THE EFFECTS OF CREDIT MANAGEMENT ON PROFITABILITY OF NIGERIAN BANKS

By

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Being a thesis submitted to the postgraduate school, Ahmadu Bello University, Zaria in partial fulfillment of the requirements for the award of Master of Science Degree in Accounting and Finance.

DECLARATION

This Thesis titled "**The Effects of Credit Management on Profitability of Nigerian Banks"** written by me has not been presented to any Institution for the Award of any Certificate. All sources of publications and other related reports cited in this research work have been acknowledged in the bibliography.

Ahmed Tijjani Ibrahim

CERTIFCATION

This thesis entitled "the Effects of Credit Management on Profitability of Nigerian Banks" by Ahmed Tijjani Ibrahim meets the regulations governing the award of the degree of masters' degree in accounting and finance of Ahmadu Bello University is as approved for its contribution to knowledge and literacy presentation.

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Chairman, Supervisory Committee **Date**

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DEDICATION

This Thesis is dedicated to my mother.

AKNOWLEGMENT

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ABSTRACT

One of the major problems confronting the Nigerian banking industry today is the increasing incidence of loan defaults and consequent loan losses which manifested on the profitability of the banks, with huge uncollectible loans and advances. This study therefore, examines the effects of loans and advances on the profitability of Nigerian banks.

The methodology used in the research includes secondary sources and primary sources of data collection. The data collected were analyzed using Correlation Coefficient, Pearson Product Moment Correlation and other statistical tools to establish trends and relationship between the variables. Furthermore, graphs were used in the interpretation of the data collected.

The study found out that at 5 percent level of significant; the calculated value of z is grater than the tabulated value in most of the banks considered in the

study. Therefore, this leads to the results that there is significant effect between loans and advances and its profitability. In order words this means that there is a significant effect between the way the banks manage their credits portfolio and the profitability of the banks.

It is the recommendation of the study that there is the need for a strong internal control system to strengthen the credit policy on the management of the banks' credit facility. This involves the need for thorough checking of loan applications at various stages of granting loans and advances in the banks. Furthermore, banks must ensure strict tradeoff between their liquidity and profitability. This will ensure strict compliance with the money being kept by the banks and the amount granted for loans and advances.

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CHAPTER ONE:

GENERAL INTRODUCTION

1.1 Background of the Study.

In every economy, there exist facilities for the creation, custodianship and distribution of financial assets and liabilities (Mohammed, 2002). These facilities make up the financial system in any economy of which banking is a sub-sector. Banks are global phenomena, a universal institution. In fact, banks intermediate between surplus and deficit economic units, thereby, acting as machinery for the allocation for the allocation of scarce financial resources. (Mohammed, 2002). Consequently, banks occupy a primary position in the economy as it is the fulcrum of the money market and the central nervous system of the economy. The banking industry world wide, and in Nigeria particularly, had been witnessing a lot of structural changes. These changes are meant for the improvement of services for the betterment of it operators

and for the benefit of the customers, shareholders as well as the economy at large.

In Nigeria, the business of banking has not been Stagnant, the advent of the British political and economic influence brought about the evolution of banking in Nigeria. This is as far back as the last decade of 19th Century, precisely in 1892. The first Commercial bank in Nigeria "**the British African Banking Corporation (BABC)"** was formed in that year (Onanuga, 1998.) Ever since the first bank was formed, the banking industry had witnessed a lot of changes. In July 1958 for instance, in recognition of its importance at that time, the Central Bank of Nigeria was formed as the apex bank in Nigeria under the Central Bank of Nigeria Ordinance cap 30 of portfolio olio 1958, (Agom, 2000). The bank is saddled with the responsibility of supervising and monitoring banking activities in Nigeria. Another boost of the industry came up in 1961 when another history was recorded in the banking arena with the establishment of

the first Merchant Bank – PHILIP HILL LTD. Though the bank was more or less like the branch of a UK Merchant Bank – HILL SAMUEL & CO. It paved the way for the establishment of the JOHN HOLT LTD'S finance firm – NIGERIAN ACCEPTANCES. These two firms later merged under the name NIGERIAN ACCEPTANCES LTD in 1969.

The Nigerian banking arena witnessed yet another change in 1990 when the Community and Peoples banking systems (a form of unit banking) were introduced to further promote and instill the habit of banking in the Nigerian populace **(**Mohammed , 2002**)**.

The most recent of the development in the banking industry came up when a new method of banking was introduced, the Universal System of Banking. Otherwise referred to as "The Universal Banking System" It is the latest of all banking practices globally, although in some economies they do not use the term Universal Banking, but practice it through a partial or complete removal of the differences among the various banks which hitherto specialized in a narrow range of banking.

Iyari, (2001:1) opined that "The whole idea of Universal Banking was spurred by the forces of globalizations, deregulation of financial markets, trade liberalization, internationalization of economic activities and the phenomenal impact of information technology on business process and decision – making"

The Universal banking system is a system of banking that permits any bank to determine its portfolio offerings, which may involve non – financial services. The approval in principle given by the Central Bank of Nigeria for the practice of Universal banking in Nigeria in January, 2000 was well appreciated in the industry. Merchant banks are already converting to Commercial banks to be able to access the relatively cheaper and stable deposits, also given the diminishing investment banking business in the weak economy. Considerable prospects for the re-alignment of activities and forces will be explored to achieve economics of scale and to enhance profitability.

Generally, banks render a number of services to the economy, foremost of which is the provision of finance which has been described as a lubricant for economic growth (Carmero *et al*, 1967). A critical factor in this growth process is adequate supply of credit to the various sectors of the economy to carry on their activities. The role of the banking system in this regard is that of financial intermediation which entails moving funds from the surplus unit to deficit unit of the economy, to facilitate trade and capital formation.

Banking as a service industry is organized to make profit for the shareholders vide provision of banking services and supply of financial needs to individuals and cooperate bodies. In order to achieve this, banks accept deposits from customers and lend to others. According to Sayer, (1970:175), banks seek to make themselves as attractive as debtors and as efficient as creditors that they can earn a substantial gross income from the difference between the interest they charge as creditors and the interest they pay as debtors".

Statutorily, Banks and Other Financial Institutions Act (BOFIA, 1991), Section 61, defines Banking Business as business of receiving deposits on current account, savings account, or similar accounts, paying or collecting cheques, drawn by or paid in by customers, provision of finance or such other business as the Governor of Central Bank of Nigeria (CBN), by order published in the Gazette, designate as banking business. Through credit, banks promote investments and sale of a wide range of goods and services. Banks in Nigeria have been performing this financial intermediation role in the economy. Thus, loans and advances today constitute a major asset of the total asset structure of banks in the country. (Banks' Annual Report and Accounts)

An asset constituting a significant proportion of total assets deserves nothing less prudent and efficient management if the economy impacts of banks on the economy are to be optimally realized. In addition, banks are expected to derive their income principally from lending/credits (loans and advances) and investing, and

to a lesser extent, from fees and charges received from services rendered. According to Crosse (1962:66), Income from loans and advances should constitute more than 60 percent of the total income of the banks".

Developments in the Nigerian economy in the last decade, specifically, from 1992 to date have had considerable impact on the functioning of the banks and other non financial institutions. The decade witnessed a down – hill trend in the Nigerian economy, occasional dwindling oil revenue and the global economic recession. Banks as a sub-system of national economy is not immune and is having its own share in the form of increasing loan defaults because of the inability of borrowers to redeem their loans, which resulted in banks failure and subsequently banks distress.

1.2 **Statement of the Problem:**

One of the major problems confronting the banking industry today is the increasing incidence of loan defaults and consequent loan losses which manifested on

the profitability of the banks. Sequel to increasing incidence of huge bad debts in the Nigerian banking industry, insider's abuses, management's competence have been called to question. Bad debts, it must be noted occur due to the inability of the bank's management to recover loans granted to customers.

It is reported in the NDIC 1989 Annual Report and Accounts that the deteriorating health of the banking industry is on the increase. With reasons adduced for this development in the report to include the following amongst others:-

i. huge uncollectible loans and advances;
ii. the financing of long-term assets with short-term funds;
iii. over trading;
iv. unsound management practices;
v. reliance on volatile deposits;
vi. non-standardization of accounting practices and financial reportage.

These prompted the issuance of CBN Prudential Guideline in 1990, to sanitize the banking system. Many banks even after the liquidation of several banks in 1998, still paraded inexperience and "glaucoma" visionary managers. Also many banks lack well articulated credit policies, efficient and effective internal control, and high quality professional and motivated staff.

In 1996 and 1997, the number of frauds reported by Nigerian banks were 127 cases involving about N1006 million and 587 cases involving N1543 million respectively (NDIC, 1997). There are also several cases of insider abuses and even board tussles. Many of these cases bordered on corrupt tendencies, which led to the failure of many banks a few years ago.

As earlier pointed out, loans and advances constitute the largest proportion of the banks' earning asset hence loan defaults which results in bad debts, destroy this asset and subsequently reduce banks profitability as bad debt or provision for bad debt are

charged to profit and loss account. Thomas (1964), described loans as being vital both to the banks and to the general public in that it is the source of earnings as well as the essential items that determines the liquidity and ultimate solvency of the banks. Bank credits in form of loans and advances are funds transferred to the deficit unit of the economy for investment purposes and any lowering of banks asset (loans and advances) due to bad debts will affect the amount available for future credits. Consequently, this will affect production, employment, taxes due to the government and funds available for social services, and also affect the bank growth.

The incidence of huge bad debts resulting in non-profitability and subsequent bank failure/distress in the banking industry has not only attracted the attention of the monetary authorities but the public at large. Igwesi, (2005) observed that,

"The issue of distressed bank is a very great concern to the entire people of the country and indeed some of us in the House of Representatives. We feel so bad about

the so-called liquidation squeeze and other things attached to it based on the fact that we are representatives of the people and most of the people who are worst hit in this matter are the electorate, the masses". He went further to say; "The problem to me really borders on whose responsibility it is to regulate the sector and check the liquidity rate in our banking sector and also the issue of re-capitalization. This problem is really causing untold hardship on our people, it is certainly not in the interest of the nation's economy and it is capable of sounding a very bad signal to potential investors and the private sector too."

There is a growing concern of increased bank failures and bank distress if the problem is not urgently addressed. This fear may not be out of place when viewed against recent developments in the industry. Between the years 2001 and 2002, the CBN and NDIC closed the gates of Savannah Bank and peak Merchant Bank for problem of liquidity. Others, SGBN and AIB were suspended from the clearing House. In August, 2003 the

Central Bank of Nigeria took over control of Bank of the North Limited, one of the oldest indigenous bank in Nigeria which was established by the default Northern Region and incorporated on 9th September, 1959 as a private limited liability company engaged, in commercial banking business. These take over and suspension from clearing House were attributable to their distressful situation and liquidity ratio of less than 20 percent, occasioned amongst others by poor management resulting in huge uncollectible debts and consequently affecting the banks profitability.

Thus, it is within this setting that growing concern emerged regarding increased potential of bank failures. As Marshall (1980:113) observed that "a commercial bank failure implies a loss of stockholders investment in the bank; however, the general public may loss the insured portion of its deposit as well as other bank debt owed to the public. Further-more, a banks' failure may seriously shake the public confidence in other banks".

In a report by a World Bank staff who noted that, banks as an institution will remain dominant in the Nigerian financial system for sometime and can be made more efficient by improving their management system. According to the report, better management requires new lending /credit policies and better loan recovery procedures. (UBA, Monthly Business Economic digest, June, 1990). The task before this study is to make an empirical analysis of the management of loans and advances and its effect (positive, negative or both) on the profitability of Nigerian banks and the causes of the problem if any, so as to be in a position to proffer solution to aid management performance towards better profitability.

1.3 **Objective of the Study**

The basic objective of the study is to assess the performance of Nigerian banks in managing loans and advances in their asset structure and how the

management or mismanagement affects the profitability of the banks.

The specific/objectives of the study included the following:-

i. to examine the structure put in place by Nigerian banks for the management of loans and advances and to determine its adequacy or otherwise.

ii. to examine the regulatory and institutional frame work within which the banks perform their financial intermediation role.

iii. to examine the Bank's practices in granting loans and advances and their recovery procedure.

iv. to examine the extent of loan losses and the quality of this asset (loans and advances).

v. to identify the problem that impairs the banks' effective and efficient management of loans and advances portfolio and proffer solution.

1.4 **Statement of Hypotheses**:

In order to assess the effect of Credit Management on profitability of Nigerian Banks; the following hypotheses are to be tested;

$H0_1$: That there is no significant effect between the management of loans and advances portfolio and the profitability of banks.

$H0_2$: That the effects (positive, negative or both) of loans and advances portfolio management on the profitability of Nigerian banks do not cut across most banks.

$H0_3$: That classified (performing and non-performing) loans and advances are on the increasing direction over the period (as covered in the study) resulting in deterioration of loans asset quality.

1.5 Scope of the Study

The Study looks at management of credit facility (Loans and advances) and its effect on profitability of Nigerian Banks using some selected banks as case study.

These banks include; Bank of North Limited (BON), First Bank of Nigeria Plc. (FBN), Union Bank of Nigeria Plc. (UBN), Standard Trust Bank Plc. (STB) Habib Nigeria Bank Limited (HNB) Chartered Bank (CB) FSB and United Bank for Africa (UBA). The study period is 10 years spanning from 1993 to 2002. This period witnessed the most dramatic changes in the economic landscape of Nigerian banks in recent past, occasioned by the downturn in the national economy, political era and the consequent introduction of various policies by government to pull the economy out of the doldrums. These changes have had considerable impact on the functioning of the financial system. For instance, the introduction of stabilization security in 1992, the withdrawal of government funds from banks of CBN in 1989 and the return of government funds to banks in 1991 etc. These changes have had considerable impact on the functioning of the financial system. The period chosen, therefore, will be of immense value in establishing trends in loan management over the period

and will aid in predicting the likely future trend. Knowledge of the likely future trend will be of help to the bank management in bringing the future under control for effective and efficient management of credit (Loans and advance) portfolio.

1.6 **Significance of the Study**

A study of this nature is in valuable not only to the bank's management, other banks, share-holders, potential investors and depositors but to the economy as a whole.

To the bank's management and managers of other banks, the study draws their attention to the importance of this asset (loans and advances) to the overall success and growth of their organizations. As the largest component of a bank's total assets, there is the need for its effective and efficient management. Besides, loans and advances are also the most profitable and risky assets, hence the need for proper management for maximum profitability while minimizing the risk element.

The study is also significant to the share holders, both existing and potential ones. This springs from the fact that the proper management of this resource will enhance reasonable returns on shareholders investment.

As pointed out earlier, banks performance of intermediation activity involves accepting deposits from surplus unit of the economy and channeling it to the deficit units. This role ensures proper allocation of scarce financial resources to the various sectors of the economy thereby enhancing the overall growth and development of the national economy.

One of the reasons adduced for bank failure is that of indiscriminate granting of loans that make collectibles virtually impossible. A study of this nature will draw the attention of bank's management to the need for proper management of loans and advance to obviate failure and its negative consequence on profitability and economy growth. Bank's failure erodes depositor confidence in the financial system, thus resulting in dearth of loanable funds to the economy. To enhance depositor confidence

in the system, there must be proper management of the loans and advances portfolio to enhance growth of the bank. Students as well as other researchers would find this study worthwhile.

The study, therefore, is timely, current and relevant not only for the continued visibility of the financial system but the overall growth and development of the economy.

The findings of this study if duly and adequately incorporated by all the operators of the banking industry and the financial system in general will enhance profitability and efficiency in the provision of banking services in the country.

CHAPTER TWO

CONCEPTUAL FRAMEWORK AND RELATED LITERATURE

2.1 **INTRODUCTION**:

In order to discuss the important of credits/loans in bank's asset structure and the effect of credit management on profitability, we need to understand what is meant by credits/loans. Loans and credits are inter-changeable on this study and can be described as an agreed sum of money granted by a bank to a customer for an agreed purpose repayable with interest in regular installments at agreed intervals. Hence credits mean receiving goods or services and pays at a future date. Ojo (1982:57 – 64), described credit as that amount of money granted to a customer by a bank on request with interest on demand except in the case of term loans which are repayable over a designated period of time.

This chapter therefore, reviews and examines some related literatures on the loan management concepts, credit policy formulation, criteria for loan decision and its effects on

portability, loan reviews and monitoring policy, Loans classifications and recovery procedures.

2.2 Types of Credit Facilities

The foremost obligation of any bank is to supply the credit needs of business enterprises/organizations, Communities and individuals. To accomplish this, a number of facilities are provided by the banks in form of Loans and advances. In Crosse's view (1962:216), "they range from short term self liquidating loans to finance the manufacture, storage or shipment of commodities, through loans to supply working capital over varying periods of time, to loans to finance the acquisition of capital assets". Therefore, simply classify loans into short-term lending and long term working capital loans. While facilities under the short-term loans is for seasonal or short – term working capital purposes, the long term working capital needs of businesses spans over period longer than one year/season. Olashore (1988), classified loans granted by Nigerian banks in terms of uses, he grouped loans into Investment which allows a business to obtain credit for capital

goods (e.g. expansion of factory or procurement of machinery), Commercial which includes bank credit (e.g. overdraft, loans and advances, trade credit, commercial papers, hire purchases, etc) and consumption loans, which permits individuals or house holds to purchase goods (e.g. refrigerators, television, cars etc) they could not afford if they have to pay immediately. In terms of maturity profile, he classified loans into long-term, intermediate, short-term and demand loans are classified into public sector borrowers.

Based on the above, banks credit facilities can be broadly categorized thus;

i. **Cash Disbursement**:

Credits in this category may be direct or indirect. Direct credits will includes overdraft, terms loans (i.e. short-term, medium-term, and long-term personnel papers, certificate of deposit and leasing. Indirect credits relates to where a bank gives an undertaken to make payment in the event of certain occurrence, included here are acceptances, guarantees, bonds, indemnities and letters of credits.

ii. **Loans According to Purpose Includes**:

Credits to priority sectors such as Agriculture, Production and Manufacturing, credit to other sectors such as general commerce, mining and constructions, credit to rural borrowers; and credit to small scale enterprises. It is important to note, that the sectoral distributions of Bank's loans and advances guided by Central Bank of Nigeria monitory and credit guidelines issued from time to time. Agu, (1988); Classified loans and advances granted by Nigerian banks in terms of their security thus:

(a) Secured:

Facilities (loans or advances) secured by bills or land or other title documents, negotiable securities, guarantees, Life assurance policies, etc.

(b) **Unsecured Loans:**

Ojo, (1976); described this as "usually temporary out-of-pocket loans ....." granted to customers of undoubted financial strength and to salary earners in the middle

and top income groups, whose monthly salaries are paid regularly into the banks (from which any temporary accommodation given would be liquidated). They are usually meant for consumption and of small amount.

(c) **Secured Against Real Estate**

Are loans secured on real estates particularly landed properties.

2.3 Credit Maturity Profile

Bank loans have varying maturity patterns within which loans are to be liquidated. According to Adekanye, (1986), all loans and advances are technically repayable on demand except for the term loans". Agu, (1988); categorized the maturity pattern of loans and advances granted by Nigerian banks into:-

i. Those maturing within three months (i.e. 1-3 m)

ii. Those maturing within six months (i.e. 1-6 m)

iii. Those maturing within twelve months(I.e.1-12 m)

iv. Those maturing later than twelve months (i.e. above 1yr).

2.4 LOANS/CREDIT MANAGEMENT CONCEPT IN NIGERIA BANKS

Management has been defined as the process of coordinating, controlling, directing and planning of limited resources to achieve the corporate goal. In managing its loans portfolio, banks are guided by government economic and monetary policies, objectives and the cannons of lending. Foremost the banks lending is informed by government economic policy goals as spelt out in the annual budget and defined by CBN Monetary and Credit Guidelines and the Regulatory and Institutional Environment within which its operates. Banks lending ability is dependent on its deposits profile (demand, time and savings deposits) which Marshall and Swanson, (1980); pointed out constitute the largest portion of money supply to the economy. Generally, deposits of customer are repayable on demand except for time deposits which have specific maturity time for repayment. It implies, therefore that sufficient liquidity is required to absorb possible customers' deposit withdrawals and some required to meet customers' demand for loan. Loans and advances are the

largest earning assets of banks but the objective of liquidity is to meet deposit withdrawals conflict with meeting customers' demand for loan. Again, Marshall and Swanson, (1980); agrees with this when they opined that the liquidity objective conflict with the objective of profitability in the conduct of Commercial Bank Management "In explaining this conflict further, Nwankwo, (1980); contended that orthodox banker consider he owes two obligations in his daily banking operation; Maximum liquidity to depositor to repay the deposits on demand or as agreed; and maximum profitability to shareholders who has contributed to set up the business. Effective lending /credit in orthodox banking philosophy according to him (Nwankwo), is the successful reconciliation of these two obligations. This philosophy he dismissed is unacceptable in a developing economy and, therefore, advocated a philosophy of creative banking. Effective lending based on this philosophy implies that question of lending which maximizes the bank's objectives of liquidity, and profitability with the economy's objectives of maximum development.

Over the years, the question of resolving these twin issues of liquidity and meeting customer's demand for loan have been a great source of concern and this led to the development of various methods of meeting the objectives. The methods have evolved over the years with concepts like commercial loan theory (Real Bill doctrine), shiftability doctrine anticipated Income theory and liability management.

2.4.1 **Commercial loan theory (Real Bill Doctrine)**

Prior to the World Economic Depression of 1930's the widely held view about the liquidity question was the real bill doctrine. In this theory, the liquidity question of banks can be resolved by acquiring short- term liquidating loan asset. This implies that meeting customers demand for loans should only be based on granting of loans to customer for short - term financing of their working capital and loan secured by real goods in production, marketing and shipment. The sale of such goods invariably provides the means for liquidating the loans.

According to Adewumi, (1980); the real bill doctrine dominates lending practices because there were no enough secondary reserve assets which could have served as alternative liquidity to the Banks. He opined that government bonds in existence as at that time were not really marketable as secondary market were undeveloped or even non- existents. Thus the bank's source of liquidity a part from cash was their portfolio.

2.4.2 **Shiftabilty Doctrine**

This was developed during the 1920's and 1930's with increased holding by banks of marketable securities. To meet customers deposit withdrawals, the shiftability theory of asset management, advocates banks holding of marketable securities so that liquidity could be met by shifting or selling the securities held to other buyers. The theory presupposes a well-developed secondary securities market, Kreps (1972:18), pointed out that the doctrine was viewed by bankers as an improvement of the real bill doctrine. He argued, however, that liquidity can only be generated based on this doctrine in

normal times' as marketable securities may fail to yield the desired liquidity in times of liquidity squeeze. For the doctrine to be fully operationalised, he contended that there must be a lender of last resort, willing and able to lend to banks during the time of liquidity squeeze.

2.4.3 **Liability Management:**

With the emergence of commercial deposits in 1961, a new approach to the liquidity question in loan management developed. Commercial deposit is an alternative means of raising deposits to meet customer deposits withdrawals. It was thus possible for banks to lend most of their deposit liabilities without being constrained by the size and maturity patterns of such loans. According to Woodworth, (1971); a proper liquidity management entails the generation of enough liquid resources as and when desired, thus eliminating the constraints of earlier concepts.

In his speech recently, Ede, (2003), said "according to the contingency plan of the CBN that came into effect 31st July, 2002, a bank that records a liquidity ratio greater then 20%

but less then or equal to 25% or a bank whose account with CBN was overdrawn and not covered on the next working day consecutively for five working days within a month, shall have its management invited for discussion on its plan to improve liquidity or request the bank to realize assets that do not qualify for inclusion in the liquidity ratio compilation. Also a bank that records liquidity ratio equal to or less then 10% and is unable to meet its maturity obligation, suffers clearing operation losses for 15 continuous days or up to 20 days during a calendar month shall have its management in or board charged. Also such bank stands suspended from clearing until it makes good its clearing position".

The above measures by CBN is to ensure adequate liquidity to meet up with customers deposit withdrawals as well as demands for loans. The interest earned from loans granted help for the growth of the banks. The various concepts explained above seek to reconcile the bankers' Trion objectives of liquidity and profitability. According to Marshall and Swanson, (1980); the real bill doctrine emphasizes the need to balance the maturity structure of assets against deposit

liabilities. The other concept provided an alternative ways of resolving the liquidity question without being unduly constrained by the maturity patterns of loans.

2.4.4 **Profitability**

Profit maximization is the primary objective of all business organizations banks as one of the profit oriented organizations tries to maximize profit by minimizing costs, risks and bank loan loses which eventually turns bad. Profits enhance the growth and expansion of any bank and it does constitute retained earnings and dividends. Dividend is the proportion of profit given to share- holders usually at the end of accounting period as returns on their investment. What makes up this profit in lending or credit facilities offered is the rate of interest charged by the banks. So if the banks are able to recover the principal plus the interest charged, then profit is declared as a result of the loan recovered.

2.4.5 **Bad and Doubtful Debt in Banks**

Bad debts are those credits/loans granted to customers by banks in which the customers are unable to repay. In

other words, they are debts owed the banks by customers which are not only uncollectible but also unpayable. Bad debts have over the years brought colossal losses to banks and it has been identified as one factor that is responsible for the recent spate of distress in the banking sector. In spite of all the efforts by the monitoring authorities at observing lending principles and putting in appropriate lending or credit policies, bad debt remain a serious problem of the banking sector.

2.5 CREDIT/LENDING POLICY FORMULATION

The management of any loan should start with the credit policy. The term "Credit policy" refers to those decision variables that influence the amount of credit given out to customers. The formulation of which is the responsibility of the bank directors and management. It entails establishing guidelines which incorporates the extent of any discretion or authority delegated to the various executives and officers charged with credit administration. It thus set out rules which form the basis for subsequent monitoring. Crosse, (1962:191),

pointed out that a "well – conceived lending policies are essential if a bank is to perform its credit. Creating function effectively and minimize the risk inherent in any extension of credit". The credit (Loans and Advances) are affected by economic conditions, industry norms, change in technological, competition etc. the banks have no control on factors such as economic condition, industry norm, competitions etc but can certainly influence the level of credit facilities to be given out through its credit policy within these constraints imposed externally. The credit policy of any organization may be lenient or stringent one depending on its approach.

i. **Lenient Credit policy**

Banks or firms operating a lenient credit policy tends to give credit facilities to customers very liberally that is credits are granted even to those customers whose credit worthiness are not known or is doubtful. Banks with this policy tends to have higher or a number of customers patronizing them, which in turn incur/record higher or more

bad debt losses which affects the growth and profitability of the bank and also face the problem of liquidity.

ii. **Stringent Credit Policy**

These are banks or firms who are very selective in extending credit or loans. They offer credit facilities to there customers who have proven credit worthiness.

The banks or organizations with stringent credit policy follow tight credit standard and terms and as a result, minimize cost, risks, and chances of bad debts and problem of liquidity. In Nigeria, credit policies of banks must fall within the provisions of the regulatory/legal environment of bank lending. Policy decisions should address lending issues like the kind and number of loans a bank will give, to whom and under what circumstances. Onwughara (1992), enumerated factors, other than the legal/regulatory ones that need to be taken into consideration in formulating lending policies as follows:-

i. **Structure of Deposit and Loan Maturity Profile**

There should be proper matching of deposit to loan maturity to avoid the embarrassment of liquidity problem or cash squeeze of not being able to meet depositors' withdrawal. According to him, it is a bad policy to lend long when the bank's deposit base is short-term in nature. Current account deposit for instance, is very volatile and it would be imprudent to use it to match long-term lending. In formulating a lending policy therefore, the bank should have a good knowledge of its deposit structure.

ii. **Repayment**

While taking cognizance of the Monetary and Credit Guidelines, the banks' lending policy should spread their risk over short, medium and long-term credit.

iii. **Interest Rate**

In credit policy formulating, the bank should determine its average cost of funds which would form the basis for determining both deposit and lending rate. The 1992 guideline provides for maximum spread of 5% between the banks

average cost of funds and their lending rate which implies that the maximum lending rate of a bank would be the average cost of funds plus 5%. This forms the basis for determining the bank's prime lending rate. As per the government's fiscal policy of 2004, the interest on bank lending was based on an average of 12% discount rate.

a. **Security**

Lending policy should state maximum amount that can be lent unsecured and the type of securities that are acceptable for other credits in excess of the unsecured limit.

b. **Disbursement Condition and Covenants**

The policy should be clear in the conditions and covenants that must be met before disbursement of a loan take place.

c. **Control**

A well articulated policy should aim at effective administration and control of credits. To achieve this, lending limits should be delegated to committees and responsible

officers while sanctions are also clearly spelt out for violation of delegated lending limit.

Crosse, (1962); is of the view that in formulation of sound lending policies, the following factors should be given due consideration; According to him, the starting point of loan policy should be knowledge of the legitimate needs of the community or credit markets which the bank serves or intends to serve. The important is that bank credit should further the stability and growth of the community or the economic well-being of its inhabitants. The issue of Monetary and Credit Guidelines by the Central Bank of Nigeria annually is aimed at enforcing this important consideration so as to channel bank credits towards the overall economic growth and development of the country.

The next task of bank management according to him (Crosse) is to appraise the bank's willingness and ability to meet customer needs. The banks ability to grant loans, given adequate liquidity and capital protection, is limited only by the volume of its relatively stable deposits, that is, time and saving deposits.

Determining the character of loans is another consideration in credit policy formation. A bank's lending or credit policies are in effect "screening" devices by which the Directors and Management seek to establish the kind and character of loans they feel their bank should make. It means therefore, that the character of a loan should take precedence over its form. The bank should, as a matter of policy establish ceiling on the various forms of lending which in Nigeria is guided by the Provision of the Monetary and Credit Guidelines. In determining the character of loans, Crosse proposed 3Ps of policy;

1. Payment
2. Purpose
3. Protection

Payment, he advocates, should be a basic premise of a bank's lending or credit policy taking the means and timing of repayment into considerations. Loans and advances should be made when a borrower agrees in advance to a repayment programmed related to a realistic appraisal of his ability.

Purpose for which loan proceeds is to be put, is considered to be important in credit policy because without knowledge of it, the banker cannot know whether the money he lends will produce income or profit to repay the loans and cannot relate the repayment programmed to the nature of the transaction. Beside, the form of monetary policy is sometimes to restrict credits or to channel credits to a particular sector of the economy, and knowledge of the purpose of loan application will assist the banker in the landing decision so as to comply, therefore requires that the purpose be disclosed.

Protection constitutes the third element in determining the character of loan. The importance of protection is derived from the responsibilities which a bank owes to its depositors and shareholders. Bank management need to take every possible precaution to obtain adequate protection from the borrower so as to have something to hedge on and minimize losses in the event of default which resulted in low profitability which subsequently affect the growth of the bank.

2.6 CRITERIA FOR LOAN/CREDIT DECISION AND ITS EFFECT ON PROFITABILITY

Lending always involves some elements of risks stemming from circumstances which result from the non-payment of the loan obligation when they fall due. As non-payment of loans and advances by customers when they fall due has serious implications on the bank and even the society, there is the need for proper Credit Analysis to assist in lending/credit decision.

Credit Analysis

The purpose of credit analysis is to identify and weigh all the events that may prevent the repayment of a credit in the future and by implication the capacity of the borrower to repay the facility. The analysis must therefore focus on the capacity of the borrower to repay.

The evaluation of all credit proposals submitted to the bank must be based on a well written analysis which must be brief and concise. The length and depth of a credit analysis is dependent on the complexity of the transaction, client's

financial condition, the degree of risk involved as well as whether it is a new proposal or a renewal of an existing credit or an interim or annual review. The extent of the analysis is also dependent on the risk rating. Generally, credit analysis should not be a mere re-arranging of fact or figures as obtained from the customer, rather, it must be a reflection of the relationship managers view of the risk inherent in the package based on the thorough understanding of the request, as well as it's financial performance. According to Weston and Copeland, (1988); there are five (5) C's of credit that managers should consider in the evaluation of Credit Risk. These are Character, Capacity, Capital, Collateral and Condition which they explained thus;

i. **Character**

Has to do with the ability of a customer to try and honor his obligations. The importance of this is the fact that every credit transaction must have a promise to pay.

ii. **Capital**:

It's measured by the general financial position of the firm as indicated by financial ratio analysis, with special emphasis on the tangible net worth of the enterprise or individual.

iii **Collateral**

It's represented by assets offered by the customer as a pledge for security of the credit extended.

iv. **Condition**

This has to do with impact of general economic trends on the firm or special developments in certain areas of the economy that may affect the customer's ability to meet the obligation.

v. **Capability**

This has to do with the capability of the borrower to repay back the loan. Mather, (1972); identified three basic principles behind lending/credit which are:

1. Safety
2. Suitability
3. Profitability

Safety:

The loan must be safe, which means that it should be granted to a reliable borrower who can repay from reasonable source within a relatively short period. The liquidity of the advance in the ordinary course of business should be supported by the deposit of security as an insurance against unforeseen developments.

Suitability:

This is concerned with ensuring that lending is concentrated on purposes which are desirable from the standpoint of the economic health of the nation.

Profitability:

To test credit facility proposal along these lines, the following factors needs to be considered:

i. The borrower

ii. The business of the borrower

iii. The capital resources of the borrower

iv. The amount required

v. The purpose of the advance

vi. The sources of repayment

vii. The security

viii. The profitability

Ahmed, (1991); summed up the criteria thus; “the most crucial consideration in lending /credit is the twin elements of Trust and Confidence; trust is the viability and profitability of the proposition or project and confidence in the manager or promotes sponsoring it. As a matter of fact, all text books discussions on the cannons of lending are no more than mere analysis of factors employed to ascertain the existent or absence of these two important elements.”

As pointed out earlier, the objective of credit analysis is to minimize the possibility of loan losses which in turn affects the profitability; hence the analysis must be rigorous and thorough.

When a loan proposal is not objectively scrutinized, the possibility of defaults is high. This view is supported by Mabogunje (1993:1), when he said; “A good Manager should not give out Kobo that will stretch the funds at the disposal of the bank. In a situation where the deposits of members of a

community were recklessly given out as loans to friends and relations or cornered by the directors of the bank does not augur well for healthy banking".

A quantitative approach to credit evaluation was developed by Cohen, Gilmore and Singer, (1966); they developed a computer model that was intended to simulate the decision process of a loans/credits officer in processing loan application. One part of this process was analyzing the credit rating of the applicant. To do this, they utilize historical and perform financial information to compute several ratios which were compared with industry parameters. These ratios were:

i. Network to Total debt
ii. Funds for debt services to funds provided by operation using three year average.
iii. Liquidity measures such as cash to current liabilities, cash plus receivables to current liabilities, current inventory to three year average inventory.
iv. Profitability measures such as three year average of net profits and trend in net profits.

Though the study did not directly estimate a loan risk function, the financial ratios identified were used in estimating loan risk in their simulation of the lending process.

In their own contribution, the National Association of Bank Loan and Credit Officers in United States of America issued a publication in 1964 listing seven financial ratios as predictors of failures and, therefore, to be utilized in credit analysis to avoid loan losses as a result of poor analysis. The ratios identified were:

i. Quick Assets to Networth
ii. Current Assets to Networth
iii. Fixed Assets to Networth
iv. Total Debt to Networth
v. Sales to Receivables
vi. Cost of Sales to Inventories
vii. Sales to Networth.

2.7 **RATIOS**

A financial statement ratio is computed by dividing the naira amount of one item reported in the financial states by the naira amount of another item reported. The purpose is to express a relationship between two relevant items that is easy to interpret and compare with other information. The relationship between two items can be more easily compared to other standards, such as, for example, the current ratio of other companies, or industry-wide ratios and could be converted to a percentage by multiplying the ratio by 100.

Ratios are classified according to their evaluation of firms;

i. Profitability.

ii. Liquidity.

iii. Solvency.

2.7.1 **Profitability Ratios**

Profitability analysis consists of test to evaluate a firm's earning performance during the year. The results are combined with other data to forecast the firm's potential earning power. Potential earning power is very important to

long-term creditors and shareholders because, in the long run, the firm must operate a satisfactory profit to service. A firm's financial soundness depends on its future earning power. Adequacy of earning is measured in terms of the relationship between earnings and either total asset or common stockholders' equity, the relationship between earnings and sales, and the availability of earnings to common stockholders.

i. **Rate of Return to Total Assets**

The rate of return on total assets is determined by dividing the sum of net income plus after tax interest expense by average total assets for the year and is computed as follows:

$$\text{Return on total assets} = \frac{\text{Net income + Interest Expenses (Net of Tax)}}{\text{Average Total Assets}}$$

ii. **Rate of Return on Common Stockholder's Equity**

The return on total assets does not measure the return earned by management on the assets provided by the common Stock holders. This is because the returns to common stockholders may be greater or less than the return on the total assets due to the use of financial leverage. If a bank is able to earn on the borrowed funds (Preferred stock) then the fixed amount that must be paid to the creditors or preferred Stock holders, the return to the common stockholders will be greater then the return on total assets. If the amount earned on the borrowed funds is less than the fixed interest and preferred dividend, the return to the common stockholders will be less than return on total assets. Thus, the return is computed as;

Return on com. stockholder's equity

$$= \frac{\text{Net Income} - \text{Preferred Divided Regd.}}{\text{Average Common stockholder's Equity.}}$$

iii. **Return on Sales**

The Return on sales is also called profit margin is calculated from the Income statements. Thus computed as follows;

$$\text{Return on Sales} = \frac{\text{Net Income}}{\text{Net Sales}}$$

This method helps in determining the increase or decrease in profitability of a bank by following the trends of sales.

iv. **Earning per Share**

The calculation of Earning Per Share (EPS), help in determining the performance of a bank. The ration is commonly used to compile earnings data for the press and for statistical services. This converts the absolute naira amount of net income to a per Share amount. It is computed as follows:

$$\text{EPS} = \frac{\text{Net Income} - \text{Preferred Dividend Regd}}{\text{Average number of common shares O/S}}$$

The general accepted accounting standard requires that the EPS must be disclosed on the face of the income statement.

v. **Price – Earnings Ratio**

The Price – earnings ratio (P/E ratio) indicates how much investors are currently paying for each naira of earnings. This helps investors to compare the markets value of one common stock, relative to earnings to that of other companies. It is computed thus;

$$\text{P/E Ratio} = \frac{\text{Mkt price per share of common stock}}{\text{Earnings per share}}$$

High P/E stocks are associated with companies with prospects of high earnings growth, where as more stable firms or banks have low P/E stocks for example, in the late part of 1999 and early 2000, Banks associated with high – information technology generally had a high P/E ratio such as Guaranty Trust bank Plc., First Bank Plc. etc.

vi. **Dividend Yield**

This is normally computed by inventors who are investing in common stock for the purpose of dividends not for appreciation in the market price of the stock. The % indicates a rate of return on the naira invested and permits easier comparison to return from alternative investment opportunities. This computed as;

$$\text{Dividend Yield} = \frac{\text{Annual Dividend Per share of Common Stock}}{\text{Mkt price per share of Common Stock}}$$

vii. **Dividend Payout**

For investors who invested in dividend Yields may also compute the percentage of common stock earnings distributed as dividends to the common stockholders each period and the ratio is called the dividend payout ratio. Computed as:

$$\text{Dividend Payout} = \frac{\text{Total dividends to common stock holders}}{\text{Net Income} - \text{Preferred dividend Regd.}}$$

This ratio provides investors with an insight into Management's policy of distributing dividends as a % of net income available to the common stockholders. A low payout ratio would indicate Managements reinvesting earnings

internally and such banks will be desirable for an investors interested in investing for growth in the market price of the share while a bank with high payout ratio will interest an investor that depends on the divided as a source of income.

2.7.2 **Liquidity Ratios**:

Liquidity is an important factor in financial statement analysis, because it shows the ability of a bank to meets its short – term obligations. A bank that can not meets its short – term obligation may be forced into bankruptcy and, therefore may not have the opportunity to operate in the long –run.

We shall discuss on the following

i. Current Ratio

ii. Quick Ratio

iii. Receivable Turnover

iv. Inventory Turnover

i. **Current Ratio**

Current Ratio is the must commonly used measure of firms or bank's liquidity and Creditors Managing Safety, is computed as;

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current Liabilities}}$$

A low ratio may indicate that the firm would be unable to meet its short-term debt in the emergency and a high ratio is considered favorable to creditors, but may indicate excessive in vestment in the working capital items, such as holding short-selling inventory items, that may not be producing income for the firm. A bank with a ratio 1:1 may have a difficult time meeting its short-term commitments.

(ii) **Quick Ratio**

The quick ratio is also called the acid test; this provides rigorous measure of liquidity of a bank/firm. Thus completed as

$$\text{Quick Ratio} = \frac{\text{Cash + Mktable Securities + Net Receivable}}{\text{Current liabilities}}$$

The higher the ratio, the more liquid the bank is considered and the lower the ratio, the more unable the bank to meet its immediate obligations.

(iii) **Receivable Turnover:**

The receivable turnover ratio measures how many times the average receivable balance was converted to cash during the year and it also measure how efficient the bank credit-granting and collection policies are. It is computed thus;

$$\text{Receivable turnover} = \frac{\text{Net Sales}}{\text{Average Receivable}}$$

The higher the receivable turnover ratio, the shorter the time period between recording a sale and collecting cash.

(iv) **Inventory Turnover.**

The inventory turnover ratio is a measure of the adequate of inventory and how efficiently it is being managed. The ratio is an expression of the number of times the average inventory balances was sold and then replaced during the year. Thus, the ratio is computed.

$$\text{Inventory Turnover} = \frac{\text{Cost goods sold}}{\text{Average Inventory}}$$

2.7.3 Solvency Ratios

Financial leverage (such as issuing bonds) is used by firms to finance a portion of it assets with fixed charge security and is repayable with interest on specified dates. If firms fail to meet these commitments, the bond holders can force the bank/firm, into bankruptcy.

The following ratios are used to analyse the firm's ability to meet up with its long-term commitments and still have sufficient working capital left over to operate successfully;

i. Debt to Total Assets

ii. Times Interest Earned

i. Debt to Total Assets (Debt Ratio)

The ratio of debt to total assets, also known as debt ratio, is a measure of the relationship between total liabilities and total assets and is computed thus;

$$\text{Debt to Total Assets} = \frac{\text{Total liabilities}}{\text{Total assets}}$$

A high debt to total assets ratio indicates a greater risk of default and less protection for the creditors. This percentage is important to long term creditors and stockholders, since the creditors have a prior claim to assets in the event of liquidation.

ii. **Times Interest Earned.**

The times interest earned ratio is an indication of the bank's/firm's ability to satisfy periodic interest payments from current earnings, this is thus computed as:

$$\text{Times interest earned} = \frac{\text{Net income + int. exps + income tax exps}}{\text{Interest expenses.}}$$

Interest expenses and income taxes are added back to net income in the numerator, because the ratio is a measure of income available to pay the interest charges.

Securities for Bank Loans and Advances

In granting loans and advances, banks generally require some form of security on which to hedge on in case the customer defaults in liquidating his loan obligation. Nwaeze, (1988); explains that security for bank loans and advances are in form of tangible assets, guarantee, stocks, shares and such other items of commercial values that can be sold for cash in case of defaults. He opined however, that the best security is the financial viability of the business to generate profit, meet commitments as and when due, yield reasonable returns on capital and adequate liquidity for operation. Adeniyi, (1992);

Contend that, the type of security to be obtained by banker depends on the amount of the credit, the duration of the repayment and the nature of the transaction. He identified securities acceptable to consist but not exclusive of the following:

i. Title to land (as evidenced by deeds of conveyance, leases, assignments or certificate of occupancy)
ii. Stock and Shares

iii. Life Insurance Policy.

iv. Vehicles and Chattels

v. Promissory Notes.

vi. Company Assets (Comprising of Stock In – Trade, debts, Raw Materials, goods in the process of manufacture, factory site, plants and machineries).

vii. Personal and corporate guarantees.

viii. Domiciliation of payments from the bank's list of acceptable counterparties.

ix. Charge on fixed deposits.

x. Trust Receipts.

2.8.1 **Characteristics of an Acceptable Collateral**

For bank to consider collateral acceptable for lending, it must possess the following minimum attributes thus;

a. It must be valid, good and easily determinable

b. It should have ascertainable value, which is stable and not subject to undesirable downward valuation.

c. The security should be marketable and readily realizable without undue cost or difficulties

d. It should be devoid of any cases of encroachment or encumbrances.

e. There should be a good margin between the value of the security provided and the amount of facility being bought.

It is worthy to note that it is the type of security that determines the types of Legal documentations and process of perfection which are fundamental for enforcement in case there is default. For enforcement of the security to take place by the legal dept, then any of the following events has to occur;

i. Default in payment after call – up.

ii. Where the borrower enter into composition with other creditors (i.e appointment of administer or receiver).

iii. Where a resolution is passed for the winding- up of the company.

iii. Where the debtor company or any subsidiary ceases or threatens to cease to carry on business.

iv. Breach of any of the covenants governing the facility.

v. Where the security is in jeopardy.

Adekanye, (1987); Summed up the issue of security thus; The ability to produce tangible security is not the most important criteria for granting credit facilities, as the offer of security does not weaken the need for a thorough evaluation of proposal. This does not mean that security is not important. After the bank Manager has thoroughly evaluated the proposal, he is able to assess what risks the bank runs in lending to that customer. It is upon this assessment that he basis his request for security. So that to safe guard the facilities and bank losses which in turn affect the profitability.

2.8 **Loan Review, Monitoring and Evaluation.**

This constitutes an important element of loan management. An effective monitoring and supervising of loans granted minimize the incidence of bad debt and hence

increases the profitability and growth of the bank. It involves keeping a close watch in the health of the borrower. Monitoring is an important aspect of credit administration. It is the easiest means of detecting any error of judgment committed during the appraisal and granting of loans and advances. It gives the signal that a rightly analyzed loan and advances is moving towards derailment. Etloite (1989), argued that however competent a manager is in his lending practices, bad debt will arise or the repayment of a loan and advance will become doubtful from time to time will eventually affect profitability. He pointed out that bad debts pass through doubtful stage prior to a real loss of money occurring and that there are lots of reasons for lending becoming unsatisfactory. These reasons according to him include;

i. Customers not being able to manage their business efficiently,

ii. A principal member of the company dying

iii. A falling demand for good or services

iv. Excessive drawing by the proprietors of the business or

v. Failure to live within their means and even adverse whether condition working against a particular business.

He suggested that to prevent the must possible situations occurring while allowing the customers every reasonable chance to get out of their difficulties, the manager must lean to recognize early signs of potential bad debts.

The following procedures shall be adopted in the monitory process;

a. **Plant Visitation**

This gives the monitoring officer a first hand and greater insight into the customers operations which might not be captured in financial and other reviews conducted in the office.

b. **Credit Reviews**

The objectives of the reviews would be to come up with the true and correct picture of the accounts and credits at the time of the review and also the likely picture thereafter.

The review must therefore address credit quality, compliance with approved terms and conditions, the security

position and the profitability of the account. Regular monitory and supervision of loans granted to customer Ahmed (191:26), pointed out " enables one to take immediate steps to either rectify anomalies resulting in such incident or take whatever action is deemed legally expedient or necessary to minimize imminent losses". Sadiku, (1992); further enumerated the following tools for monitory loans and advances granted to customers.

i. Daily accounts balances: this entails checking the customer's ledger or accounts at frequent internals

ii. Audited and management accounts of the borrower: is also a useful aid in monitory the financial health of the borrower with such accounts, the lender can check and compute relevant figures such as

   a. Sales turnover

   b. Net profit to sales

   c. Retained earning

   d. Net cash generation

   e. Gearing

These figures could be compared with the industry figures or parameter so as to make judgment of how the customer is fairing. He opined that an efficient monitory system will dictate the types of supervision that should be given to various segments of the loan portfolio and this will help in early identification of problem loans.

2.10 **POLICY ON LOANS CLASSIFICATION (BAD ANDDOUBTFUL DEBT) AND RECOVERY PROCEDURE.**

The risk of defaults of bank loans is inherent in every loan facility granted. a customer monitory and supervision as pointed out in the previous section will assist in its early detection. The monitoring exercise which are normally performed by loan officer, bank controllers, auditors and bank examiner's will help the risk classification of the bank loans.

2.10.1 **Management of Problem Loans**.

A loan that has not yet been fully repaid stands the chance of not being paid all as a result of a combination of factors both exogenous and endogenous to the obligor. Therefore, a major element of a Bank's credit process is the

monitory of loans and advances and the early identification of potential bad loans.

Generally, problem loans management included policies on:

a. Identification and Management of bad loans

b. Provision for loan loss

c. Loan charge-off

The above policy serves as operating guidelines for the treatment of loans of doubtful value. The major objective of the policies on problem loans is to:

a. Ensure that potentially bad loans are promptly identified

b. Put in place appropriate rescue procedure to minimize or eliminate potential losses from problem loans.

2.10.2 **Causes of Problem Loans**

The following are the causes of problem loans:

1. Poor analysis of the risk and incomplete knowledge of the borrower
2. Inadequate documentation

3. Inadequate monitoring.
4. Bad management of the account.
5. Adverse external factors such as economic problem and changes in government policies and other regulatory factors,
6. Political instability.

2.10.3 **Basis for Classification.**

The basis of classification is strictly guided by the Central Bank of Nigeria (CBN), Prudential Guidelines. In line with provision of the CBN Prudential Guidelines of November, 1990 a credit facility is:

a. **Non-performing**: A loan should be classified when;
    i. Interest or principal is due but unpaid for 90 days or more.
    ii. Interest payment equal to 90 days interest or more have been capitalized, rescheduled or rolled over into a new loan as a result of the obligor's ability to pay.

b. **Performing Credit**: A loan should be classified performing when payment of both principal and interest is up-to date in accordance with agreed repayment terms. Non-performing facilities are further classified into three categories as follows:

1. **Substandard:**

This refers to facilities on which un-paid principal and/or interest remain outstanding for more than 90 days but less than 180 days,. Also to be classified substandard are credit facilities which display well defined weaknesses which could affect the ability of borrowers to repay such as:

i. Inadequate cash flow to service debt.
ii. Under capitalization or insufficient working capital
iii. Absence of adequate financial information
iv. Collateral documentation
v. Irregular payment of principal and /or interest
vi. Inactive accounts where withdrawals exceed payments or where payments can hardly cover interest charges.

2. **Doubtful**:

This refers to facilities on which unpaid principal and /or interest remain outstanding for at least 180 days but less than 360 days and are not secured by legal title to leased assets or perfected realizable collateral in the process of collection or realization. Also to be classified doubtful re facilities which in addition to the weakness associated with substandard credit facilities reflect that full repayment of the debt is not certain or that realizable collateral values will be insufficient to cover the bank's exposure.

3. **Lost**:

Facilities on which unpaid principal and /or interest remain outstanding for 360 days or more and are not secured by legal title or perfected realizable collateral in the course of collection or realization.

2.10.4 **Recovery of Bad Accounts**

When a debt becomes bad or doubtful of recovery due to any reasons including the reasons stated in 2.6.2 above, or if despite best intentions and efforts a debt starts to show signs

of going bad, the first issue for consideration by the bank concerned is recovery.

This commences with the listing of a problem loan on the bank's watch list. Thereafter, the bank's standard demand that letter structured by the legal officer on the problem loan account is to be written to the borrower, requesting prompt liquidation/settlement of the borrower's indebtedness to the bank and threatening legal action in the event of default or realizing the bank's security. This letter must be duly acknowledged with the company's stamp and receiving officer's signature, if possible, any of the company's authorized signatories is to sign and receive such a letter. If the loan account is not settled after a specific period of time, a reminder could be sent to the borrower at the legal depth option referring to the initial demand letter and demanding for the repayment of the bank's facilities with a DEADLINE to be determined by the legal officer, failing which the bank shall proceed to realize its security or commerce appropriate legal actions.

2.11 **SUMMARY**

The Chapter reviewed some related literature on the subject matter by considering the position of loan and advances in Nigerian banks, types of credit facilities offered by the banks as well as the loan management concepts in Nigerian banks. The chapter went ahead to discuss the issue of profitability and bad debts and their effects on the management performance of the Nigerian banks. Also discussed were the credit policy formulation, credit analysis, criteria for loan decision, loan review and monitoring, management of problem loans, policy on classification of bad and doubtful debts, recovery of bad accounts and their causes.

CHAPTER THREE

RESEARCH METHDOLOGY

3.1 INTRODUCTION:

Research by definition is the process by which problem are solve through a planned and systemic collection, analysis and interpretation of data. According to Nlewedin, (1987); research is a "diligent inquiring or investigation carried out for the purpose of discovering new knowledge. Thus, it is a man's way of discovering new knowledge and spreading the knowledge to promote the progress and development of his environment". However, for any problem to be solved, data concerning the subject matter must be gathered and evaluated to generate the relevant information.

This Chapter therefore is devoted to explaining the Research Method, method of collecting and analyzing the data needed for this study and justification of the methods and techniques used.

3.2 **RESEARCH METHODS**

Research methods therefore, refer to these natural and scientific means, modes and process of finding facts. These methods include Historical, Descriptive, Experimental and Survey Methods (Osuala, 1983).

3.2.1 **HISTORICAL RESEARCH METHODS**

This method interprets past trends of attitudes, events and facts. History is any integrated narration or description of past events or facts that have been written in a spirit of critical inquiry for the whole truth, Osaula (1982:137).

Historical Research deals with the determination, evaluation and the examination of past events for the purpose of obtaining clearer understanding of the present and making reliable prediction about the future. It is unique because based on historical data, it is based on already accumulated facts. It provides us with a greater appreciation of the role of culture, the role which new knowledge can play in the progress of the society and a hypothec for the solution of current problems.

Historical source of data may be classified into two namely:

a. Documents: are usually written

b. Relics: are generally archaeological or geological remains such as tools and utensil.

One main merit of historical research method is that it aids in avoiding the repetition of mistake made in the past and one major disadvantage is that most events that occurred in the past are no longer reliable (or relevant) to be used as a bases for generalizing present events. This is as a result of the dynamic nature of most activities.

3.2.2 **DESCRIPTIVE RESEARCH METHOD**

This research method specified the nature of the given phenomena. It is concerned with the collection of data for the purpose of describing and interpreting existing conditions. However, the central purpose of this research method is the discovery of meaning. Descriptive research gives s a clear picture of a situation. A consideration of a phenomenon according to Osaula (1982:145), generally begins with a full

understanding (description) of the phenomena. However, descriptions are imperative for making a wide range s of policy of decision.

Descriptive research is a basis for all types of research in assessing the situation as a prerequisite to inferences and generalization. While descriptive research is a prerequisite for finding answer to questions, it is not in itself sufficiently comprehensive to provide answers to problems.

To this end, this kind of research (or research method) assumes a key role in the intermediate process enroute to final generalization since the ultimate goal of scientific research is the deduction of generalizations that provides the basic for prediction making.

3.2.3 **Experimental Research Method**:

This is a kind of systematic and logical procedure of identifying and evaluating the functional relationships that exist among phenomena under controlled conditions. The purpose of experimental research is to derive verified functional relationships among phenomena under controlled

conditions. More simply and according to Osaula (1982:154), the purpose of experimentation is to identify the conditions under laying the occurrence of a given phenomenon or events. From operational point of view, it is a matter of varying the independent variables. Experimentation is the most scientifically sophisticated method. It is often confirmed with the scientific method by layman who equates experimentation with physical sciences and further equates the physical sciences with sciences itself.

One major advantage of this kind of research method is that it offers the researcher an opportunity to improve the conditions under which he observes and, thus, to arrive at more precise results. A limitation to this research method is that it becomes almost irrelevant (or unnecessary) if the problem under study cannot in any way be experimented. For example, some problems cannot be subjected to hypothetical test because of the nature. Instead assumption are employed in the study (i.e basic assumptions)

3.2.4 **Survey Research Method**

This is another kind or form of research but oriented mainly towards the determination of the status of a given phenomenon rather than towards the isolation of causative factor, survey research, studies both large and small population by selecting and studying samples chosen from the populations to discover the relative incidence distribution and interruption of social and psychological variables Osaula (1982:180). Survey is particularly versatile and practical, especially for the administrator, in that in addition to the identification of present conditions, it points out to present needs. They do not make the decisions for the administrator but they can make available to him, the information upon which he will make his decision. Survey research interprets, synthesize and integrate these data into implications and interrelationships. Facts finding aspect of the Survey are occasionally Semi clerical by nature. The method also avails the researcher, the ample opportunity of displaying ingenuity and scholarliness in the interpretation of data and in the understanding of their strengths this and weaknesses; their

interrelations and their implications. This research method is more realize in that it investigate phenomena in their natural State.

3.3 **POPULATION OF THE STUDY**

The population of the study includes all the commercial banks operating in the economy during the period covered in the study (They are 98 in number).

3.4 **SAMPLING TECHNIQUE**

The sample of the study is made up of 10 banks selected randomly for the total banks operating in the Nigerian economy.

3.5 **METHODS OF DATA COLLECTION**

In the conduct of this research work, data was collected from both primary sources and secondary sources of data collection. This is to make the research findings reliable and the research report reliable too.

a. **Primary Sources of data**

Primary data refers to those raw facts obtained directly from the object of study, that in the original sources, for a specific purpose. The primary sources of data were accessed

through the use of personal interviews, observation and questionnaires. The personal interview and questionnaires are similar in nature and purpose. In fact, the two methods do supplement or complement each other, depending on the nature of assignment at hand – Ackotti, (1973); In this research, we made a great use of this method of data collection.

b. Secondary Sources of Data

A great deal of data was collected from the Secondary Sources of data collection. The data collected were used to supplement those obtained from the primary sources. The Secondary sources of data employed in this research includes: available Textbooks, Journals, Newspaper, Magazines, Workshop materials, Seminar paper, Past researches, Websites, related to the topic under study etc.

3.5.1 Instruments of Research

This is also referred to as the method of data collection or data collection instruments. They are so called, because they assist in collecting, measuring and gathering of the data that

are essential for the successful conduct of a research work. However, care has been exercised in choosing the Instruments of research that was adopted for this works. This is due to fact that faulty instrument will lead to distorted, unreliable and inaccurate data. Therefore, the most qualitative and appropriate instruments have been chosen for the research project work at hand. Because of the sensitivity of the topic at hand, we employed the most appropriate methods or instruments that will clearly give appropriate or requisite data for the project work. We conducted interviews where necessary; inspected records in the banks understudy that will be relevant for the work. We also conducted documentation study to enable us gain background knowledge of the area of research. We consulted textbooks, Journals, Newspapers, Magazines etc. In addition to all the above instruments employed in the process of data collections, we also visited the Websites of the banks understudy as well other relevant sites on the internet in an attempt to get data required for the research as discussed in section 3.3.1D (ii –vii).

A. **INTERVIEWS METHOD**

This is a technique used for collecting information from others in a face – to – face arrangement. It is useful for obtaining valid and reliable information in the form of verbal responses in order to confirm or reject a hypothesis; four types exist here namely;

i. **A Structured Interviews**:

Is the one in which questions are rigidly standardized and formal. The same questions go to all respondents in the same order and the restricted choice of response retracted to a pre-determined list.

ii. **Unstructured interviews**:

Is the one in which questions are flexible and with few restrictions on answers. Respondents are free to express their thought and order of questions which are alterable to suit the situation.

iii **Non-directive Deep Interview:**

In this case, instead of asking direct or prepared questions, respondent are allowed to talk freely and fully on a popular topic.

iv **Focused Interview**:

In the case, the respondent is asked to focus his attention on a particular event or experience.

B. **QUESTIONNAIRE METHOD**:

A questionnaire is a research instrument which comprises of carefully designed question for the various respondents to answer. Questionnaires are self administered from the stand point of the respondents. It is usually accompanied by a covering letter which states the purpose of study and perhaps the use of the finding. Most questionnaires carry a promise of confidentiality and anonymity.

The questionnaire could be distributed directly or mailed to the respondents. In any of the cases, the questions should;

i be simple
ii not be technical
iii not involve calculations or tests of memory.
iv not be personal, offensive or misleading.

The questionnaires should be as short as possible, have simple answer categories and questions should be asked in a logical order.

C. DOCUMENTATION/RECORDS INSPECTION

This instrument of data collection involves reaching through records and documents which relates to the study. The researcher went through standard textbooks, Magazines, Seminar papers, Annual reports and accounts of banks under study, CBN and other Regulatory Guidelines and Regulatory Circulars Newspapers, Statistical Summaries, Hand books workshop materials etc. The researcher visited websites of banks under study as well as other sites relevant to the topic under study. A great deal of data was collected from the following websites;

i. WWW. alta vista.Com
ii. WWW. google. Com
iii. WWW. first bank Nigeria. Com
iv. WWW. jup. Com
v. Epnet.
vi. WWW. Hallmark bank PLC. Com
vii. WWW. Standard trust. Com. Etc.

3.6 **METHOD OF DATA ANALYSIS**.

Data analysis refers to the strategies and procedures for exploring and summarizing relationships among the variables on which data have been collected. Thus the analysis of data is a means of answering research questions and testing the hypothesis stated. Therefore, analysis can be defined as the systematic breakdown of data into its constituent parts, making interpretation, drawing inferences which are pertinent to the research relations studied and conclusions made about them.

We shall, therefore, discuss some of the methods of analyzing the data colleted from the study. A number of statistical methods can be used in an exercise of this nature, which seeks to determine relationships and establish trends. Such statistical technique includes Correlation analysis, Regression analysis, Chi-Square, Kruscal-Wallis, SPSS and Ratio analysis.

3.6.1 **Correlation Coefficient Analysis.**

Correlation simply deals with the extent to which two variables are related. To establish this, an index of relationship between two variables called correlation coefficient must be determined.

In order to do this, we used the Pearson Product Moment Correlation Coefficient or Spearmen Rho Correlation Coefficient.

In order to establish the relationships and trends between the variables interest earned on Loans (X) and Total Loans (Y) or Interest earned on Loans (X) and Gross Income (Y), and so on, the following techniques were used;

(a) **The Pearson Product-Moment Correlation Coefficient**

The Correlation Coefficient (r) can be determined using the formula;

$$r = \frac{Z\ X\ ZY}{N}$$

It involved the conversation of the score for variables X and Y into standard Scores or Z Scores and computing the product of each pair. The product are then summed and divided by the number of items (N). In order words (r) is the

sum of their Cross Products of two variables in the standard scores form divided by N. An alternative formula which uses only the observed X and Y scores is

$$r = \frac{N\Sigma XY - \Sigma X \Sigma Y}{\sqrt{\left[N\Sigma X^2 - (\Sigma X)^2\right]\left[N\Sigma Y^2 - (\Sigma Y)^2\right]}}$$

This Correlation Coefficient gives an indication of the nature of relationship between two variable X and Y. The sign of 'r' may be positive or negative and the absolute values or negative and the absolute values range from 0 to 1. While the sign indicates the direction of the relationship, the absolutes value shows the strengths of the relationship. The greater the absolute value, the stronger the relationship. If r = + 1, there is a perfect positive linear relationship between the variables X and Y and all the points (i.e exactly on a straight line with a positive gradient). Where r = -1, there is also perfect linear relationship between the variables X and Y but with a negative gradient.

A zero (i.e r = 0) Correlation Coefficient indicates a random scattering of points with no linear relationship at all.

b. **Spearman Rho Correlation:**

This is used where the level of measurement of either or both variables being correlated is Ordinal or Nominal and the formula is:

$$P_s = 1 - \frac{6\Sigma d^2}{N(N^2 - 1)}$$

Where D = Difference between the paired ranks

N = Number of penis ranks

3.4.2 **Linear Regression Analysis**

This is used monthly in prediction. It involves determining the regression line, which is a Mathematical Equation that can be used in the actual prediction of scores. The Mathematical Equation of linear function is of the form;

$$Y = bx + a$$

Where Y = predicted score

b = Slope of the line

a = Y intercept

x = Earned scores

This equation expresses a functional relationship between two variables say (X) for interest earned on loans and (Y) for totals loans.

The regression line is a line that describes a trend in the data such that a change in X will be reflected in an 'average' change in Y which is "fitted" to the data by Least Square Method. The method fits the line in such a way that the sum of the squared distance from the data points to the line is a minimum.

The formula for the slope 'b' and the Y intercept 'a' of the regression are

$$b = \frac{N\Sigma XY - \Sigma X \Sigma Y}{N\Sigma X^2 - (\Sigma X)^2}$$

and

$$a = Y - b\,x.$$

The slope 'b' is the regression coefficient while the intercept 'a' is called the regression constant.

3.4.3 **Ratios Analysis**:

This shows the relation between two variables determined by the number of times one contains the other. The calculation of such ratios over a period can be graphed to establish trends and useful in forecasting. For our data analysis, we utilized ratios to determine the Asset quality, by establish trends of classified loans to total loans. Also we utilized ratios to determine the liquidity ratio of the bank, by taken the loans advances to total assets or loans advances to total deposits. We also utilized ratios for profitability ratios determination in order to establish the relationship between the variables interest income (earned) to total loans and advances for capital adequacy, ratios are used to establish the relationship and trend between the Equity To loans and advances. The Pearson Product Moment Correlation Coefficients are used to determine the nature of relationship between Profitability and loans and advances.

3.7 **Justification of Methods and Techniques**

The methods and techniques adopted in data collection and analysis were easy to use and graphically interpreted. They show the trends and relationship between two variables during the period under study to allow a responsible conclusion to be drawn there from.

3.8 **Summary**

This chapter detailed the research methodology and the method and techniques used in data collection and analysis.

The data analysis using ratios, Pearson Product Moment Correlation Coefficient to establish trends and relationship between variables were discussed. The methods used in data analysis were easy to use and graphically interpreted to allow us draw a responsible conclusion on the study.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the analysis of the data collected on the effects of loans and advances on the performance of the Nigerian banks, especially, as it relates to their profitability. The chapter presents the data colleted and analysis made on bank to bank performance, and finally a general observation made.

4.2 Analysis of Profitability; Loans and Advances

The analysis is presented in tables 4.1 to 4.8 for each bank. The analysis centered on the Analysis of Variance (ANOVA) and the Pearson's Product Moment Coefficient Correlation.

The table below presents the period covered in the study, the profitability of United Bank for Africa, and its loans and advances. These were used in the computations of the analysis of variance and the computation of the correlation coefficient as presented below.

Table 4.1: Analysis of UBA Plc.

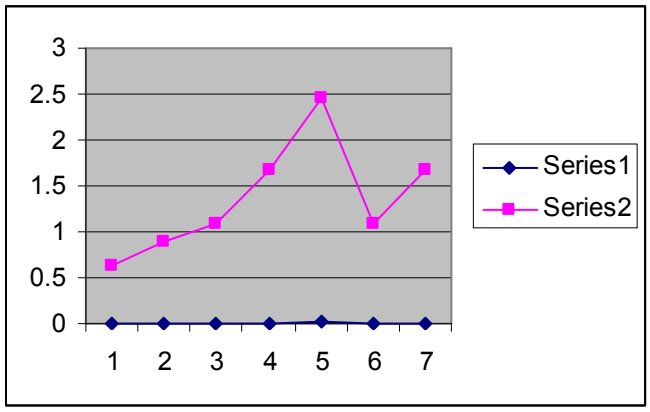
S/n	$P(x_1)$	$L(y_1)$	$P(x_1^2)$	$L(y_1^2)$	$P(x_1)\ L(y_1)$
1	0.00353	0.6220	1.2E-05	0.386884	0.002196
2	0.00944	0.8987	8.9E-05	0.807662	0.008484
3	0.00837	1.0761	7E-05	1.157991	0.009007
4	0.00134	1.6796	1.8E-06	2.821056	0.002251
5	0.01109	2.4614	0.00012	6.05849	0.027297
6	0.00837	1.0761	7E-05	1.157991	0.009007
7	0.00134	1.6796	1.8E-06	2.821056	0.002251
8	0.01109	2.4614	0.00012	6.05849	0.027297
9	0.03013	1.7325	0.00091	3.001556	0.0522
10	0.01183	2.3106	0.00014	5.338872	0.027334
	0.09653	15.998	0.00154	29.61005	0.167323

Source: Authors' Computation

The first column above shows the period of 10 years covered in the study, column 2 shows the profitability of the bank for the 10 years period while column 3 shows that loan and advances position of the bank for the same period. The Implication of the result shown above clearly indicates the positive relationship existing between the profitability of the banks with their loans and advances position. Furthermore, it translates to show that the management of loans and advances has a positive effect (relationship) with the profitability of the banks. Meaning the better the management of the loans and advances of the banks the better is the profit generated.

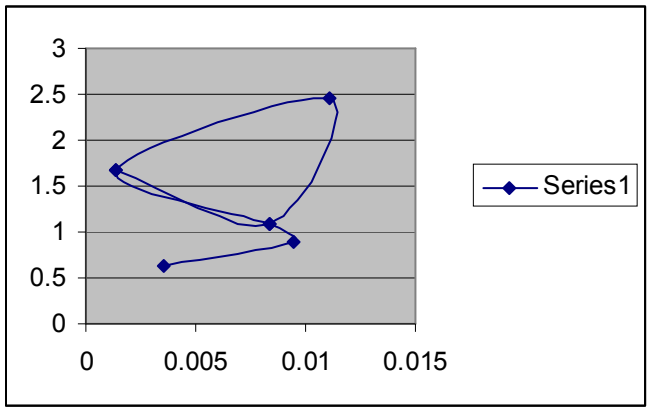
Presented below is a chart showing the effects of loans and advances management on the profitability of United Bank for Africa:

Chart 1: Showing the UBA Analysis



Furthermore, the chart above (chart 1) shows that there is a high correlation between the loans and advances granted by the bank and its profitability over the specified periods.

Chart 2: Showing the UBA Analysis



4.2.1 ANALYSIS OF VARIANCE (ANOVA)

Our interest here is whether or not there is any significant difference between the means. So to test for the difference between the means, we adopt the null hypothesis that is, Ho and then test the estimates of variances.

The calculation for ANOVA test is as follows:

1. Compute correction factor or term given by

$$C = \frac{G^2}{N}$$

Where G = Grand Total $=\sum T$
N = No. of observation

2. Compute the total sum of squares as 'ss' of deviation from the general mean; given by

$$SS = \Sigma x^2 - C$$

3. Compute the sum of squares for between varieties treatment; given as

$$SS_T = \frac{\Sigma T^2}{N} - C$$

4. Compute indirectly sum squares for error or residual, given by

$$SS_E = \text{General SS} - SS_T$$

Where, $\mathbf{SS_T}$ is the sum of squares for Tabulated
$\mathbf{SS_C}$ is the sum of squares for calculated

$$\mathbf{SS_T} = \sum_{i=1}^{n} \sum_{j=1}^{k} x^2_{ij} - \frac{T^2}{N}$$

$$\mathbf{SS_T} = (L_1^2 + L_2^2 + \text{---------} + L_{10}^2 + P_1^2 + P_2^2 + \text{---------} + P_{10}^2) -$$

$$(L_1 + L_2 + \text{---------} + L_{10} + P_1 + P_2 + \text{---------} + P_{10})/N$$

$$\mathbf{SSc} = \sum_{i=1}^{k} T_i^2 - \frac{T\ldots}{N}$$

$$\mathbf{SSc} = (L_1 + L_2 + \text{---------} + L_{10})^2 + (P_1 + P_2 + \text{---------} + P_{10})^2 -$$

$$(L_1 + L_2 + \text{---------} + L_{10} + P_1 + P_2 + \text{---------} + P_{10})^2/N$$

$$\mathbf{SSe} = \mathbf{SS_T} - \mathbf{SSc}$$

$$\mathbf{Fc} = \frac{\mathbf{S_1}}{\mathbf{S_2}} \qquad \text{Note: } S_1 = \frac{Sc}{j(k-1)} \text{ and } S_2 = \frac{Se}{k(n-1)}$$

4.2.2 TEST OF SIGNIFICANCE

To carry out the F-test, we may assume that all X_{ij} (replicates) are from the population sample with mean (μ) and variance δ^2

Calculated as follows:

1. Total sum of all observations = $T = \sum X_{ij}$
2. Mean $(\bar{X}) = \frac{T}{N}$ i.e total mean of the whole population

   Where T = Total sum

   N = Number of observation

3. $TSS = \sum\sum (X - \bar{X})^2 + (X - \bar{X})^2$

   = WSS - BSS

$Fc = \frac{s_1}{S_2}$

Where Fc = F –calculated

S_1 = BSS = $\sum (X - X)^2$

S_2 = BSS = $\sum (X - X)^2$

BSS = Between Sum of Squares

WSS = Within Sum of Squares which is the splited into (within group of samples).

Therefore, the calculated value of F is:

F_c = 0.2610

At significant level of 5% F-calculated is greater than F-tabulated. Therefore, the Hypothesis 1 in page 16, which states that there is no significant relationship between loans and advances and its profitability, is rejected. This translates to mean that, there is a significant relationship between the loans and advances granted by the bank and its profitability.

To assess the strength of the relationship, we employ the Pearson's Product Moment Coefficient Correlation statistics, which is calculated as:

$$r = \frac{SS_{xy}}{SS_x \sqrt{SS_y}} = \frac{Cov.xy}{\sqrt{\text{var x. var y}}}$$

$$= n\Sigma xy - (\Sigma x)(\Sigma y)/N$$

$$= [\sqrt{\Sigma x - \frac{(\Sigma x)^2}{N}}][\sqrt{\Sigma y^2 - \frac{(\Sigma y)^2}{N}}]$$

The value of r from the SPSS output (presented in appendix c) indicates that r = 0.2610. This reflects strong positive relationship between the amount of loans granted by the banks and the bank's profitability. The value of r^2 = 0.680, this implies that about 68% of the variation in the bank's profitability is as a result of the management of loans and advances.

Next we present the analysis of First Bank in table 4.2

Table 4.2: Analysis of First Bank Plc.

S/n	$P(x_1)$	$L(y_1)$	$P(x_1^2)$	$L(y_1^2)$	$P(x_1)\ L(y_1)$
1	0.00584	0.3073	3.41056E-05	0.094433	0.001795
2	0.00554	0.5941	3.06916E-05	0.352955	0.003291
3	0.0083	1.1741	0.00006889	1.378511	0.009745
4	0.00997	1.6144	9.94009E-05	2.606287	0.016096
5	0.01649	2.6047	0.00027192	6.784462	0.042952
6	0.02943	3.1668	0.000866125	10.02862	0.093199
7	0.0422	3.4981	0.00178084	12.2367	0.14762
8	0.0468	4.611	0.00219024	21.26132	0.215795
9	0.0398	6.1918	0.00158404	38.33839	0.246434
10	0.1032	5.6046	0.01065024	31.41154	0.578395
	0.30757	29.3669	0.017576493	124.4932	1.35532

Source: Authors' Computation

The first column above shows the period of 10 years covered in the study, column 2 shows the profitability of the bank for the 10 year period while column 3 shows that loan and advances position of the bank for the same period. The Implication of the result shown above clearly indicates the positive relationship existing between the profitability of the banks with their loan and advances position. Furthermore, it translates to show that the management of loans and advances has a positive effect (relationship) with the profitability of the banks. Meaning the better the management of the loans and advances of the banks the better is the profit generated.

Presented below is a chart showing the effects of loans and advances management on the profitability of First Bank

Chart 3: Showing the First Bank Analysis

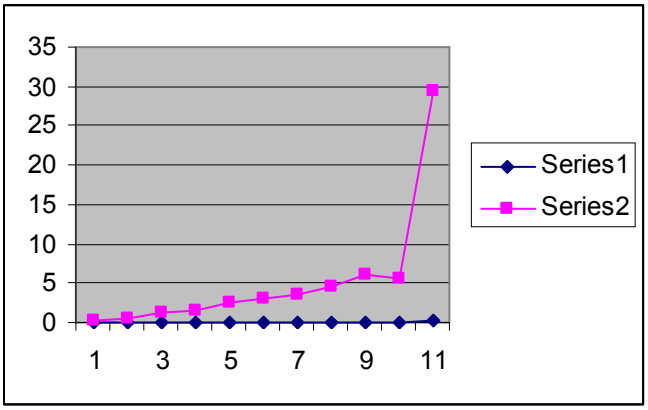
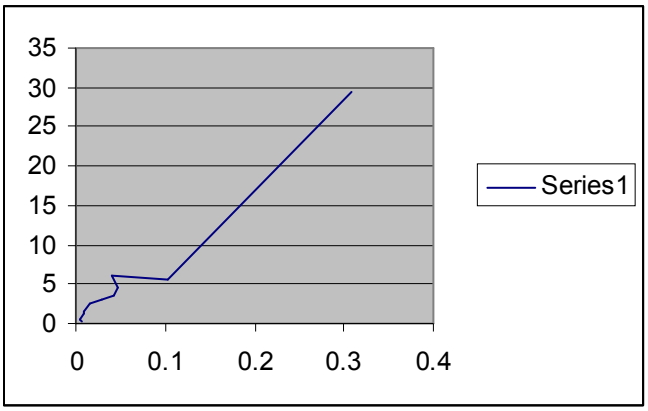


Chart 4: Showing the First Bank Analysis



Source: SPSS Output

At significant level of 5% the value of F-calculated is greater than F-tabulated. Therefore, the Hypothesis 1 which states that there is no significant relationship between loans and advances and its profitability is rejected which means that there is a significant relationship between the loans and advances granted by the bank and its profitability.

To assess the strength of the relationship, we employ the Pearson's Product Moment Coefficient Correlation. Which is calculated to have the value of r from the SPSS output as r = 0.811. This reflects strong positive relationship between the amount of loans granted by the banks and the bank's profitability. The value of r^2 = 0.658, this implies that about 66% of the variation in the bank's profitability is as a result of loans and advances management.

Next we present the analysis of Union Bank in table 4.3

Table 4.3: Analysis of Union Bank Plc.

S/n	$P(x_1)$	$L(y_1)$	$P(x_1^2)$	$L(y_1^2)$	$P(x_1)\ L(y_1)$
1	0.03645	0.41985	0.001328603	0.176274	0.015304
2	0.04856	0.7105	0.002358074	0.50481	0.034502
3	0.0391	1.1291	0.00152881	1.274867	0.044148
4	0.05951	1.671	0.00354144	2.792241	0.099441
5	0.11562	2.3394	0.013367984	5.472792	0.270481
6	0.1292	2.3394	0.01669264	5.472792	0.30225
7	0.18954	2.612	0.035925412	6.822544	0.495078
8	0.32014	2.8596	0.10248962	8.177312	0.915472
9	0.57895	3.9598	0.335183103	15.68002	2.292526
10	0.5862	4.9291	0.34363044	24.29603	2.889438
	2.10327	22.96975	0.856046124	70.66968	7.358642

Source: Authors' Computation

The first column above shows the period of 10 years covered in the study, column 2 shows the profitability of the

bank for the 10 year period while column 3 shows that loan and advances position of the bank for the same period. The Implication of the result shown above clearly indicates the positive relationship existing between the profitability of the banks with their loan and advances position. Furthermore, it translates to show that the management of loans and advances has a positive effect (relationship) with the profitability of the banks. Meaning the better the management of the loans and advances of the banks the better is the profit generated.

Presented below is a chart showing the effects of loans and advances management on the profitability of the banks:

Chart 5: Showing the Union Bank Analysis

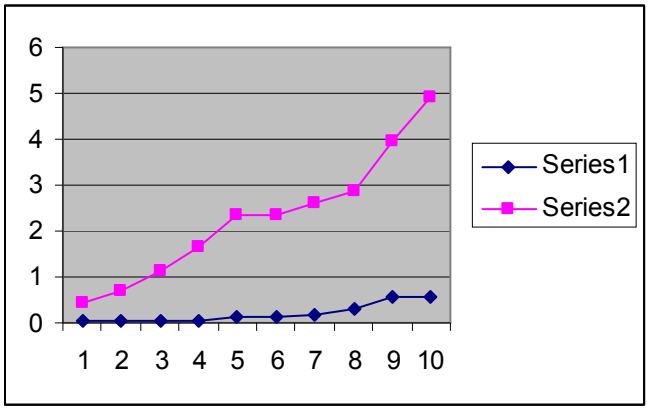
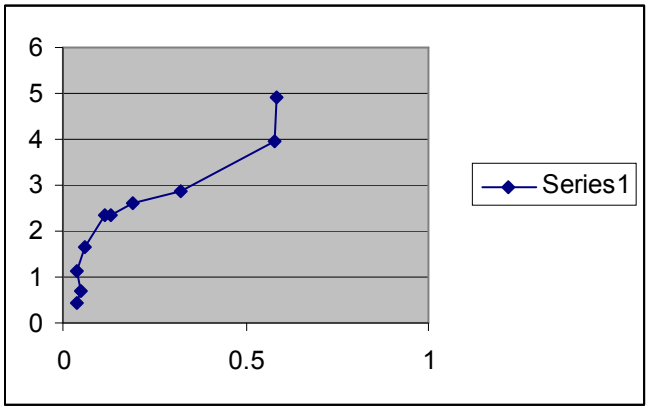


Chart 6: Showing the Union Bank Analysis



Source: SPSS Output

At significant level of 5%, F-calculated is greater than F-tabulated. Therefore, the Hypothesis 1 which states that there is no significant relationship between loans and advances and its profitability is rejected which means that there is a significant relationship between the loans and advances granted by the bank and its profitability.

To assess the strength of the relationship, we employ the Pearson's Product Moment Coefficient Correlation. Which is calculated to have the value of r from the SPSS output as r = 0.9280. This reflects strong positive relationship between the amount of loans granted by the banks and the bank's profitability. The value of r^2 = 0.8610, this implies that about

86% of the variation in the bank's profitability is as a result of loans and advances management.

Next we present the analysis of Habib Bank in table 4.4

Table 4.4: Analysis of Habib Bank Plc.

S/n	$P(x_1)$	$L(y_1)$	$P(x_1^2)$	$L(y_1^2)$	$P(x_1)\ L(y_1)$
1	0.0025	0.0544	0.00000625	0.002959	0.000136
2	0.00064	0.1138	4.096E-07	0.01295	7.28E-05
3	0.00149	0.2165	2.2201E-06	0.046872	0.000323
4	0.00189	0.2478	3.5721E-06	0.061405	0.000468
5	0.00282	0.3194	7.9524E-06	0.102016	0.000901
6	0.00372	0.4113	1.3838E-05	0.169168	0.00153
7	-	-	-	-	-
8	0.0063	0.5467	0.00003969	0.298881	0.003444
9	-	-	-	-	-
10	0.00511	0.6233	2.6112E-05	0.388503	0.003185
	0.02447	2.5332	0.00010004	1.082755	0.01006

Source: Authors' Computation

The first column above shows the period of 10 years covered in the study, column 2 shows the profitability of the bank for the 10 year period while column 3 shows that loan and advances position of the bank for the same period. The Implication of the result shown above clearly indicates the positive relationship existing between the profitability of the banks with their loan and advances position. Furthermore, it translates to show that the management of loans and advances has a positive effect (relationship) with the profitability of the banks. Meaning the better the management

of the loans and advances of the banks the better is the profit generated.

Presented below is a chart showing the effects of loans and advances management on the profitability of the banks:

Chart 7: Showing the Habib Bank Analysis

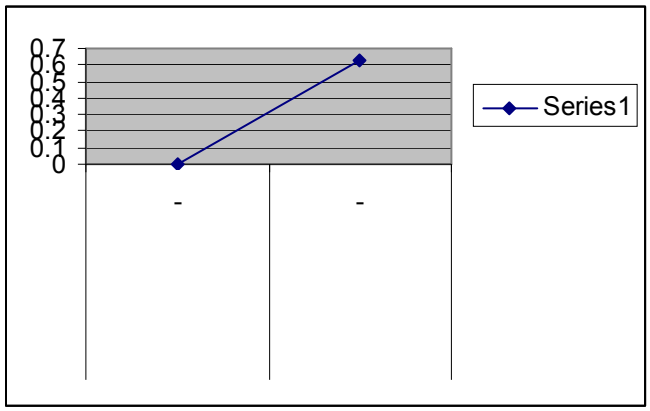
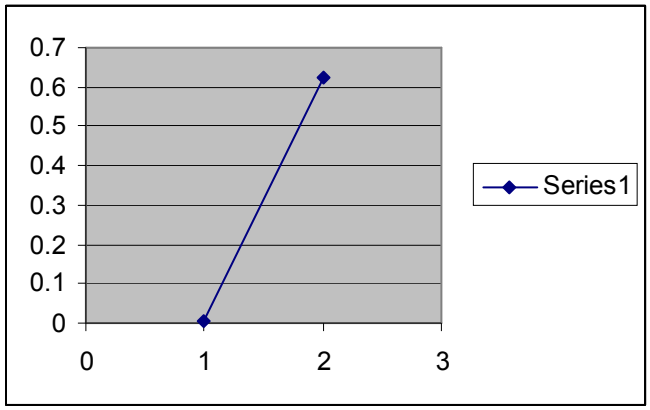


Chart 8: Showing the Habib Bank Analysis



Source: SPSS Output

At significant level of 5% F-calculated is greater than F-tabulated. Therefore, the Hypothesis 1 which states that there is no significant relationship between loan and advances and

its profitability is rejected which means that there is a significant relationship between the loans and advances granted by the bank and its profitability.

To assess the strength of the relationship, we employ the Pearson's Product Moment Coefficient Correlation. Which is calculated to have the value of r from the SPSS output as r = 0.8690. This reflects strong positive relationship between the amount of loans granted by the banks and the bank's profitability. The value of r^2 = 0.7550, this implies that about 75% of the variation in the bank's profitability is as a result of loans and advances management.

Next we present the analysis of Bank of the North in table 4.5

Table 4.5: Analysis of Bank of the North.

S/n	$P(x_1)$	$L(y_1)$	$P(x_1^2)$	$L(y_1^2)$	$P(x_1)\ L(y_1)$
1	0.52498	3.7614	0.275604	14.14813	1.97466
2	1.2076	2.86268	1.45829776	8.194937	3.456972
3	1.01484	1.28788	1.02990023	1.658635	1.306992
4	0.55468	0.6593	0.3076699	0.434676	0.365701
5	0.31952	0.33386	0.10209303	0.111462	0.106675
6	0.55468	6.593	0.3076699	43.46765	3.657005
7	0.319517	3.3386	0.10209111	11.14625	1.066739
8	0.016026	2.47	0.00025683	6.1009	0.039584
9	-0.14471	2.1378	0.02094185	4.570189	-0.30937
10	-0.07202	1.72597	0.00518746	2.978972	-0.12431
	4.295106	25.17049	3.60971208	92.8118	11.54065

Source: Authors' Computation

The first column above shows the period of 10 years covered in the study, column 2 shows the profitability of the bank for the 10 year period while column 3 shows that loan and advances position of the bank for the same period. The Implication of the result shown above clearly indicates the positive relationship existing between the profitability of the banks with their loan and advances position. Furthermore, it translates to show that the management of loans and advances has a positive effect (relationship) with the profitability of the banks. Meaning the better the management of the loans and advances of the banks the better is the profit generated.

Presented below is a chart showing the effects of loans and advances management on the profitability of the banks:

Chart 9: Showing the Bank of the North Analysis

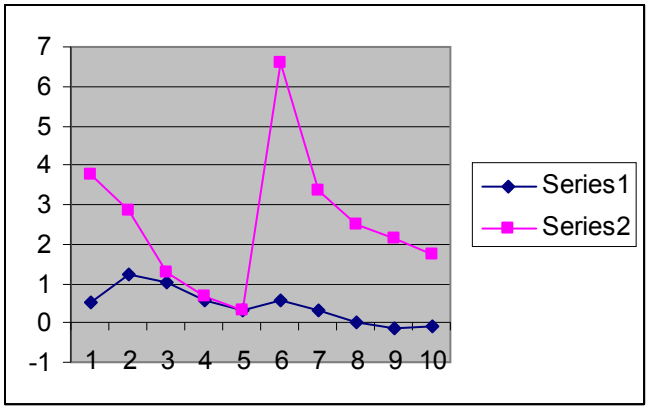
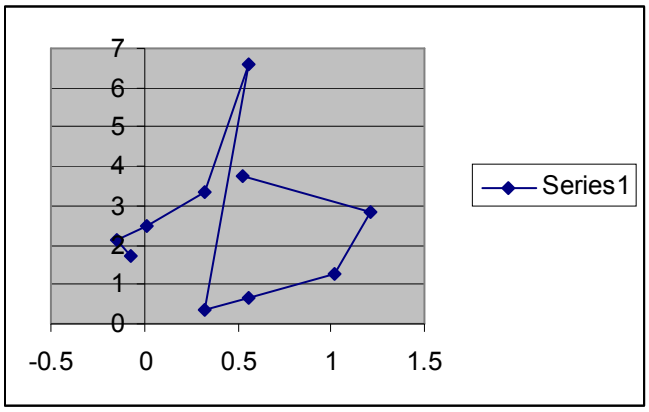


Chart 10: Showing the Bank of the North Analysis



Source: SPSS Output

At significant level of 5% Fc is greater than F-tabulated. Therefore, the Hypothesis 1 which states that there is no significant relationship between loans and advances and its profitability is rejected which means that there is a significant relationship between the loans and advances granted by the bank and its profitability.

To assess the strength of the relationship, we employ the Pearson's Product Moment Coefficient Correlation. Which is calculated to have the value of r from the SPSS output as r = 0.3470. This reflects strong positive relationship between the amount of loans granted by the banks and the bank's profitability. The value of r^2 = 0.1200, this implies that the

variation in the bank's profitability is as a result of loans and advances management.

Next we present the analysis of Standard Trust Bank in table 4.6

Table 4.6: Analysis of Standard Trust Bank Plc.

S/n	$P(x_1)$	$L(y_1)$	$P(x_1^2)$	$L(y_1^2)$	$P(x_1)\ L(y_1)$
1	0.247276	2.00748	0.06114542	4.029976	0.496402
2	0.230876	2.14527	0.05330373	4.602183	0.495291
3	0.185754	2.21461	0.03450455	4.904497	0.411373
4	0.117503	1.10641	0.01380696	1.224143	0.130006
5	0.118881	0.48916	0.01413269	0.239278	0.058152
6	0.117503	1.106812	0.01380684	1.225033	0.130053
7	0.118881	0.489165	0.01413264	0.239282	0.058152
8	0.02118	0.128169	0.00044857	0.016427	0.002715
9	0.420309	-	0.17665966	-	-
10	-0.52436	0.05701	0.27495131	0.00325	-0.02989
	1.053804	9.744086	0.65689236	16.48407	1.75225

Source: Authors' Computation

The first column above shows the period of 10 years covered in the study, column 2 shows the profitability of the bank for the 10 year period while column 3 shows that loan and advances position of the bank for the same period. The Implication of the result shown above clearly indicates the positive relationship existing between the profitability of the banks with their loan and advances position. Furthermore, it translates to show that the management of loans and advances has a positive effect (relationship) with the profitability of the banks. Meaning the better the management

of the loans and advances of the banks the better is the profit generated.

Presented below is a chart showing the effects of loans and advances management on the profitability of Standard Trust Bank.

Chart 11: Showing the Standard Trust Bank Analysis

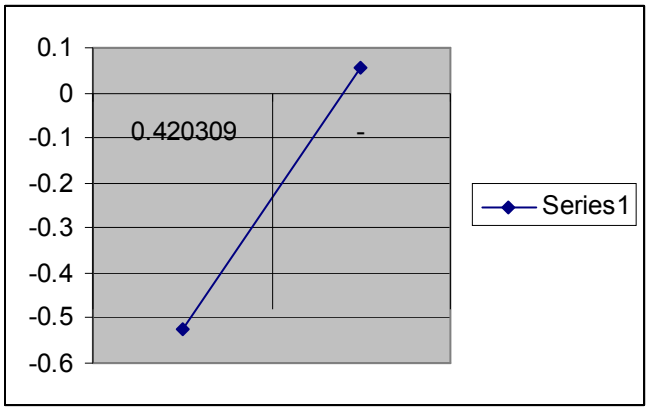
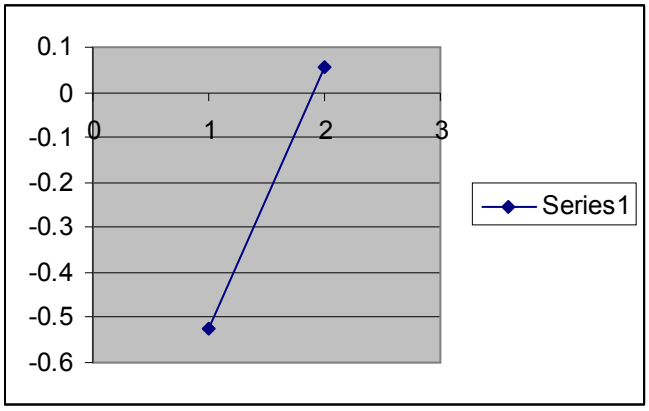


Chart 12: Showing the Standard Trust Bank Analysis



Source: SPSS Output

At significant level of 5% F-calculated is greater than F-tabulated. Therefore, the Hypothesis 1 which states that there

is no significant relationship between loans and advances and its profitability is rejected which means that there is a significant relationship between the loans and advances granted by the bank and its profitability.

To assess the strength of the relationship, we employ the Pearson's Product Moment Coefficient Correlation. Which is calculated to have the value of r from the SPSS output as r = 0.0940. This reflects strong positive relationship between the amount of loans granted by the banks and the bank's profitability. The value of r^2 = 0.090, this implies that about 9% of the variation in the bank's profitability is as a result of loans and advances management.

Next we present the analysis of Chartered Bank in table 4.7

Table 4.7: Chartered Bank Plc.

S/n	$P(x_1)$	$L(y_1)$	$P(x_1^2)$	$L(y_1^2)$	$P(x_1)\ L(y_1)$
1	0.426198	5.1034	0.18164474	26.04469	2.175059
2	0.373182	4.51844	0.13926481	20.4163	1.6862
3	0.158962	2.49875	0.02526892	6.243752	0.397206
4	0.253228	1.49752	0.06412442	2.242566	0.379214
5	0.072617	1.08616	0.00527323	1.179744	0.078874
6	0.04651	1.02485	0.00216318	1.050318	0.047666
7	0.26971	0.24658	0.07274348	0.060802	0.066505
8	0.00149	0.2165	2.2201E-06	0.046872	0.000323
9	0.00189	0.2478	3.5721E-06	0.061405	0.000468
10	0.00282	0.3194	7.9524E-06	0.102016	0.000901
	1.606607	16.7594	0.49049652	57.44847	4.832416

Source: Authors' Computation

The first column above shows the period of 10 years covered in the study, column 2 shows the profitability of the bank for the 10 year period while column 3 shows that loan and advances position of the bank for the same period. The Implication of the result shown above clearly indicates the positive relationship existing between the profitability of the banks with their loan and advances position. Furthermore, it translates to show that the management of loans and advances has a positive effect (relationship) with the profitability of the banks. Meaning the better the management of the loans and advances of the banks the better is the profit generated.

Presented below is a chart showing the effects of loans and advances management on the profitability of the bank;

Chart 13: Showing the Chartered Bank Analysis

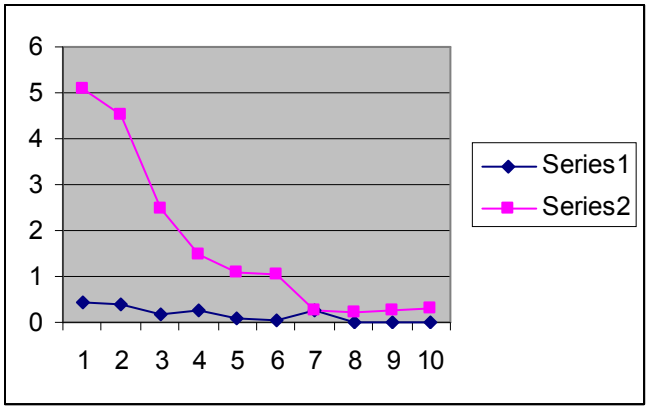
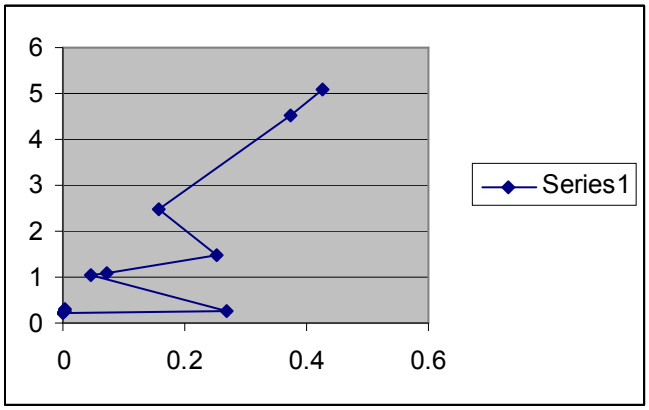


Chart 14: Showing the Chartered Bank Analysis



Source: SPSS Output

At significant level of 5% F-calculated is greater than F-tabulated. Therefore, the Hypothesis 1 which states that there is no significant relationship between loans and advances and its profitability is rejected which means that there is a significant relationship between the loans and advances granted by the bank and its profitability.

To assess the strength of the relationship, we employ the Pearson's Product Moment Coefficient Correlation. Which is calculated to have the value of r from the SPSS output as r = 0.8940. This reflects strong positive relationship between the amount of loans granted by the banks and the bank's

profitability. The value of r^2 = 0.800, this implies that about 80% of the variation in the bank's profitability is as a result of loans and advances management.

Next we present the analysis of FS Bank in table 4.8

Table 4.8: Analysis of FS Bank Plc.

S/n	$P(x_1)$	$L(y_1)$	$P(x_1^2)$	$L(y_1^2)$	$P(x_1)\ L(y_1)$
1	0.52673	1.07595	0.27744449	1.157668	0.566735
2	0.93469	1.27836	0.8736454	1.634204	1.19487
3	0.90839	0.80221	0.82517239	0.643541	0.72872
4	0.87619	0.61724	0.76770892	0.380985	0.54082
5	0.65907	0.40644	0.43437326	0.165193	0.267872
6	0.1589	1.7256	0.02524921	2.977695	0.274198
7	0.156289	0.489165	0.02442625	0.239282	0.076451
8	0.31952	0.2165	0.10209303	0.046872	0.069176
9	0.55468	0.2478	0.3076699	0.061405	0.13745
10	0.319517	0.3194	0.10209111	0.102016	0.102054
	5.413976	7.178665	3.73987397	7.408863	3.958345

Source: Authors' Computation

The first column above shows the period of 10 years covered in the study, column 2 shows the profitability of the bank for the 10 year period while column 3 shows that loan and advances position of the bank for the same period. The Implication of the result shown above clearly indicates the positive relationship existing between the profitability of the banks with their loan and advances position. Furthermore, it translates to show that the management of loans and advances has a positive effect (relationship) with the

profitability of the banks. Meaning the better the management of the loans and advances of the banks the better is the profit generated.

Presented below is a chart showing the effects of loans and advances management on the profitability of the banks:

Chart 15: Showing the FS Bank Analysis

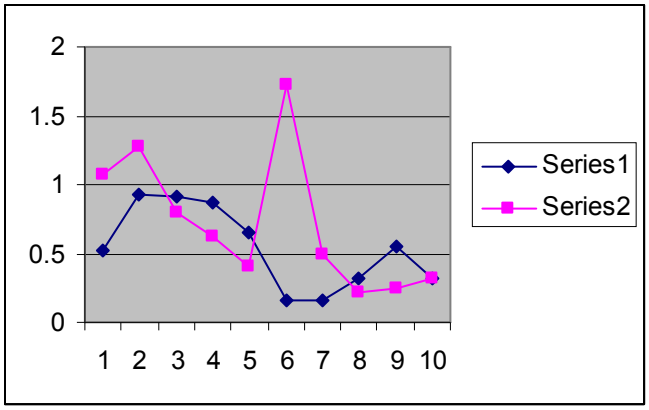
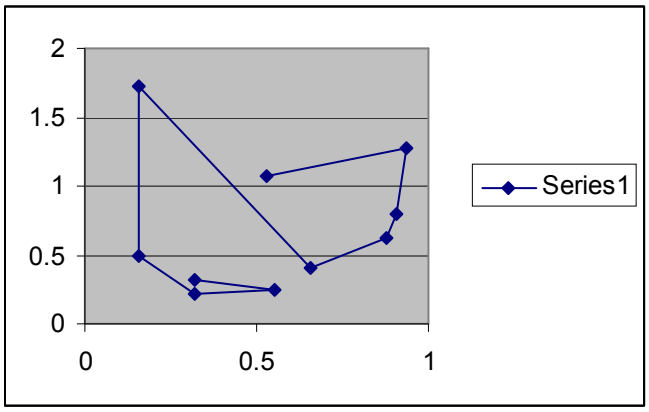


Chart 16: Showing the FS Bank Analysis



Source: SPSS Output

At significant level of 5% Fc is greater than F-tabulated. Therefore, the Hypothesis 1 which states that there is no

significant relationship between loans and advances and its profitability is rejected which means that there is a significant relationship between the loans and advances granted by the bank and its profitability.

To assess the strength of the relationship, we employ the Pearson's Product Moment Coefficient Correlation. Which is calculated to have the value of r from the SPSS output as r = 0.7380. This reflects strong positive relationship between the amount of loans granted by the banks and the bank's profitability. The value of r^2 = 0.5440, this implies that about 54% of the variation in the bank's profitability is as a result of loans and advances management.

4.3 Analysis of the effects of credit management on Profitability among Nigerian banks

In determining whether the effects of credit management on profitability cut across all banks, we use the Kruscal Wallis statistical tests. This is given by:

$$H = \frac{12}{N(N+1)} \sum_i^k \frac{R^2}{n_i} - 3(N+1)$$

Next we present the analysis of the selected 8 banks table 4.9

Table 4.9: Banks Profitability and Loans

	UBA		FB		UB		HB	
Bank	$P(X_1)$	$L(Y_1)$	$P(X_1)$	$L(Y_1)$	$P(X_1)$	$L(Y_1)$	$P(X_1)$	$L(Y_1)$
1	0.00353	0.6220	0.00584	0.3073	0.03645	0.41985	0.03645	0.41985
2	0.00944	0.8987	0.00554	0.5941	0.04856	0.7105	0.04856	0.7105
3	0.00837	1.0761	0.0083	1.1741	0.0391	1.1291	0.0391	1.1291
4	0.00134	1.6796	0.00997	1.6144	0.05951	1.671	0.05951	1.671
5	0.01109	2.4614	0.01649	2.6047	0.11562	2.3394	0.11562	2.3394
6	0.00837	1.0761	0.02943	3.1668	0.1292	2.3394	0.1292	2.3394
7	0.00134	1.6796	0.0422	3.4981	0.18954	2.612	0.18954	2.612
8	0.01109	2.4614	0.0468	4.611	0.32014	2.8596	0.32014	2.8596
9	0.03013	1.7325	0.0398	6.1918	0.57895	3.9598	0.57895	3.9598
10	0.01183	2.3106	0.1032	5.6046	0.5862	4.9291	0.5862	4.9291
	0.09653	15.998	0.30757	29.3669	2.10327	22.96975	2.10327	22.96975

Source: Banks' annual account

Test Statistics [a b]

Variable	UBA	FB	UB	HB
Chi-square	6.083	1.867	6.583	6.083
df	3	1	5	3
Asymp. Sig.	0.108	0.1720	0.254	0.108
Z	-2.938	-2.934	-2.934	-2.934
Exact Sig.	0.001	0.001	0.001	0.001

Source: SPSS output

a Kruskal Wallis Test

b Grouping Variable: VAR00002

Table 4.9: Banks Profitability and Loans

	BON		STB		CB		FSB	
1Bank	$P(X_1)$	$L(Y_1)$	$P(X_1)$	$L(Y_1)$	$P(X_1)$	$L(Y_1)$	$P(X_1)$	$L(Y_1)$
1	0.52498	3.7614	0.247276	2.00748	0.426198	5.1034	0.52673	1.07595
2	1.2076	2.86268	0.230876	2.14527	0.373182	4.51844	0.93469	1.27836
3	1.01484	1.28788	0.185754	2.21461	0.158962	2.49875	0.90839	0.80221
4	0.55468	0.6593	0.117503	1.10641	0.253228	1.49752	0.87619	0.61724
5	0.31952	0.33386	0.118881	0.48916	0.072617	1.08616	0.65907	0.40644
6	0.55468	6.593	0.117503	1.106812	0.04651	1.02485	0.1589	1.7256
7	0.319517	3.3386	0.118881	0.489165	0.26971	0.24658	0.156289	0.489165
8	0.016026	2.47	0.02118	0.128169	0.00149	0.2165	0.31952	0.2165
9	-0.14471	2.1378	0.420309	-	0.00189	0.2478	0.55468	0.2478
10	-0.07202	1.72597	-0.52436	0.05701	0.00282	0.3194	0.319517	0.3194
	4.295106	25.17049	1.053804	9.744086	1.606607	16.7594	5.413976	7.178665

Source: Banks' annual account

Test Statistics [a b]

Variable	BON	STB	CB	FSB
Chi-square	6.083	1.867	6.583	6.083
Df	3	1	5	3
Asymp. Sig.	0.108	0.1720	0.254	0.108
Z	-2.938	-2.934	-2.934	-2.934
Exact Sig.	0.001	0.001	0.001	0.001

Source: SPSS output

a Kruskal Wallis Test

b Grouping Variable: VAR00002

The SPSS output suggests that the effects of credit management on the profitability of the banks studied cut across all the banks, the Kruscal Wallis statistical tests suggests that the z value calculated is less than the tabulated z value. This means that the effect of the credit management on the profitability of the banks is almost on all the banks. This leads to the conclusion that the way credit is being managed in the bank affects its profitability.

The next section of the study considered the effects of classified loans on the quality of loan assets of the banks. To establish this we use bar charts to present the effects over a ten year period.

4.4 Analysis of the Effects of Classified Loans on the Quality of Loans Assets

The following is the analysis of the effect of classified loans on the quality of loans assets among Nigerian Banks.

Table 4.10 Classified Loans and Advances

	Performing (N' m)	Non Performing (N' m)			Total (N' m)
		Standard	Doubtful	Lost	
1.	163	25	65	1162	1415
2.	62	32	128	1396	1618
3.	125	35	184	1609	1953
4.	257	239	999	1059	2554
5.	299	456	3893	1256	5904
Total	906	787	5269	6482	13444

Source: Banks' Annual Reports

Chart 17: Showing Analysis of the Effects of Classified Loans on the Quality of Loans Assets

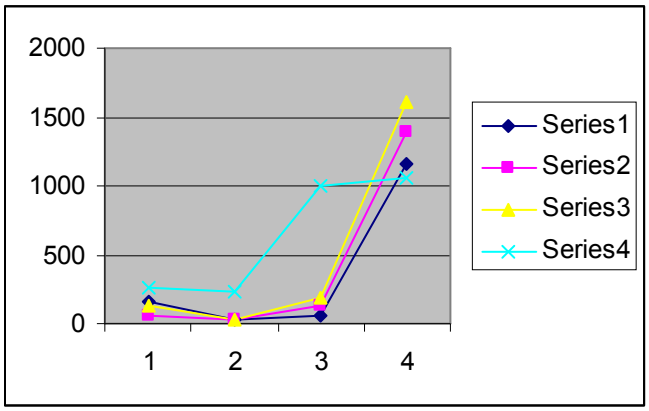
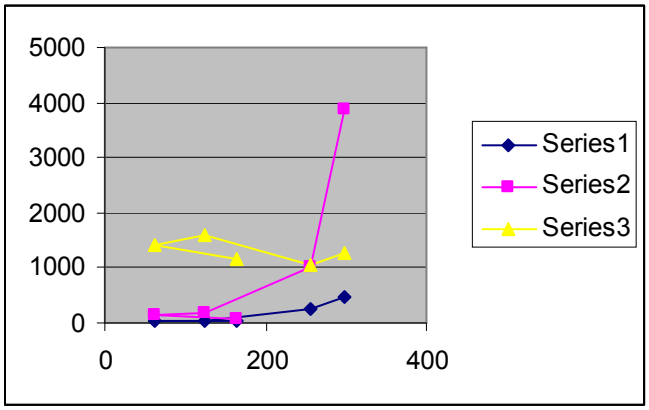


Chart 18: Showing Analysis of the Effects of Classified Loans on the Quality of Loans Assets



The analysis above indicates that there is a high increase in the amount lost to bad debts. This, specifically, translates to the fact that, the management of the loans and advances (credit) by the banks is ineffective. Therefore, there is the need for a constant and more effective way of monitoring the performance of the banks' loans and advances.

The following is the proportion of Loans and Advances to Total Deposits.

Table 4.11 Loan and Advances to Total Deposits

Year	Loans and advances	Total deposits	Proportion of Loans and Advances to Total Deposits (%)
1	1726	4664	37
2	2138	4989	43
3	2470	7224	34
4	3339	8350	40
5	6593	13326	49
6	12879	22341	58
7	28627	42725	67
8	37614	46573	81
10	-	-	-
	95,386	150,192	64

Source: Banks' Financial Report

The loans and advances proportion to the total deposit show that on average the percentage is over 40 percent. This shows that the bank has enough deposit to take care of its loans and advances. Even though, there is the need for further improvement in some of the periods. Especially as the percentage of the loans and advances is less than 40 percent when compared with the total deposit for the period.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The most recent development in the banking industry came up when a new method of banking popularly known as Universal System of Banking. The Universal banking system is a system of banking that permits any bank to determine its portfolio offerings, which may involve non – financial services. Merchants bank are already converting to Commercial banks to be able to access the relatively cheaper and stable deposits, also giving the diminishing investment banking business in the weak economy. Banking as a service industry is organized to make "PROFIT" for the shareholders vide provision of banking services and supply of financial needs of individuals and cooperate bodies. Banks as a sub-system of national economy is not immune and is having its own share of the economic downturn in form of increasing loan defaults because of the inability of borrowers to redeem their loans,

which resulted in banks failure and subsequently banks distress.

One of the major problems confronting the Nigerian banking industry today is the increasing incidence of loan defaults and consequent loan losses which manifested on the profitability of the banks, huge uncollectible loans and advances.

Many banks even after the liquidation of several banks in 1998, still paraded inexperience and "glaucoma" visionary managers. There is a growing concern in these quarters of increased potential for bank failures and bank distress if the problem is not urgently addressed. Between the years 2001 and 2002, the CBN and NDIC closed the gates of Savannah Bank and peak Merchant Bank for problem of liquidity. In August, 2003 the Central Bank of Nigeria took over control of Bank of the North Limited, one of the oldest indigenous bank in Nigeria which was established by the default Northern Region and incorporated on 9th September, 1959 as a private limited liability company engaged, in commercial banking business.

This study therefore, examines the impact of loans and advances on the profitability of Nigerian banks. The study found out that at 5 percent level of significant, the calculated value of the z value is greater than the tabulated value in most of the banks considered in the study. Therefore, this leads to the results that there is significant relationship between loans and advances and its profitability. In order words this means that there is a significant relationship between the way the banks manage their credits and the profitability of the banks.

To assess the strength of the relationship, we employ the Pearson's Product Moment Coefficient Correlation and we found that the value of r from the SPSS output indicated that the value of r in most of the banks show a value more than 50 percent. This reflects strong positive relationship between the amount of loans granted by the banks and the bank's profitability.

Similarly the value of r^2 indicated a value greater than 50 percent which, this implies that more than 50% of the variation in the bank's profitability is as a result of loans and advances management.

5.2 Conclusions

Based on the findings of the study the following conclusions were made:

First, the variations in the bank's profitability are as a result of the problems of the management of the loans and advances of the banks. This can be observed as most of the banks have more than 50 percent of their profitability being determined by the fluctuations in the way the loans and advances were handled.

Furthermore the study established that the effects of credit management on the profitability of the banks studied cut across all the banks, the Kruscal Wallis statistical tests suggests that the z value calculated is less than the tabulated z value in most cases. This means that the effect of the credit management on the profitability of the banks is almost on all the banks. This leads to the conclusion that the way credit is being managed in the bank affects its profitability.

Finally, the study established that the management of the loans and advances (credit) by the banks is ineffective. This is as a result of the increase in the amount lost to the

loans and advances by the banks over the years considered in the study.

5.3 Recommendations

The following recommendations have been made based on the findings of the study:

There is the need for a strong policy on the management of banks' credit facility. This involves the need for control at the various stages of collecting loans and advances in the banks.

Furthermore, banks must ensure strict tradeoff between the liquidity and the profitability of the banks. This will ensure strict compliance with the money being kept by the bank and the amount granted for loans and advances.

There is the need for an immediate change in the banks' management style and internal control system of the banks. This will help to enhance the debt recovery method in operation. There should also be close watch of the laonable funds portfolio by the regulatory authorities (CBN, NDIC etc).

Furthermore, the formulation and implementation of appropriate economic policies by the government as well as

maintaining a stable economic environment will enhance the development of a secured loan and advances portfolio to both the customers and the banks.

There is also the need for a proper and well articulated analyses over all collaterals presented for loans and advances. This will help the banks in ensuring that the assets serving as collaterals have the economic value that will cover the loans and advances collected. It will further help the recovery effort in case of any default.

5.4 Frontier For Further Research

This study considered the impact of loans and advances on the profitability of banks in Nigeria. There is the need for a study on the impact of other factors on the profitability of the banks. For instance, the impact of liquidity on the profitability of the banks. Whether credit analysis has any impact on the recovery of loans and advances, and how managers' expertise and or experience can reduce the amount lost to loans and advances. Further further studies may be considered to analyze why there is a growing loss to the loans and advances of the banks.

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