan granted and the interest payable on it

ADEWUNMI and OSUNTOGUN (1983) therefore concludes that, loans and advances secured from a particular bank can be treated almost like a grant in such circumstances, since with the collusion of the staff of the bank or through inefficient book-keeping, the bank will not press claims when its advances are due for retirement. Such staff dishonesty in lending results in an increase in the proportion of bad debts that have to the provided for.

Inexperience in Managing Projects:

Some borrowers who secure loans for capital projects simply lack the expertise and wherewithal to organize and turn the projects into profitable ventures, so that they can repay their debts to the banks and still maintain a healthy profit. The contribution of the lending bank in this respect

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cannot be over-emphasized. Adequate appraisal and regular supervision of the project is in valuable. These in turn will yield up deficiencies in management and operation, with the bank making meaningful contributions to offset there and get the project on course so that the end result will be profitable for both the bank and the borrower.

Other likely causes of bad debts include:-

i. General economic recession;
ii. Ineffective loan policy of lending policy;
iii. Inadequate cash flow forecast of proposals;
iv. Unplanned expansion by the borrowers;
v. Sudden death of the prince movers of the business for which the loan was granted;
vi. Improper costing of projects from the on-set.
vii. Excess gearing;
viii. Under capitalization;
ix. Natural disasters befalling the fledgling project.

2.4. Credit and Risk assessment in Lending:

2.4.1. Introduction:

Banks need to limit the risk of their lending portfolios to a level consistent with their returns, in order to protect their a capital, guarantee liquidity and ensure profitability. The need therefore arises, to have a proper appreciation of the level of risk involved in each credit exposure. This will facilitate credit pricing and optimum portfolio management practices. Today's financial world witnesses increasing actual and latent volatility of factors (both internal and external) which maximizes the degree of credit risks faced by lending institutions.

Banks need to draw on a combination of old principles and new techniques and the appreciation and usage of latest technologies to help in effectively managing credit risks. In the balanced view of CASSON (1977) therefore, the traditional principles of lending involving the character, capacity and integrity of borrowers are still as valid as when they were first proposed, but problems may arise when dealing with faceless corporate entities where recourse to new techniques and technologies, coupled with sound evaluation by the management becomes of great importance.

The traditional approached to Credit Risk Assessment are the financial statement analysis and the credit information checks. The financial statement analysis addresses the issue of current and future capabilities of the borrowing individual or firm, while the credit information Checks concentrates mostly on the integrity and character of the borrower.

The financial statement is provided by the prospective borrower to the lending bank as a kind of benchmark of his current and potential financial standing, and banks to a large extent anchor their decisions on whether to grant or not to grant the credit facility sought on them. On the other hand the sources of credit information include references provided by the borrower to the bank, bank sources, trade sources, agency rating books, companies registry, the borrower's competitors, agency rating books, stock exchange ratings and opinion, and credit reporting agencies. The purpose of credit investigation of the borrower is to build up a composite and reliable of the borrower.

RYAN (1982) asserts that the two main tasks confronting banks in the assessment of (corporate) funding proposals are Credit assessment and

risk assessment these tow are closely related. The aim of credit assessment is to determine the degree of credit risk, while the purpose of risk assessment of a proposal is to determine its credit worthiness.

There is also another method of assessing credit risks which is the credit scoring technique – which is relatively new and a tool that seeks to provide sound statistical basis for maintaining credit quality.

2.4.2 Credit Assessment:

These are based on corporations financial statements and other supporting financial data accompanying the loan proposal. The process of Credit assessment is sometimes called financial statement analysis. The balance sheet, profile and loss statement, and the cash/funds flow statements are the main statements used here, and these could be either historical or proforma or both.

The major tools of financial analysis are financial ratios, analysis of cash/funds flows and statistics, but the use of ratios has become the most popular. Financial Statements analysis yield up the past performance of a company and in so doing provide valuable clues and insight into its future performance.

The use of Financial Ratios in Credit Assessment:- Financial ratios are the most common and popular tool for balance sheet and income statement by bankers. The analysis these statements by bankers is usually done sequentially. Firstly, the information in the statement(s) is "spread" in a way t hat would avail of proper assessment of the borrowing firms financial and operating position. This "spread" allows for consistent and standardized approach to financial analysis depending on the bank's

choice of a format to be aged. The comparative statement format is usually used in preparing the "spread", and this format usually covers at least three years. After the "spreading", the analysis continues using either the cross-sectional or time series technique which, according to FOSTER (1978) are the main techniques of financial analysis.

The time series technique helps in providing insights into, and predicting future company performance by using common size statements, trend statements or financial ratio analysis, while the cross sectional technique allows the comparison of a firm's result to some other benchmarks, like a similar form with the same industrial standard or in the same industry. This is done by using either financial ratios or by reducing the statements to common size, which latter usage entails that the various components of the balance sheet be expressed as percentages of total assets, while the income statement items are expressed as percentages of sales.

Financial ratios express the relationship between two quantities in a firm's financial statement, which is obtained when one quantity is divided with the other. OSAYAMEH (1966) has categorized the number of ratios that should interest banks into six and they are short-term solvency (or liquidity) long term financial strength, asset turnover, profitability, gearing and other investment ratios. Of course, in lending decisions, the banker is interested in the borrowing firms level and trend of profitability, efficiency, and financing mix. We may now consider some types of financial ratios.

Types of Financial Ratios: There are many kinds of ratios that can be used in financial analysis, but is important to stress that those used should be essential, individually significant, reveal trends and provide reasonable

conclusions. It is generally agreed that four classes of ratios – liquidity, profitability, financial leverage and efficiency are necessary for credit analysis and in MUNN'S Encyclopedia of Banking and Finance (1983), are referred to as "Credit Barometric".

Liquidity ratios indicate the ability of a firm to pay its current liabilities as they come due, and are represented by the use of these forms:

$$\text{Currents ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Quick ratio} = \frac{\text{Current Assets} - \text{Stock}}{\text{Current Liabilities}}$$

Often times, it is stated as a rule of thumb t hat a 2 to 1 current ratio is indicative of sound financial standing, but this is not conclusive, as such result many be affected by the nature of business carried on by the borrower.

Profitability ratios provide insights into a company's profitability, and are usually represented by the use of these forms:

$$\text{Return on Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

$$\text{Return on Equity} = \frac{\text{Net Profit After Tax}}{\text{Owner's Equity}}$$

The financial leverage ratios, also known as debt or solvency ratios indicate the volume of the borrowing firm's debt, and are depicted by these forms:

$$\text{Debtors} = \frac{\text{Total Debts}}{\text{Total Assets}}$$

$$\text{Capitalization} = \frac{\text{Long term debt}}{\text{Long term debt + Networth}}$$

Interest coverage = Profit before Interest and Tax / Interest Payments

Burden Coverage = Profit before Fixed changes and Tax / Fixed Charges + (Principal Payment) / (1 – Tax rate.)

The efficiency ratios indicate management efficiency in the usage of assets and are sometimes also known as Activity or Turnover ratio. These are represented by the use of the following forms:

Total Asset Turnover = Net Sales / Total Assets

Accounts receivable turnover = Net Sales / A/C receivables

Days Sales Outstanding = A/C receivables / Average daily sales

Inventory Turnover = Net Sales / Average Inventory

Limitations Of Financial Ratios: The main limitations stem from fact that financial ratios cannot be more accurate than the financial statements from which they are derived. These statements are often outdated by the time they are available for analysis.

Secondly, individual ratios amount to very little and selecting a basis for comparison may itself present a problem since no two firms are exactly the same, more so when in accurate in accounting methods used.

Thirdly, some problems are associated with the interpretation of ratios. for instance, it can also be reflective of the fact that the firm does not manage its assets properly.

Finally, even where ratios are accurately derived, their usefulness may also be impeded; for example, the desirability of low gearing ratio by bankers has been questioned, since the risk of over gearing only materializes when assets no longer provide sufficient income to meet liabilities (GOIRAN (1985)).

It must however be asserted that though the analysis or ratios may not always provide the right answers, they always ensure that the right questions are asked and tackled by the credit analyst – this is ample justification for their popularity and continued usage.

2.4.3. **Risk Assessment:**

The test of a sound banker being the ability to know when to accept risk, such a risk should be assessed with reasonable accuracy. Risk in credit assessment deals with the probability of non-repayment of credit facility granted. Detailed analysis of a firm is required, especially when lending is against future cash flow of the company. In project finance where the lender's options are very limited and may not be satisfactory in the event of project failure, proper risk assessment is invaluable.

The type of considerations which should be carefully appraised when assessing the risks of a (corporate) borrower, according to RYAN (1982) include the nature of the industry, the security offered, management succession planning policy of the borrower, major sales outlets, and whether the borrowing firm's premises is owned by the firm or leased. DAS (1983) drew up eight broad categories of risk, which are operating risk, resource risk, completion risk, cost over-sun risk, marketing risk, financial risk, force majeur risk, and political risk.

Operating Risk:

This arises from unexpectedly high operating costs, which may be as a result of inaccurate assessment of the production or recovery process, low labour productivity, inflation, high equipment replacement, changes in the parity of currencies for industries with high imported input content, and poor engineering to meet product and quantity specifications.

Resource Risk:

This is the likelihood that resources to be financed by the loan, for example, solid minerals, agricultural products, may not be of sufficient quality or may not be economically recoverable by the proposed facilities. In natural-resources based projects, this risk is very evident.

Completion Risk:

This is the probability that the project being financed my not be completed and operative as a result of setbacks in completing the infrastructure, technical difficulties or labour problems.

Cost Over-Run Risk:

This risk is associated with inflation, and inaccuracies in engineering and design and studies, which necessitates more than the amount agreed to in the loan agreement. This can arise from underestimation of the capital requirements of the project, and poor engineering and designing services.

Marketing Risk:

This occurs as a result of incorrect or inaccurate assessment of sales outlets, decreases in selling price or demand, and technologically obsolescence product, with the decrease in the real disposable income of Nigerians, this risk is very high for many firms in this country today.

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Financial Risk:

This is associated with the ability of the firm to bear significant charges in financing costs due to changes in debt rate or interest rate or movement in exchange rate where foreign finance is involved. This risk becomes very real when many firms in Nigeria have high input content of imported materials.

Force Majeur Risk:

"Force majeur" here refers to irresistible forces or circumstances beyond the control of either the lending bank or the borrower, intruding into the project being financed with the loan. These risks include natural disasters – very common for agricultural projects, and strikes.

Political Risk:

This risk is especially high for firms operating in foreign countries. Such firms run the risk of nationalization or expropriation. Locally political risk entails government interference in normal market forces, foreign exchange restrictions, currency convertibility, imposition taxes, forced management, and withdrawal of tax subsidies, operating licences and incentives.

It is important that lending banks carefully evaluate these factors. Taken either independently or as a whole, they can drastically affect the incidence of bad debts and the resultant loss to the lenders. Sound judgment of credit analysts in this regard is indispensable.

2.4.4 **Credit Scoring Techniques:**

These are relatively new when compared to the traditional credit and risk assessment methods. It is known as the credit risk scoring technique and is defined as the evaluation of the credit-worthiness of an individual or business concern based on relevant factors including networth, ability and willingness to honour credit obligations. It will be noticed that unlike the other systems already considered which emphasizes corporate borrowing, this system includes individual borrowing.

Credit scoring systems, according to BATT and FOWKES (1972) are statistically based tools for forecasting the outcome of extending credit to individuals. These systems aim at distinguishing potentially bad from potentially good credit risks. A credit scoring system enables a structured approach to spotting potential credit problems early enough and hence taking adequate remedial measures. The system also provides a useful analytical approach to portfolio management.

The techniques used in the Credit Scoring system are varied. They are mostly, but not exclusively, applied in consumer credit and personal bank credit decision; and examples of such factors considered include, possession of bank account, geographical location of borrower, occupation, status, sex, stability of income, age, amount sought.

WILSTED, et'al (1972), used the Multiple Regression to analyse the loan policies of 265 bankers from one hundred banks, having provided them with 24 applicant characteristic cues. The result he obtained on the bankers rating of fifty loan applications is depicted below:

	Cues in rank of importance	Mean regressions weight
1.	Credit rating (from credit report)	0.48%

2.	Unencumbered monthly income	0.33%
3.	Occupation: Professional	0.29%
4.	Occupation: White Collar	0.25%
5.	Prospects of Long-term customers relationship	0.20%
6.	Average saving balance	0.18%
7.	Occupation: Skilled worker	0.18%
8.	Marketability of Collateral	0.16%

In this we can see that the greatest weight was attached to credit rating and disposable monthly income, while the least weight was attached to marketability of the collateral.

BATT & FOWKES (1982) assert among the advantages of credit risk scoring techniques is that it reduces the level of a firms risk management, arguing that the use of the technique leads to decreases in loan default. They also contend that the system can be used to reduce bad debts in a preferential manner in periods of credit restrictions, and that this is achieved by simply lowering the cut-off-point. Again, they hold the opinion that credit scoring improves profit forecasting, since a credit risk scoring technique is essentially a forecast of how various classes of loan would fare. Also, they contend among many other merits, that the average score of all the applicants overtime gives a measure of the quality of these applicants.

Limitation of Credit Scoring Techniques:

It is not every writer on the subject share the enthusiasm of BATT & FOWKES for credit risk scoring techniques. Thus, SHINKEL (1977) has strongly indicated that biased estimates are obtainable with credit scoring.

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NEVIN and CHURCHILL (1979) are of the opinion that the characteristics frequently employed in credit scoring systems, eg. Number of dependents, occupation, place of residence and age are irrelevant and have no merit in actual credit decisions. Riding on this observation, WEBB (1982), has found that personal characteristics of the head of a household is not significant in determining mortgage loan default, but he did find certain correlations between occupational differences in income trend and sources of income on the one hand, and loan delinquency on the other.

In spite of the above shortcomings, credit risk scoring techniques are still very useful. The quantitative approach to credit decision-making employed is certainly more objective and qualitative than the subject rule of thumb approaches of then used by some lending banks. What should be the case actually is a fine turning of the credit risk scoring technique to match qualitative lending requirements and decisions.

2.5. Legal and Regulatory Aspects of Bank Lending:

Debts go bad in Nigeria not because of lack of rules or guidelines about bank lending but because such rules and guidelines are sometimes not adhered to, coupled with the other factors we have already considered.

2.5.1. Legal Guidelines on Bank Lending:

The Banks and other Financial Institutions Decree (BOFID) 1991 specifically provides that:

(1) No manager or any other officer of the Bank shall:

(a) In any manner whatsoever, whether directly or indirectly have personal interest in any advance, loan or credit facility, and if he

has any such personal interest, he shall declare the nature of his interest to the Bank

(b) Grant any advance, loan or credit facility to any person unless it is authorized in accordance with the rules and regulations of the bank, and where adequate security is required by such rules and regulation, such security shall prior to the grant, be obtained for the advance loan or credit facility and shall be deposited with the bank.

(c) Benefit as a result of any advance loan or credit facility granted by the Bank. Any manager or officer who contravenes or fails to comply with any of the provisions of subsection (1) of this section is guilty of an offence under this section and liable on conviction to a fine of ₦100,000.00 or imprisonment for a term of three (3) years and in addition, gains or benefits, accruing to any person convicted under this section by reason of such contravention, shall be forfeited to the Federal Government, and the gains or benefits shall rest accordingly in that government.

Similarly, it is a punishable criminal offence for the concerned bank staff to approve leans without adequate security.

The Banks and other Financial Institutions Decree (1991) also imposes legal lending limits on banks as follows:

- Commercial banks cannot lend more than 20% of their shareholder's funds to any one customer.
- The Merchant banks cannot lend more than 50% of their Shareholder's Funds.

In both of there cases, the bank's capital must not be impaired by losses. In determining the level of a banks exposure, contingent exposure count

for not more than 20% of the total exposure. Furthermore for these purposes, a holding company and its subsidiaries are regarded as one entity.

Banks are also not allowed to grant loans and advances in excess of ₦50,000.00 without the approval of the Central Bank of Nigeria, and its Directors, to any firm or private company or partnership in which the bank or its directors act as guarantors and to any public/private company to which the banks or any of its direction jointly or severally have shareholding of not less than 5%.

The companies and Allied Matters Decree 1990 (CAMD) also contain a number of rules aimed at preventing insider abuses in banks and other companies.

2.5.2. **Other Guidelines on Bank Lending:**

In Nigeria the Central Bank is the apex financial body and it regulates the activities of other banks and financial institutions. Bank lending in Nigeria is highly regulated and controlled by the Central Bank. It does this through the issuance of annual credit allocation guidelines and the imposition of quantitative and qualitative limitations on bank lending. The guidelines vary from year to year depending on the economic and monetary polices being pursued by the Federal Government.

This Central Bank of Nigeria controls the level of credit in the banking system setting credit ceilings. However, effective from September 1, 1992, the Central Bank of Nigeria removed the credit ceiling for banks considered to be "healthy". These are banks that have met specified

performance criteria set by the CBN for the preceding three months, and include:

(a) Specified cash reserves

(b) Specified liquidity ratio

(c) Adherence to prudential guidelines

(d) Statutory minimum paid-up capital

(e) Capital adequacy ratio, and

(f) Sound management.

The Central Bank of Nigeria also issues a set of Prudential Guidelines to Banks to guide them in granting credit facilities such as the one announced by the CBN on November 1999. These guidelines required banks to classify their loans into performing and non-performing. The non-performing loans are sub-divided and provided against as follows:-

- Loans above 90 days but not exceeding 180 days should have provision of 10% and classified as sub-standard;
- Loans above 180 days but not exceeding 360 days should be classified as Doubtful and having a provision of 50% for default:
- Loans above 360 days should be classified as lost and default provision for it should be 100%.

The guidelines also require banks to have a default provision of 10% against performing assets, the rationale being that latent doubtful debts are present in any portfolio of advances.

Generally, in arriving at lending decisions, lending banks should carefully keep the following factors in mind:

(a) Capital and reserve position

(b) Desirable balance sheet gearing ratio

(c) Structure of deposit and loan requirement profile

(d) Earnings requirement

(e) Economic conditions in the country

(f) Governmental directives and general monetary and fiscal climate

(g) Competition

(h) Management skills available

(i) Nature of Credit needs of customers.

This consideration of regulations on bank lending is not meant to be exhaustive, rather it is indicative of the fact that sound fiscal and legal regulations exist which if followed will drastically reduce the incidence of bad debts in Nigeria.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction:

This chapter takes on the research methodology in terms of the various sources of data employed for the study, the methods used for data collection, and the methods employed for data analysis.

3.2. Research Design:

The principal methods of data normally used for research work are the primary and secondary sources. For the purpose of the study, both the primary and secondary sources of data have been used.

The primary data derive from the use of instruments such as Questionnaires and Personal Interview. Such instruments have been employed to collect data from the chosen respondents in terms of the sample selected out of the population involved with study. The secondary data derive from the use of documentary sources such as textbooks, journals, bank publications, newspapers and periodicals, among others. Such sources are necessary for the literature review.

3.3. Population and Sample Size:

The workers and customers of the bank under study constitute the population of the research work. These workers and customers who are in various categories are in multitudes. Therefore, it is not normally feasible to contact all of them for the purpose of obtaining pieces of information, as relevant to the study. Therefore, it became necessary to select a

reasonable number out of the whole population to serve as the sample size.

The sample size of the respondents has been fixed at one hundred bearing in mind the various categories of workers that work in the bank. More so, all categories of the workforce have been represented; including those who are directly involved in the administration of credit (credit management), for the bank.

The sampling technique used, is the stratified random sampling. This involved dividing the population into categories and equal number assigned to each group. For the selection of the required number, a specific number of respondents was taken at a defined interval. Respondents from the customers of the bank were selected randomly.

3.4 Instruments used for Data Collection:

The instruments employed for the purpose of collecting data in this study are the Questionnaire and Personal Interview. These are explained below.

3.4.1 Questionnaire:

The Questionnaire which has been used for data collection her been designed to incorporate both the open-ended and close-ended questions. These questions have been designed to ensure their relevance to the subject matter of the study. The open-ended questions did not restrict the respondents on the answers to supply for the questions but were merely directed on what to do to answer such questions. On the other hand the close-ended questions were meant to restrict the respondents in terms of the specific answers to give or supply for the questions or spaces provided.

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3.4.2 **Personal Interview:**

This has been used to supplement the use of Questionnaire. The questions used were mainly tailored along with those as contained in the Questionnaire. Thus the interview was highly structured. As it were the personal interview was administered on those who did not have the time to fill questionnaire. More so, there were those who were feeling reluctant to accept questionnaire paper for the supply of the necessary information.

3.5. **Method use for the Data Analysis:**

The main method used for the data analysis is the descriptive approach. This is supplement by the use of simple statistical instruments such as tables, simple percentages and histographs. These histographs are prepared and attached on appendix, a section after the bibliography.

CHAPTER FOUR

DATA PRESENTATION ANALYSIS

4.0. Introduction:

This chapter elucidates that data gathered from the study of credit management in Societe Generale Bank of Nigeria. The credit policies of the bank as well as its debt management practices are examined, and these are compared to the principles and practices of bank lending and debt management already considered in chapter two of this work. The bank under study generally kept to sound principles of lending and prudent debt management practices, which has yielded it beneficial results.

4.1 Principles of Credit

These represent the basic guides to lending which the Societe Generale Bank of Nigeria employ to assist in its lending decisions.

Some of these principles are:

- Do not lend if you do not understand the borrower's business;
- Understanding the purpose for the loan is critical;
- Collateral is never a substitute for repayment;
- Gather all facts before making a credit decision;
- Assessing quality of management is important;
- Security offered should be independently appraised;
- Loan monitoring can be more important than risk evaluating;
- Before lending, the credit analyst should ask himself would I lend this borrower my money?
- If the borrower wants a quick answer, it is NO;
- Visit a borrower;

- Smaller borrowers are riskier than large ones;
- Sound credit decisions are often spoiled by poor attention to loan and condition.
- administration and documentation

Similarly, the SGBN, in its credit process, pays particular attention to what is generally known as the 5'cs of credit, which are character, capacity, capital, collateral and condition.

Character:

The bank tries to ensure itself of the reliability and integrity of a prospective borrower's character. SGBN adopts the following measures towards ascertaining this:

a) A long-standing account with the band is often taken as an indication of reliability and honesty, bearing in mind however that the customer might also have accounts with other banks, where he has overstepped his overdraft limits.

b) A new customer is investigated much more closely, information is required about

i. Where he banked preciously and why he changed his account;
ii. Who introduced him to the bank, and whether his reference is known and trusted;
iii. If there is no known and trusted reference, the bank may consider obtaining a report from:

- Other bankers that have had a relationship or business with the person or firm concerned in the past,

- Major customers of the business and
- Competitors of the business.

c) The accounts officer of SGBN is also required to obtain more information about the customer, such as:-

i. Is he a salary earner, and is his monthly salary directly into the bank accounts? On the other hand, is he an unskilled worker paid weekly wages in cash? The salary earner is preferred to the cash-in-pocket wage earner,

ii. Does he or the business have a place of his its own or is it a rented place? Ownership is an indication of greater "substance" and so greater reliability.

iii. Does he have a stable job and home? Individuals who move jobs and homes frequently are considered less trustworthy than individuals who have "put down roots" in a long term job and home.

Capacity:

SGBN carefully evaluates the capacity of the borrower, since a loan will not get repaid if the borrower does not have the wherewithal to repay (character) and his ability to do so (capacity). A borrower's repayment capacity is measured by:

i. Identifying the source(s) of repayment and carefully reviewing future cash income from the source to ensure that it is enough to meet the borrower's cash obligations.

Although it is desirable for a borrower's to have a good track record, it is future cash income that repays the loan. Accordingly it is important that the lender reviews:

i. The level of future profitability of the core business of borrower, and
ii. Future cash income to be generated from the core business, i.e operating activities.

Furthermore, the bank tries to ensure that cash generated from the core business of the borrower is enough to:

i. Repay debts in orderly manner
ii. Pay a competitive return to the shareholders, and
iii. Replace long term operating assets.

In evaluating a borrower's capacity to repay a loan, the bank evaluates the ability of the borrower to perform on the transaction, and also evaluates the capacity of the person for whom the borrower is working to pay the borrower after performance.

In evaluating seasonal business, the bank tries to determine how much asset growth is attributed to seasonality. The portion attributed to seasonality is usually repaid by asset sale off-season. SGBN advises the borrowers on the importance of the business completing it's asset conversion cycle (selling it's products before the season ends), for otherwise the borrower will find it difficult to repay such loans from assets sales.

Capital:

The Societe Generale Bank of Nigeria also pays adequate attention to capital. Capital here means "equity". Equity is defined as shareholders funds and any other creditors that rank lower than the lender in a liquidation. Equity is a cushion available to a lending bank, because in a liquidation, if the assets of a company do not shrink by more than the value of equity the lender will get repaid in full. The bank also considers the equity of the underlying assets whose quality it measures in two principal ways:

i. The revenue generating capacity of the assets, and
ii. What the assets can fetch in an open market.

Collateral:

SGBN also critically assesses the issue of collateral (security) provided by the borrower as a security against his non-repayment of the substitute for repayment, where a security is taken, it tries to obtain an independent evaluation of its value and marketability. A regular review of the lending value of the collateral is performed on any shortfall covered. The bank also considers it important that adequate insurance cover on asserts taken as security is undertaken. Collateral can take the form of:

i. A change on the fixed assets of the borrower,
ii. A charge on the floating assets (working assets) of the borrower (a floating change), and or
iii. A guarantee or indemnity obtained from a third party.

A charge on floating assets crystallizes (i.e becomes fixed upon the default of the borrower which entitles the lender to foreclose, take

possession of the assets pledged as security and sell them in order to realize its money.

Condition:

SBGN, like other lenders attach conditions to its decision on lending to a borrower. Conditions or covenants are usually financial or non-financial. Financial conditions are aimed at adequate profits from some business and that these profits are converted into enough cash to meet the borrowers obligations.

Conditions are also classified as either affirmative or non-affirmative (negative) covenants. Affirmative covenants are conditions the borrower must comply with, while negative covenants are things that the borrower must not do. Affirmative and negative covenants may also be financial or non-financial in nature.

4.2. The Credit Process in Societe Generale Bank:

According to the credit policy manual of SGBN, the banks credit processes are aimed at achieving and maintaining a high quality, diversified risk asset portfolio, which will:

- Generate profits, which are commensurate with the risks and meet the bank's target return in assets and on capital.
- Enable the bank to identify potential problems, and risk assets.
- Adhere as much as practicable to directives concerning exposure to industries/sectors which government has identified as strategic.

The basic objective of the banks credit process is to convey the essential elements of good lending practices, with the ultimate aim of putting in

place a credit process that will operate with uniform consistency on a bank wide basis.

4.2.1 Creating The Credit Relationship:

There are many ways in which SGBN brings about a credit relationship with its customers. The aim of the bank being the creation of a high quality credit portfolio, it kicks off the process by targeting a well defined market, using the Risk Acceptance Criteria (RAC) and the Target Market Definitions (TMD).

The Target definition looks at the characteristics of the type of clients to which SGBN will market its products. In line with the bank's TMD, customers in the bank's Corporate Banking Group includes customers with the following characteristic:

a) High turnover usually over N500 million.
b) A good product – market scope.
c) Low credit risk rating.
d) Publicly quoted on the Nigerian Stock Exchange.
e) High level foreign shareholding and support.

The Risk Acceptance Criteria (RAC) attempts to describe the qualitative as well as the quantitative factors, which enable those in the credit department to isolate desirable segments for the extension of credit. These factors include:

a) Financial performance,
b) Quality of measurement
c) Company's stand vis-à-vis its competitors
d) Nature of the industry to which the company belongs for example, is it a growing, stable or declining industry?

So, for a credit relationship to exist between SGBN and a customer. the prospects have to meet the bank's TMD and RAC requirements.

4.2.2 **Credit Authority:**

All credit exposure to customers by SGBN must be approved in accordance with terms stated in the credit policy manual and other internal guidelines of the bank. Credit authority is delegated by the Board of Directors, and credit limits are specifically advised in writing. Approval authorities are specific and non-transferable.

Types of Credit Authority:

SGBN has two types, which are the credit approval authority and the disbursement authority.

Credit Approval Authority:

This is the authority to approve a credit exposure.

Disbursement Authority:

It is the authority to sign documents to approve usage under approved facilities. The level of credit authority required is determined by the risk rating and the amount of the loan facility sought. Credit limit applies to all forms of credit extension be it direct, contingent, etc

4.3. **Credit Analysis And Interpretation:**

This process commences at SGBN once the bank has established some basis to warrant extending credit to the potential borrower. It attempts to identify and assess the nature and magnitude of risks involved in the transaction.

It is a rule of the bank that all credit evaluation proposals must be based on a written analysis of the transaction, i.e. the feasibility of the project

for which the credit is required and the client's financial position. The evaluation process also takes a look at the client's management and competitive position, as well as the degree of risk involved.

The bank regards information gathering as the first step in the credit evaluation process. Information gathering and processing centres around but is not limited to the company profile, with particular focus on:

- A well-grounded history of the company, both historical and financial;
- The business of the company which includes the main line and any other business;
- Products/ services of the company;
- Ownership;
- Group relationships, foreign affiliates, subsidiaries;
- Management profile and hierarchy;
- Audited accounts for the last 3 years
- Industry information;
- Company's cash flow forecast for the next 12 months or more;
- Listing of the company's assets (for credits covered by a negative pledge);
- Latest valuation report (for credits secured by a debenture on assets
- Information on the company's current bank borrowings and current account bankers.

All credits analysis and presentations undertaken by SGBN are done in a modular credit package, which consists of:

i. Credit Analysis Memorandum (CAM)
ii. Credit Approval Form (CAF)
iii. Spreadsheets

1. **Credit Analysis Memorandum (CAM):**

   This is a detailed and focused analysis which contain the following sections:

2. **Borrower:** Legal name and full identity of the borrower, the ownership as well as ownership structure of the obligor are briefly described.
3. **Facility:** A summarized identification of the loan facility required
4. **Business:** A description of the business and business segments of the company is diversified
5. **Management and strategy:** An assessment of management and the strategy of the client.
6. **Financial Analysis:** Containing the income statement balance sheet, and cash flow statement.

The financial analysis is carried out through the use of various criteria including performance indicators, sensitivity analysis, key credit issues/ alternative source(s) of repayment, industry analysis, guaranteed credits, risk rating, and a consideration of the terms and conditions of credit.

Performance Indicators: The bank analyses the company's financial performance through the use of performance indicator and ratio analysis. The indicator considered include:

- Profitability ratio
- Asset turnover ratio
- Working capital
- Quick ratio
- Leverage
- Current ratio.

Sensitivity Analysis: SGBN uses this critical tool to examine the client's ability to perform under adverse conditions and it also enables the accounts officer to identify circumstances, which would warrant a downgrading of the risk classification, and so allow for appropriate measurement to be taken.

Key Credit Issues/Alternative Source Of Repayment: Through the use of Credit Approval Memorandum, the bank examines the key credit issues relating to lending and repayment as well as possible alternative means of repayment. The collateral is analyzed, and involves a good description of the collateral, its value and how it was aimed at, as well as when the valuation was made. Comment is usually made on the potential adverse change (if any) in the value of collateral for the foreseeable future.

Industry Analysis: SGBN prepares comprehensive industries studies on the principal industries covered in its target market, which greatly assists in managing its loan portfolio. The key characteristic and statistics of the industry relevant to the particular credit and their implications are concentrated on.

Guaranteed Credits: Where a credit is guaranteed by a third party, the credit analysis memorandum will help the SGBN to summarize the guarantor's financial position and his ability to meet his obligations under the terms of the credit.

Risk Rating: The bank under study uses risk rating for all its credit exposure. Rating for commercial loans range from A (minimum risk) to D (sub-standard or high risk).

Terms And Conditions Of The Credit: These include conditions precedent to granting the loan and conditions that will be performed after the loan has been granted, such as repayment of installments, interest, duration, foreclosure, etc.

The summary of the conclusions drawn from the analysis is made at the end of the exercise, and recommendations, along with reasons for them, made.

ii. **Credit Approval Form (CAF)**

The key characteristics of Societe Generale Bank of Nigeria's credit approval form are that it:

- Summarises the key information about the credit customer, as obtained in the Credit Analysis Memorandum (CAM).
- Each type of facility has a separate CAF, and it is on the pages of the CAF that credit committee's approval of the credit is characterized.
- CAF is used for all initial extensions of credit and for the annual review of all lines of credit.
- CAFs are also submitted when deteriorating conditions make it necessary to re-evaluate the credit facilities extended to a client as well as for the structuring of facilities, for the approval of new or increased facilities and for temporary extensions of an annual review beyond the original review date.

iii. **Spread Sheets:**

SGBN uses spreadsheets as a means of summarizing the company's financial statements and translating them into ratio. These ratios are analysed in the Credit Analysis Memorandum (CAM),

The bank believes that the quality of a portfolio starts from effective credit analysis, and that effective credit analysis is not a function of the length of the credit analysis memorandum, nor is it simply a recopying of facts or figures as obtained from the company, but involves the perception and understanding of the credit officer's view of the risks inherent in the proposal based on thorough analysis of the credit request, the company and the industry.

The credit analysis identifies the strengths and weaknesses of a credit as well as risk.

4.4 SGBN Credit Exposure:

SGBN classifies its credit exposure based on the degree of the bank's commitment and facility structure guidelines.

4.4.1 Degrees Of The Bank's Commitment:

The bank classifies its facilities into the following categories:

a) Committed facility,
b) Advised uncommitted facility,
c) Internal guidance facility,
d) Internal guidance limit,

a) Committed Facility:

This is a facility the terms and conditions of which have been advised in writing by the bank and accepted by the client. The bank is legally committed to provide the facility provided the terms and conditions are met. Offer letters are signed by the group head and account officer. All loans and lease agreements are reviewed by the legal department of the bank.

b) **Advised Uncommitted Facility:**

This is a facility the terms of which have been advised and accepted by the customer, but the use of the facility is at the sole discretion of the bank. This includes a current line facility usable at the option of the bank.

c) **Internal Guidance Facility:**

This is a facility the terms and condition of which have been discussed with a client but not committed in writing and is available at the sole discretion of the bank.

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d) **Internal Guidance Limit (IGL):**

This is also known as global facility and represents a pre-approved aggregate exposure that SGBN is willing to extend to a client or to a credit relationship. Typically, an IGL is submitted to the Board of the bank for approval, stating the maximum credit exposure the bank wishes to take for a client and the terms and conditions attached.

Once an IGL is in place, individual transaction are undertaken in accordance with individual approval limits and no re-submission to the Board for approval is necessary. The bank uses IGL for managing short-term lease facilities and group relationships, and in the latter case, a global facility may be approved by the Board for the holding company, subsequent to which separate facilities guaranteed by the Holding company can be approved for its subsidiary companies within the Global Limit.

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4.4.2 **Facility Structure Guidelines:**

This revolves around the way SGBN has structured its facilities to minimize risks. These facilities include Current lines, Term Loans, Overdrafts, Deposit Placement Limits, Syndication, Bankers Acceptance, Commercial Papers, Leasing facilities and Foreign Exchange and Settlement Limits.

a) **Current Line:** The bank may structure current line facilities to allow drawings by way of overdrafts and short-term advances. All current lines of the bank expire within 12 months from the approved date. The bank required in such a way that there is always the option to withdraw or call the credit line back.

b) **Term Loans:** SGBN's term loan, are non-revolving facilities whose maturity does not extend beyond 1year from the date of approval. Any non-revolving facilities in excess of 5 years requires the Board of Director's approval, and is generally discouraged.

c.) **Overdrafts**: These are approved extensions of credit and structured as current line facilities. The bank considers that allowing a client to draw down against unclear effects is an extension of credit, which must be approved at the appropriate level. Drawings against uncleared effects are only authorized within the limit of an existing approved current line facility.

d.) **Deposit Placement Limit**: These are documented approval limits for deposits placement in the bank and are structured as internal guidelines facility. These limits enable the Bank to place funds, usually time deposits with financial institutions, both within and

outside the country. Maturity date does not exceed the expiring date of the facility and it is approved by the Chief Executive of the Bank.

e) **Syndications**: While **SGBN** participates in syndications led by other bankers, it tries to ensure that the same standards of credit analysis, documentation, client contact and responsibility apply, just as when the bank itself is leading other banks in a syndication.

f) **Bankers Acceptance (BA):** A purchase of a BA represents the extension of credit to a non-customer of SGBN with secondary recourse to the issuing bank. SGBN therefore prefers to deal directly with credit customers so that proper analysis and documentation of the credit can be done. When a BA is purchased the relevant policies and procedures are followed and subjected to the same level of analysis required for deposit placement with the bank.

g.) **Commercial Paper:** The bank issues commercial papers only on behalf of companies where credit classification is not lower than (C) and where the classification is not a function of the collateral or guarantee. It tries to ensure that where possible, CPs should be supported by a standby facility which is subjected to the normal credit approval policy of the bank.

h.) **Leasing Facilities:** The bank firmly believes that a lease facility is a risk asset like any other credit exposure, and it is subjected to the same standard of credit analysis documentation, client contact etc.

The bank structures its lease facilities in such a way as to allow it to promptly and effectively, repossess the asset leased in the event of a default by a customer. The term of the bank's lease facility normally includes a material advice charge clause and a cross-default clause.

i.) **Foreign Exchange Limits:** Customers proposing to purchase foreign exchange from SGBN will be well advised to do so in the form of an irrevocable order fully backed by cash or availability under an approved line facility.

j.) **Settlement Limits:** These are set to restrict the bank's credit exposure to settlement default arising from foreign exchange transactions in the inter-bank market. The bank's settlement limits are proposed and approved in the same way as its deposit and placement limits and subjected to the credit approval guidelines. Thus, the settlement limit represents the maximum amount for a single foreign exchange transaction, which the bank can transact with a specific counter party.

4.4.3. SGBN Products And Their Characteristics:

SGBN has a number of services and products it makes available to its customers. Each of these products and services has its own distinct features and include the following:

a) Overdrafts
b) Cheques purchase line
c) Commercial papers
d) Bankers acceptances (BA)
e) Bonds and guarantees
f) Revolving facilities.

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a) **Overdrafts**: This is a schedule which allows a customer to overdraw on his current account and attracts payments of interest on the amount overdrawn. It is usually employed to finance the working capital requirements of a customer. The usual tenor is 12 months and it is redeemabie annually, but can also be granted for a period of between 30-180 days. It is usually granted to reputable customers with good financial standing. Repayment of this facility is on demand.

b) **Cheques Purchase Line**: This is a facility whereby a customer's cheque or draft is given immediate value, usually for a fee. It is self-liquidating as the cheque in clearing will repay the facility. The health of the drawee bank is considered to customers of the bank with good credit rating.

c) **Commercial Papers**: These are short-term debt instruments used to finance working capital. They are usually issued to blue-chip companies, and their tenor is between 30-180 days, with 90 days being the most common. Interest on them is discounted upfront but can also be rolled over. The issuing home arranges fund from investors for a leasing issuer.

d) **Bankers Acceptances**: These have similar features to commercial papers but are guaranteed by a bank, which accepts to repay the amount involved in the event of default by the issuing house.

e) **Bonds And Guarantees**: Bonds are divided into bid bonds and performance bonds. Guarantees are undertakings given that a customer's credit obligations will be repaid to the bank by the

guarantor if the customer defaults under the terms of the credit facility granted him. A guaranty may be required from the guarantor. A guarantee is something offered, for example, the deeds of a house or other document of ownership of property, as security for fulfilling the conditions in the guarantee agreement.

f) **Revolving Facilities**: These include:

- Trade finance
- Short-term loans
- Contract/LPO finance-They represent facilities available to all reputable customers of the banks who have met the terms and conditions attached to them.

Some of other products of SGBN have already been considered in 4.4.2 above and elsewhere in the work.

4.5 Post Draw Down Reviews:

The Societe Generale Bank of Nigeria carries out consistent and periodic reviews of credit facilities. Its account officers are responsible for their units. This review determines whether or not credit facilities are operating as expected, and whether to continue or change the risk rating of the credit facility under consideration.

Reviews are done quarterly, and the objective is to institute a system of early risk and vulnerability identification, so as to (devise and) implement contingency plans.

The account officers are also responsible for ensuring that all credit facilities under their supervision are kept at all times within the legal lending limits, and to monitor and ensure compliance with covenants for those loans, which require covenants.

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In the case of secured loans, the accounts officers of the bank regularly carry out physical inspection of the collateral in order to verify the continued adequacy of its value. In this regard, SGBN credit policy manual stipulates that outside independent values shall be used where there is collateral valuation capacity.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary:

Bank lending in Nigeria is one of the primary functions of banks. Not infrequently it forms the fulcrum of profits for banks. Lending facilities range from outright loans to financing capital projects and granting of leasing facilities to customers.

Credit or debt management which involves ensuring that loans disbursed are repayed and maximum returns secured from them is a necessary corollary to lending. Three basic issues which serve as benchmarks for lending decision are profitability, safety and suitability, among others.

Bank debts can be classified into bad, bad and doubtful, and lost, depending on the chances of their recoverability. There are many causes of bank debts, some are attributable to the banks, and some are attributable to borrowers, yet other causes arise from factors independent of the activities of a bank and a borrower.

Credit and risk assessment play a very important role in bank lending or extension of credit facilities. It minimizes the risk of credit failure and maximizes returns for the bank, if properly used. Banks draw on a combination of old principles and new techniques to assist in the task of credit and risk assessment. The techniques range from financial ratios, time-series techniques, cross-sectional techniques to careful consideration of certain risks inherent in credit extension such as operation risk, resource risk, completion risk, cost over-run risk, marketing risk,

financial risk, force majeur risk and political risk. Another important technique used is the credit scoring system.

Lending in Nigeria is also highly regulated. There are a number of legal provisions and prudential guidelines to guide banks in their credit decisions. Adherence to these rules ensures in no small way that credit decisions are less fraught with the dangers that may attach to them.

5.2 Conclusion:

This study ascertained that Societe Generale Bank of Nigeria, like many other banks in the country, attaches great premium to the granting of credit facilities to its customers, and that such credit facilities are diverse in nature and characteristics. These facilities are structured and tailored to meet the customers' expectations, while still ensuring that maximum returns accrue to the bank.

The bank has devised certain principles of credit, which it carefully employs to assist it in arriving at credit decisions. These principles are many, but prominent among them are the 5Cs represented by characters, capacity, capital, collateral and conditions. The bank also has a well-defined credit process that ensures that essential elements of a good lending practice are observed with uniform consistency on a bank wide basis.

Credit exposures to customers are approved in accordance with terms stated in the credit policy manual of the bank. The authority to grant credit is not exercised arbitrarily. There are hierarchies of approval required by the bank, and credit limits are specifically advised in writing. The bank also maintains a credit and risk assessment method that is well – grounded. For instance, in its credit analysis and interpretation, the bank

employs the use of credit analysis memorandum (CAM), credit approval form (CAF), and spreadsheets. Thus, the bank uses a combination of techniques and methods to help in its credit management.

The bank also carries out regular and periodic reviews of credit facilities (granted) in order to determine whether or not credit facilities are operating as expected, and whether to continue or change the risk rating of the credit facility, which will enable appropriate measures to be taken to ensure that the facility is not lost.

The bank also considers it paramount that rules and regulations regarding bank lending are kept by the staff of the bank involved in the credit process. For instance, the accounts officers of the bank are responsible for ensuring that all credit facilities under their supervision are kept all times under the legal lending limits, and that covenants are complied with by borrowers. Similarly, internal and independent valuation of collaterals is undertaken and employed by the bank.

The Societe Generale Bank of Nigeria therefore has a good track record in credit management, but there is always room for improvement, and it is hoped that along with other banks in Nigeria, there is a lot it can gain from adhering to the recommendations to be given below.

5.3 Recommendations:

In the light of the findings drawn from the study the following recommendations, which it is hoped will greatly assist Nigeria banks in the understanding of credit management and what it entails, are offered.

There is need for greater effort to be exerted on credit management. Banks may employ the use of external consultants to help them in their lending decisions. This can prove very useful especially for project evaluation and valuation of collaterals. The independence and objectivity of these 'outsiders' will prove invaluable. Their professional opinions can also serve as an early warning system to the bank that things are going bad or are not what they appear to be, so that appropriate measures can be taken.

There should be careful analysis of all information and data generated about the borrower, the intended project and his financial status. All factors affecting the granting and management of credit should be considered, and all the well-established principles of lending have to be observed.

The use of financial ratios, among others, in credit assessment; the careful analysis of credit risks such as operating, completion, cost – over – run risks, among others, in risk assessment; and the use of credit scoring techniques such as the multiple regression technique, for both credit and risk assessment, should be instituted, continued, and fine-tuned to yield better results.

Prudent financial management should be the watchword of banks, and includes meeting legal reserve requirements, holding enough cash to meet deposit withdrawals at any time. Credit management does not end with taking the decision to grant credit. Banks should know that lending cycle is complete only when the credit granted has been retired.

The credit approval authority in banks has to be decentralized. Approval for all loans does not have to come from the head office. Branch offices

of banks should have the authority to approve small loans for its reputable customers after meeting all pre-lending requirements and ascertaining that post-lending requirements will be met. This will eradicate unnecessary delays and create goodwill between the banks and their customers.

The repayment schedule for credits granted to customers should be realistic. This is necessary to ensure performance. The needs and capability of the borrower should be taken into consideration in fixing the method and time of repayment. Interests charged on loans should also be reasonable to make sure that it is what the customer can pay. There is no point in charging very high interest rates, which will not be paid at all.

There should be effective dissemination on a bank-wide basis of the credit policies and regulations of a bank, along with applicable National rules and regulations, and any subsequent amendments or changes. Awareness of the "do's" and "don't's" is invaluable for all bank staff.

Poor and ineffective loan polices should be avoided. Credible, effective and result-oriented loan policies and credit administration needs to be formulated. Profitability in credit management depends on a balanced portfolio of lending to credit-worthy borrowers, and careful lending policy is essential for bank solvency. Pre and post-lending principles must at all times be adhered to.

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There should be proper management of the investment in receivables. A collection department or Debt Recovery Department, which takes over the responsibility of receivables management, after credit has been granted, should be established in very bank, with offices at both the head

office and branches. The objective is to ensure and obtain the earliest possible payment on receivables without any customer loss through ill-will. In this regard, there should be prompt collection of receivable. The collection department should be diplomatic and subtle, and yet firm in its task. The longer a receivable remains outstanding the longer the financial manager exposes the bank to possible losses from non-collection.

Credit insurance to guard against losses in accounts receivables in suggested.

It would be wise to require credit insurance before granting the loan. The credit insurer limits the coverage on individual accounts, according to the credit rating of the client. If at some later time, bad debts were collected. the funds would be distributed pro-rata to the insurance company and to the proportion of their losses.

Some relationship has to be established between the size and profitability of a customer's balance and the size of the loan he can expect to get from his bank. Subject to this, banks should give priority to the loan requests of their good deposit customers in allocating their funds.

Furthermore, identification and elimination of the causes of bad debts should be carried out with dispatch by our banks. Causes such as bad judgment and incompetence of credit officers, poor analysis and interpretation of financial information and data, ineffective and inadequate project monitoring, imprudent financial management, lack of transparency, insiders abuse, and collusion with borrowers can all be avoided by hiring qualified and experienced professionals and enriching them with both in-house and external training, and use of sound credit

Banks should also intensify efforts towards adhering to legal rules on lending, guidelines issued by the Central Bank of Nigeria and other principles of lending commonly applied by banks.

It is also the duty of government to take measures aimed at creating a healthy economy, which will facilitate the profitability of loan-financed projects and the repayment of credit facilities.

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APPENDIXES

Questionnaire A

Kindly complete this questionnaire which will be used for a project titled "Credit Management in Nigeria: A study of Societe Generale Bank Nigeria Ltd".

Section A

PERSONAL DATA

1 Sex .....
2 Age .....
3 Designation .....
4 Years/Months served .....
5 Grade level .....
6 Department .....
7 Qualification .....

Section B

STATEMENTS

This section is designed for all the necessary information needed for this research work. You are therefore advised to make a tick or rank between 5 – 1 in the space (s) provided against the statement you consider appropriate or by writing your own opinion in the space provided.

1. Has SGBN got staff whose specific job is to carry out its credit function?
   a. Yes [ ]
   b. No [ ]

2. Which of the following group/classes of people can you identify as constituting the major beneficiaries of your Bank loans?
   a. Politicians [ ]
   b. Individuals (contractors) [ ]
   c. Corporate bodies [ ]
   d. Government agencies [ ]
   e. Salary earners [ ]

3. Do you study the financial requirements of your customers?
   a. Yes [ ]
   b. No. [ ]
   If "YES", what steps do you take to ensure that these requirements are satisfied? .....
   .....
   .....

4. Which department performs the credit function such awarding and granting of loans in SGBN?
   a. Credit Department [ ]
   b. Human Resource Department [ ]
   c. Operations Department [ ]
   d. None of the above [ ]

5. What kind of loan is often granted to customers?
   a. Long term loans
   b. Short Term loans
   c. Overdrafts
   d. Others (specify) .....
   .....

6. What is the payback behaviour of your customers as regards loans granted?
   a. Very encouraging [ ]
   b. Encouraging [ ]
   c. Discouraging [ ]
   d. Very discouraging [ ]

7. What are customers' reactions to your Bank's credit policy?
   a. Very satisfactory [ ]
   b. Satisfactory [ ]
   c. Dissatisfactory [ ]
   d. Very dissatisfactory [ ]

8. To which of the following reasons do you attribute the increase in bad-debt in Nigeria.
   a. Poor analysis of financial data [ ]
   b. Bad judgment of the credit officers [ ]
   c. Incomplete knowledge of customers activities [ ]

d. Bad Management of the accounts [ ]
e. Inadequate project monitoring [ ]
f. Mis-representation and dishonesty on the part of the customer [ ]

9. Do you think poor credit management has nay impact on the performance of Banks in Nigeria?
   a. Yes [ ]
   b. No [ ]

10. In your opinion, what impact do you think poor credit management has on the performance of Banks? .....
.....
.....

Questionnaire B

As a customer of Societe Generale Bank Nig. Ltd., kindly complete this questionnaire which will be used for a project titled "Credit Management in Nigeria: A study of Societe Generale Bank Nig. Ltd".

Any information given will be treated with confidentiality.

Section A

PERSONAL DATA

a. Your Name (optional)

b. Occupation (optional)

Section B

This section is designed to provide some of the necessary for this research work. You are required to tick an option or provide your own opinion if different from the options.

1. What motivated your choice or SGBN?\
   a. Banks Advert [ ]
   b. Personal solicitation by bank staff [ ]
   c. Banking system (services) [ ]
   d. Recommendation by friends, colleagues etc [ ]

2. Which of the following bank services do you patronize?
   a. Savings [ ]
   b. Deposit Account [ ]
   c. Current Account [ ]
   d. Foreign Exchange Transaction [ ]
   e. Others.....
   .....

3. How adequate are the services currently being offered by SGBN?
   a. Very adequate [ ]
   b. Adequate [ ]
   c. Inadequate [ ]
   d. Very inadequate [ ]

4. Have you ever applied for loan from SGBN?
   a. Yes [ ]
   b. No [ ]
   If "YES", was the loan granted? .....
   .....

5. If answer to question (4) is "YES", are you currently on loan?
   a. Yes [ ]
   b. No [ ]

6. If answer to question 5 is "NO" were you able to meet your obligation before or after the pay back period?

7. If answer to question 6 is "After", give reasons for your inability to meet your obligation? .....
   .....

FROM: ABUJA BRANCH, THRO: AGM, PUBLIC SECTOR

TO: AGM RISK MANAGEMENT

SOCIETE GENERALE BANK NIGERIA LIMITED
TEMPORARY OVERDRAFT (TOD) SHEET

CUSTOMER DATA BRANCH: ABUJA

NAME OF ACCOUNT:

ACCOUNT NUMBER:

DATE A/C OPENED:

LINE OF BUSINESS:

OPERATOR/DIRECTORS:

PREVIOUS APPROVED FACILITY:

AMOUNT UTILISED:

ACCOUNT OPERATION:

	1999	2000
	PREVIOUS YEAR	CURRENT YEAR
CREDIT LODGMENT:		
EARNINGS:		
HIGHEST CREDIT BALANCE:		
LOWEST CREDIT BALANCE:		
HIGHEST DEBIT BALANCE:		
LOWEST DEBIT BALANCE:		
AVERAGE DEBIT BALANCE:		
CURRENT A/C BALANCE		
U/E INSTRUMENT:		

BRANCH

DEPOSIT LEVEL
(EXD. CUSTOMS):

LOANS LEVEL:

REQUEST:

AMOUNT:

TENOR:
DATE OF REPAYMENT:

PRICING: INTEREST RATE:

FLAT FEE:

EXPECTED EARNINGS:

SECURITY TYPE:

PURPOSE OF TOD:

OTHER INFORMATION:

ACCOUNT OFFICER'S SIGNATURE: _____

RELATIONSHIP MANAGER'S COMMENT:

RELATIONSHIP MANAGER'S SIGNATURE: _____

N.B. TOD REQUEST MUST BE SUPPORTED BY A/C STATISTICS & GRAPH, PAST TOD RECORD AND ACCOUNT STATEMENT CONFIRMING THE CURRENT BALANCE.

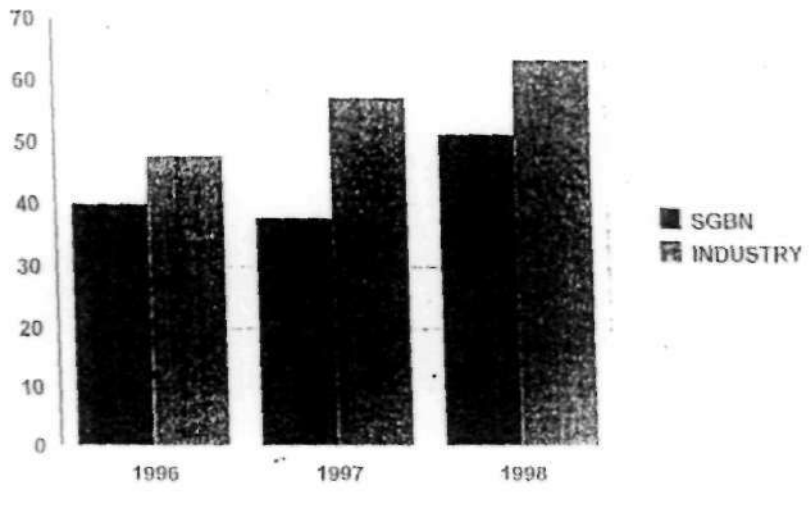
APPROVAL/APPROVAL CONDITIONS:

_____ _____

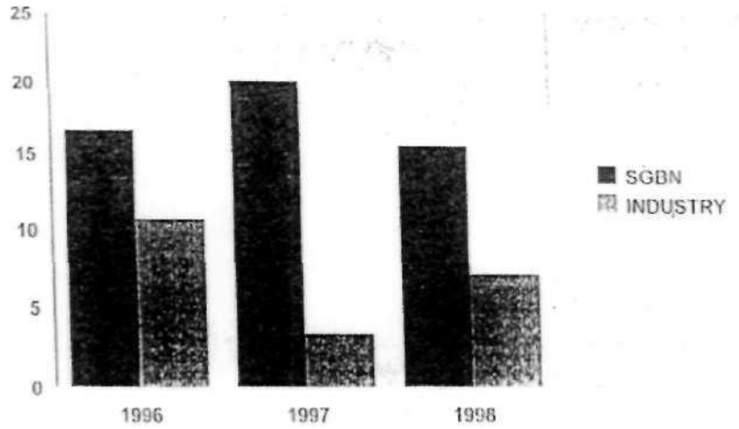
APPROVING AUTHORITY APPROVING AUTHORITY

SGBN VS. INDUSTRY PROFITABILITY ANALYSIS

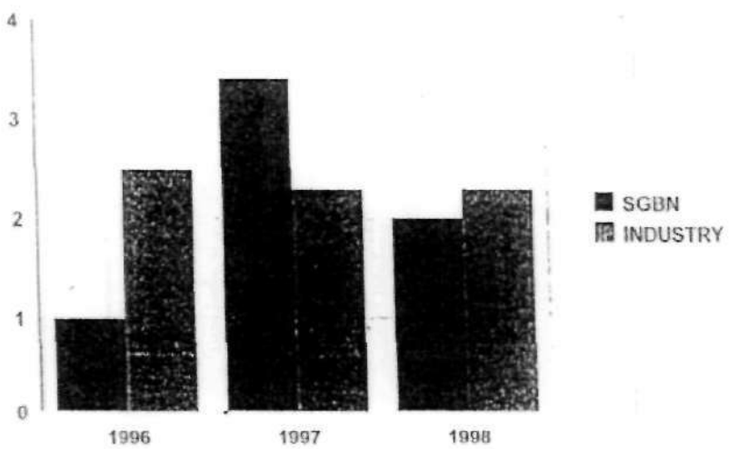
NET INTEREST MARGIN



LOAN LOSS EXPENSE/INTEREST INCOME



RETURN ON ASSETS



APPENDIX 2(a)

Societe Generale Bank Nigeria Ltd.

CREDIT APPLICATION FORM

ACCOUNT OFFICER :

NEW CUSTOMER ☐ INCREASE ☐
ANNUAL REVIEW ☐ DECREASE ☐
SETTLEMENT ☐ AMENDMENT ☐

☐ PERFORMING
☐ NON PERFORMING

BRANCH / UNIT : DATE :

CUSTOMER NAME :	A/C NO	DIVISION	
NATIONALITY			
ADDRESS :	BORROWER SINCE:	PROVISION :	
	LEGAL STATUS:		
SPONSORS NAME:	BUSINESS :		
NAME OF PARTNERS / DIRECTORS :	KNOWN RISK WITH OTHERS	LIMIT	UTILIZED
	CASH		
	NON CASH		
	TOTAL		

PRESENT LIMITS	PRESENT OUTSTANDING (S)	NEW LIMITS	DESCRIPTION OF RISK LIST ALL TRANSACTION RISK TYPES EXTENDED (TO BE EXTENDED) TO THE CLIENT INDICATE TRANSACTION TENORS & MATURITIES, COLLATERAL & SUPPORT, INTEREST RATE / [illegible] AND COMMISSION).	LIMIT(S) TO EXPIRE ON

			TOTAL SECURED FACILITIES	RECOMMENDED BY	SIGNATURE / DATE
			TOTAL UNSECURED FACILITIES	Account Officer	
			TOTAL CUSTOMER'S FACILITIES	Relationship Manager	
			GRAND TOTAL GROUP FACILITIES	Group Head	

COMMENTS / CONDITIONS OF APPROVAL : .