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Managing Credit Risk to Optimize Banks' Profitability: A Survey of Selected Banks in Lagos State, Nigeria

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Abstract
This study examines the impact of managing credit risk and profitability of banks in Lagos state. It also focused on the need for prompt, effective and efficient service to numerous customers. The research hypothesis was tested and analyzed in relation to adequate credit risk management and its significant effect on banks' profitability. It was also the aim of this research to evaluate how effective it is for a bank to manage its credit risk effectively to enhance profitability. In the course of this work, data was gotten through administering structured questionnaires which were answered by respondents. Correlation coefficient was used to decide whether or not credit risk management has an impact on profitability. It was then revealed through the analysis of data from the questionnaire that credit risk management operations plays a significant role in the profitability and performance of banks in Lagos State. Therefore, management need to be cautious in setting up a credit policy that might not negatively affects profitability and also they need to know how credit policy affects the operation of their banks to ensure judicious utilization of deposits.
Keywords: Credit Risk, Managing, Banks Profitability, Performance, Utilization of Deposits

Introduction

Creation of credit is very essential for the survival of economic activities in any society. It involves lending which has to do with taking risks, accessing the risk of defaults and movement of interest rate. It is concerned with granting credit facilities to customers which could be either individual or business organization. Credit creation is the main income generating activity for the banks. This activity involves huge risks to both the lender and the borrower. The risk of a trading partner not fulfilling his or her obligation as per the contract on due date or anytime thereafter can greatly jeopardize the smooth functioning of bank's business. On the other hand, a bank with high credit risk has high bankruptcy risk that puts the depositors in jeopardy. In a bid to survive and maintain adequate profit level in this highly competitive environment, banks have tended to take excessive risks. The increasing tendency for greater risk taking has resulted in insolvency and failure of a large number of banks (Awojobi & Amel, 2011).

Risk management is an independent function of managers responsible for planning, directing and organizing measures to reduce, mitigate and control the impact on an institution of risks arising from its operations. More specifically, risk management may be defined as the systematic application of management policies, procedures and practices to the tasks of identifying, analyzing, assessing, treating and monitoring risk (Akwu, 2013). It helps to mitigate the consequences of adverse events that may occur. This includes taking action to avoid or reduce exposures to the costs or other effects of events occurring rather than reacting after an event has taken place. Risk management, if conducted effectively, will help to achieve more effective corporate performance (Aremu, Suberu & Oke, 2010).

Credit risk management is the identification, measurement, monitoring and control of risk arising from the possibility of default in loan repayments (Coyle, 2000). Credit extended to borrowers may be at the risk of default, whereas banks extend credit on the understanding that borrowers will repay their loans. Some borrowers usually default, and as a result, banks income decrease due to the need for provisions for such loans. Where commercial banks do not have an indication of what proportion of their borrowers will default, earnings will vary thus exposing the banks to an additional risk of variability of their profits (Onyiriuba, 2009). The impact of effective and proper management of credit risk on banks' profitability cannot be over emphasized. Effective management of credit risk enhances banks' goodwill and depositors' confidence. Numerous recent studies emanating from academic circles show that good credit risk policy is an essential condition for banks' profitability and capital adequacy protection.

Poor credit management and inadequate credit administration are the main causes of the problems faced by the banking industry in Nigeria. In a quest to ensure adequate and sound credit management, lending has been characterized by high interest rate. Also, excess profit imposed by bank officials has scared the public from borrowing. There has been loan limits violation in order to meet up to target expected from the bank. Inappropriate documentation before draw-down has been one of the major causes of bad loans, moral hazards which are against the principles of credit. This situation occurred due to the restlessness and lawlessness behavior of bank officials (Osayameh, 1986). Bad and doubtful debts, make the banking industry unstable and at

loss has eaten deep into the banking industry. Loans and advances posed a number of risks to the commercial banks and the banking sector in general, if not properly managed could lead to bank distress thereby affecting customers and stakeholders. This will lead to decline in the economic activities.

Statement of the Problem

Exposure to credit risk continues to be the number one source of problem to banks worldwide, banks and their management should be able to obtain useful lessons from past experiences. Banks succeeds when the risk they assume are reasonable, controlled and commensurate with their resources and credit competence. Although, banks are expected to take precautionary steps in obtaining adequate collaterals for loans in this country, the legal process is cumbersome and expensive. While it is understood that the courts must protect debtors from exploitative banks, the reality is that many of the beneficiary of the protections are fraudster who access loan with no intention to repay. The main problem of this study is to access the potential effect of credit risk management on the profitability of Nigerian banks in the selected area of study.

Research Questions

The study provided answers to the following research questions;

(i) To what level is credit risk being managed in banking operations in Nigeria?
(ii) What is the level of profitability in the banking industry?
(iii) Is there any significant relationship between credit risk management and profitability?

Hypothesis of the Study

1. Adequate credit risk management has no significant effect on banks' profitability.

Review of Related Literature

Credit risk is the major risk for commercial banks and it requires very vigil oversight and extensive policy debate. It is typically defined as the risk of loss resulting from failure of obligors or borrowers to honor their payment (Pesaran & Schuermann, 2003). Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its maturing obligations in accordance with agreed terms (BCBS, 1999). Lopez (2001) defines credit risk as the risk that the value of loan will decrease due to a change in borrower's ability to make payment.

The health of a bank's loan portfolio can be affected by the variation in the credit risk affecting the overall performance of the bank (Sufian, 2009). This argument was further supported by Duca and Mclaughlin (1990) as cited in Owojori, Akintoye and Adidu (2011) that a large scale variation in bank's profitability can be ascribed to variations in credit risk management. Banks that are largely exposed to credit risk resulting to reduction in their profitability. Miller and Noulas (1997) are of the view that so long as the banks has exposure in risk loans, bad or doubtful debts (otherwise referred to as non-performing loans) tend to rise which ultimately reduces the profitability of the bank.

Bobakovia (2003) asserts that the profitability of a bank depends on its ability to foresee, avoid, monitor risks and cover losses brought about by risk arisen. This has the net effect of increasing the ratio of substandard credits in the bank's credit portfolio and decreasing the bank's profitability (Mamman & Oluyemi, 1994). The banks supervisors are well aware of this problem, it is however very difficult to persuade bank mangers to follow more prudent credit policies during an economic upturn, especially in a highly competitive environment. They claim that even conservative managers might find market pressure for higher profits very difficult to overcome.

According to the journal issued by the Central Bank of Nigeria (2006), an early 1990s witnessed rising non-performing credit portfolios in banks and these significantly contributed to the financial distress in the banking sector. Also identified was the existence of predatory debtor in the banking system whose modus operandi involved the abandonment of their debt obligations in some banks only to contract new debt in other banks. Furthermore, the use of status enquiries on bilateral basis between banks was characterized by some weaknesses. Status enquiry regarded as business courtesies to which some banks either did not respond to or give vague replies. In spite of the systematic weakness, many banks continued to extend fresh facilities to customers who already had hardcore and un-serviced debts with other banks and financial institutions. On the part of the regulators, the paucity of credit information had inhibited consistent classification of credits granted to certain borrowers and their associated companies (CBN, 2006).

Consequently, the need for a central database from which consolidated credit information on borrowers could be obtained became imperative. CBN (2006) explained that it was against this background that the CBN credit risk management system or credit bureau was established. Thereafter, it was given a legal backing by the CBN Act No. 24 of 1991{section 28 and 52} as amended. The enabling legislation empowered the CBN to obtain from all banks, returns on all credits with a minimum outstanding balance of ₦100,000 (now ₦1.0M and above of principal and interest), for compilation and dissemination by way of status report to any interested party (i.e. operators or regulators). The Act made it mandatory for all financial institutions to render returns to the

credit risk management system (CRMS) in respect of all their customers with aggregate outstanding debit balance of ₦1,000,000.00 (One million naira) and above. It also required banks update and credit analysis on monthly basis as well as making status enquiry on any intending borrower to determine their eligibility or otherwise. Banks are penalized for non-compliance with the provisions of the Act.

Credit risk is by far the most significant risk faced by banks and the success of their business depends on accurate measurement and efficient management of this risk to a great extent than any other risk (Gieseche, 2004). According to Chen and Pan (2012), credit risk is the degree of value fluctuations in debt instruments and Derivatives due to changes in the underlying credit quality of borrowers and counterparties. Coyle (2000) defines credit risk as losses from refusal or inability of credit customers to pay what is owed in full and on time. Credit risk is the exposure faced by banks when a borrower (customer) defaults in honoring debt obligations on due date or at maturity. This risk interchangeably called “counterparty risk” is capable of putting the bank in distress if not adequately managed. Credit risk management operations maximizes bank’s risk adjusted rate of return by maintaining credit risk exposure within acceptable limit in order to provide framework for understanding the impact of credit risk management on banks’ profitability (Kargi, 2001).

In Onalo (2007), credit risk management is all about identification of and mitigation against dangerous situations or obstacles (risks) likely to stand against the ability of someone that has being trusted to borrow money today and pay tomorrow. Most banks in Nigeria do not have clearly defined or adherent implemented credit lending policies (Onalo, 2007). Komolafe (2010) explains that the CBN has tried to implement the Basel Accord into the Nigeria banking sector but to a large extent banks remain unbothered. Onalo 2007, further explains that a good credit report resolves a great deal of the problems that might be credit related, a good report has potential to aid debt recovery in the future if account run to default category. Tracey and Carey (2002) suggest that in designing a credit system, a bank should consider various factors, including cost, efficiency of information gathering, consistency for rating produced, staff incentives, nature of banks’ business and uses to be made of the internal rating.

The main source of credit risk include, limited institutional capacity, inappropriate credit policies, volatile interest rates, poor management, inappropriate laws, low capital and liquidity levels, direct lending, massive licensing of banks, poor loan underwriting, laxity in credit assessment, poor lending practices, government interference and inadequate supervision by the central bank (Al-khouri, 2010). An increase in bank credit risk gradually leads to liquidity and solvency problems. Credit risk may increase if the bank lends to borrowers that does not have adequate knowledge in managing fund.

The increased number of banks over-stretched their existing human resources capacity which resulted into many problems such as poor credit appraisal system, financial crimes, accumulation of poor asset quality among others (Sanusi, 2002). The consequence was increased in the number of distressed banks. However, bank management, adverse ownership influences and other forms of insider abuses coupled with political considerations and prolonged court process especially as regards debts recovery created difficulties to reducing distress in the financial system (Sanusi, 2002).

Since the banking crisis started, the Central Bank of Nigeria (CBN) has had to revoke the licenses of many distressed bank particularly in the 1990’s and recently some banks has to be bailed out. This calls for efficient management of risk involving loan and other advances to prevent reoccurrences. In response to this, commercial banks have almost universally embarked upon an upgrading of their risk management and control systems. Also, it is in the realization of the consequence of deteriorating loan quality and its impact on profitability of the banking sector and the economy at large that this research study will be based on (Obalemo, 2004).

In order to resolve problem of hardcore debt, Federal government introduced the second phase of banking reforms in Nigeria, which involves the removal of toxic assets or non performing loans from the books of ailing banks. Asset Management Corporation of Nigeria (AMCON) was set up by the CBN in order to take up shareholding in banks from which they purchased bad debt from the troubled banks. This has further raised fears in the financial sector, some bank Managing Directors and shareholders believe that AMCON may become a smoke screen for those who want to buy into these banks (AMCON, 2010).

The purpose of AMCON as far as the CBN is concerned is the resolution and capitalization vehicle to acquire non performing loans from the banks and receive the underlying collateral, fill the remaining capital deficiencies and receive equity or preferred shares in the banks that did not pass the audit test; facilitate merger and acquisition transactions and strategic partnership. For the larger economy, the overriding purpose of AMCON is clearly to return confidence to the banking system.

Nwankwo (2000) stressed that credit evaluation should bother on safety of the loan, suitability of the loan and profitability incidental or booking of the loan. The inadequacies of the traditional approaches to loan processing with its attendant problems arising from repayment and recovery have been the concern of banking professionals over time. This then calls for an approach that can take care of the inadequacies in the credit processing and administration procedures. The CBN (2005) maintained that the credit framework of banks

should be designed to serve as a tool for monitoring and controlling risk inherent in individual credits. The concept has been referred to as 'credit scoring' in some quarters.

Credit scoring is a statistical method used to predict the probability that a loan or an existing borrower will default or become delinquent (Loretta, 2000). This model assigns scores for potential borrower by estimating the probability of default of their loans based on borrower and loan characteristic data (Myra, 2000). Information on borrowers to be used are applicant's monthly income, outstanding debt, financial assets, duration on the job, lending history of the customer, collateral owned, type of bank accounts, amongst others.

Adekanye (2010) emphasized that managers must obtain satisfactory answers to those questions before agreeing to a loan request. This proposition also has its flaws as comprehensive credit ratings, management and recovery procedures which are the essential requirements of modern lending were not emphasized. Konoshi and Yasuda (2004) opined that credit evaluation should be based on the following areas:

i. **Character:** This refers to the applicant's willingness or desire to meet credit obligations.
ii. **Capacity:** This refers to the applicant's ability to enter into or make valid contract. The following, such as: lunatics, drunkards, infant, etc are disqualified by law from becoming a party to a valid contract.
iii. **Capital:** This constitutes the applicant's financial requirement to meet the needed obligation.
iv. **Collateral:** This represents assets that the borrower may pledge as security. Though security is considered secondary in credit but banks look for something to fall back to in case of default.
v. **Conditions:** This refers to the general economic climate and its effects on the applicant's ability to pay, such as period of recession.
vi. **Contribution:** This refers to the level of commitment projected or purposed by the borrower of the loan.

According to Adeusi, Akeke, Obawale and Oladunjoye (2013), risk management issues in the banking sector do not only have greater impact on bank performance but also on national economic growth and general business development. The bank's motivation for risk management comes from those risks which can lead to under-performance. Their study focused on the association of risk management practices and bank financial performance in Nigeria. Secondary data sourced was used on a 4 year progressive annual reports and financial statements of 10 banks. A panel data estimation technique was adopted. The result postulated an inverse relationship between financial performance of banks and doubt loans. Capital asset ratio was discovered to be positive and significant. Similarly, the study suggested that the higher the managed funds by banks, the higher the financial performance. The study concluded that a significant relationship between banks performance and risk management exist. Hence, the need for banks to practice prudent risks management in order to protect the interests of investors.

Kolapo, Oke and Ayeni (2012) in their study, used empirical investigation to determine the quantitative effects of credit risk on the performance of commercial banks in Nigeria over the period of 11 years (2000-2010). The study considered five commercial banks on a cross sectional basis for eleven years. The study used traditional profit theory to formulate profit, measured by Return on Asset (ROA), as a function of the ratio of non-performing loan to loan and advances (NPL/LA), ratio of total loan and advances to total deposit (LA/TD) and the ratio of loan loss provision to classified loans (LLP/CL) as measures of credit risk. Panel model analysis was used to estimate the determinants of the profit function. The results showed that the effect of credit risk on bank performance measured by the return on assets of banks is cross-sectional invariant.

The study shows that the effect is similar across banks in Nigeria, though the degree to which individual banks are affected is not captured by the method of analysis employed in the study. A 100 percent increase in non-performing loan reduces profitability (ROA) by about 6.2 percent, a 100 percent increase in loan loss provision also reduces profitability by about 0.65percent while a 100 percent increase in total loan and advances increase profitability by about 9.6 percent. Based on their findings, it is recommended that banks in Nigeria should enhance their capacity in credit analysis and loan administration, while the regulatory authority should pay more attention to banks' compliance to relevant provisions of the Bank and Other Financial Institutions Act (1999) and prudential guidelines.

Rufai (2013) suggested that managing of credit risk adequately in financial institutions is critical for the survival and growth of the financial institutions. The researcher aimed at assessing the efficacy of managing credit risk to optimize banks performance with the view to determine if credit risk affects profitability. Also, the study aimed to determine the relationship between interest income and bad debt of the banks. The study made use of secondary source of data while, time series and trend analysis were used for the analysis. Correlation coefficient and regression analysis were used in testing the hypotheses. The study revealed that credit risk affects the performance of bank, and that to maintain high interest income; attention needs to be given to credit risk management especially in the area of lending. The study recommends that bank should ensure that loans given out to customers should be adequately reviewed from time to time to assess the level of its risk and that such loan should be backed by collateral security.

According to Abiola and Olausi (2014), credit risk management in banks has become more important not only because of the financial crisis that the industry is experiencing currently, but also as a result of crucial

concept which determines banks' survival, growth and profitability. Their study investigated the impact of credit risk management on the performance of commercial banks in Nigeria. Financial reports of seven commercial banking firms were used to analyze for seven years (2005–2011). Panel regression model was employed for the estimation of the model. In the model, Return on Equity (ROE) and Return on Asset (ROA) were used as the performance indicators while Non-Performing Loans (NPL) and Capital Adequacy Ratio (CAR) as credit risk management indicators. The study revealed that credit risk management has a significant impact on the profitability of commercial banks' in Nigeria.

Methodology

The research study is an investigative study on the impact of credit risk management operations and the level of banks' profitability. Survey research design was adopted. Survey research design was used because it involved collection of data from a field study through the use of questionnaire. This study is limited in scope. The study only focused on the impact of credit risk management operations on banks' profitability in a modern economic era using five different banks to gain enough leverage.

The banks used are as follows: United bank for Africa Plc (UBA), Zenith bank, Guarantee Trust Bank (GTB) Plc, Wema Bank and Union Bank Plc. These five banks were used because they fall under the category of the two main banks (Old generation and new generation banks) in order to gain accurate result and more leverage. Secrecy on the part of the banks; most times banks are not willing to disclose information in a bid to protect its corporate image. It takes serious efforts before relevant information could be gained from banks.

Convenient sampling was adopted in this research. This was appropriate because the staff were at their place of work at the time of data gathering. The research was focused on not less than hundred (100) respondents. These set of people are: entire staff of bank's credit administration group (Credit Admin), Management Credit committee (MCC) and other Commercial bank marketing team. (Source: Human Resource Department, in the five selected banks). The main instrument used in this research was questionnaire which was administered to respondents. Other instruments such as; journals, textbooks were also used. The respondents were administered with the questionnaires and efforts were made through constant contact either by phones or email with the respondents for prompt completion of the questionnaires.

Efforts were made to find answers to the question of the study by using the following statistical techniques:

1. The research question 1 on to what level is credit risk being managed in banking operation in Nigeria was answered through the analysis and interpretation of simple descriptive statistics: mean and standard deviation.
2. The research questions 2 on the level of profitability in the banking industry, was answered using simple descriptive statistics: mean and standard deviation.
3. The last research question on the relationship between credit risk management operation and profitability was answered using correlation and regression coefficient.

Results, Findings and Discussions

R. Q. 1: To what level is credit risk being managed in banking operations in Nigeria?

Research question 1 intended to reveal the level to which banks in the study have been observing credit risk management practices as prescribed in the study. To answer the question, simple descriptive statistics of mean and standard deviation were computed using SPSS statistical technique. The result is based on SPSS analysis. An average mean of 1.858339 and an average standard deviation of 0.827621 portrayed the fact that majority of the banks under review were seldom practicing credit risk management operations. This indicated that the banks rarely practice credit risk management in their banking operations. The result implied that banks in the study do not adequately managed risk in their operations.

Table 1: Level of Credit Risk Management Practices in Nigeria Banking

S/N	Items Questions	Mean	Standard Deviation
1.	Credit management in the banking industry still has a lot of inadequacies	1.6667	.67040
3.	Poor credit management has been responsible for majority of the bank distresses being experienced in the banking industry	1.7444	.84216
4.	Most of the problems experienced by banks on credit issue are as a result of the lenders unwillingly to pay back	2.4333	1.19972
6.	The drive for profit does not allow the bank to adhere to the set credit policies or processes	1.8778	.85890
9.	The essence of strict procedures on lending is to minimize the bad debts incidence.	1.5333	.73744
10.	Bad debt is the major problem faced by banks in lending activities	1.4667	.50168
13.	Poor documentation is a major cause of bad debts	1.8000	.97381
15.	Government regulations are major constraints to the improvement of credit management operations in the banking industry	1.8111	1.47560
17.	Credit management has impacted positively to the profitability of the banking industry generally	1.6000	.63246
18.	One of the main aims of effective credit management operation is to restore lost confidence in the banking industry	1.6333	.48459
19.	Character drives the whole relationship between a banker and a customer lending.	1.5778	.49668
21.	For a bank to survive, it needs clear lending guidelines coupled with pure objective to excel in its lending activities	1.6333	.54977
22.	By granting loans to credit worthy customers, repayment of such loan is guaranteed	2.3222	1.06874
23.	The prevailing economic climate in an economy at a given period of time determines the ability of banks to lend	1.7444	.71203
24.	Effective credit management operations help the bank to balance its obligation of granting loans	1.3556	.48136
26.	Government directives are major constraints in the implementation of certain policies in credit management	2.3556	1.18332
28.	Regulation and supervision of credit management is paramount for a stable banking industry.	1.6778	.46995
	TOTAL AVERAGE	***1.858339***	***0.827621***

The overall result of the credit risk management operations suggests that the banks under review have "seldom" been implementing credit risk management operations. With overall mean of **1.858339** and standard deviation of **0.82762**, this shows that credit risk management operations were seldom practiced. Also, other sub-variables of the independent variable, such as Credit control, Loan monitoring and supervision, Loan recovery were also seldom practiced.

R. Q. 2: What is the level of Profitability in the Nigeria Banking Sector?

Research question 2 intended to reveal the level to which banks in the study were profitable. To answer the question, simple descriptive statistics of mean and standard deviation were computed using SPSS statistical technique.

Table 2: Level of Profitability in the Nigerian Banking Sector

S/N	Item Questions	Mean	S D
1.	The bank declare dividend at the end of the year.	1.0889	.61158
2.	Salaries are paid as at when due.	1.1111	.31603
3.	For a bank to be profitable, it needs clear lending guidelines.	1.4111	.49479
4.	Profitability is achieved by maintaining cash reserve ratio.	2.2778	1.56527
5.	Lending decisions should aim at making its services wider which would lead to the profitability and growth of the bank.	2.2222	.90910
6.	The higher the risk involved in lending, the more profitable the return is.	1.9111	.84327
7.	Banks profitability depends on its ability to foresee, avoid and monitor risk associated with credit provisions.	2.3556	1.06329
8.	The recent CBN policies have collapsed banks credit management which affects banks profitability.	2.3667	1.08566
	AVERAGE	1.843063	0.861124

The result evaluated the profitability of the banks under review having an average mean of 1.843063 and an average standard deviation of 0.861124 which shows that their profitability and performance level is fair enough. This is because it falls under the rank of 2.0 – 1.1

The findings revealed that the banks' profitability level was fair enough. This could be supported by the overall result of mean and standard deviation of **1.843063** and **0.861124** respectively. Other sub variables such as return on assets, return on equity (ROE), return on investment (ROI) has shown that the banks in the study were also fair enough.

R. Q. 3: Relationship between Credit Risk Management and Banks Profitability

Research question 3 intended to evaluate the relationship between credit risk management operations and profitability in the banks under the review of this study. It is also aimed to reveal the effect of credit risk management operations on profitability. To answer the question, correlation coefficient showed the relationship between the variables while, regression coefficient showed the effect of the variables.

Table 3: Effect of Credit Risk Management on Banks Profitability

Model Predictor	***B***	***β***	***R***	***R^2***	***Sig.***
(Constant)	2.889				.003
CREDIT RISK MANAGEMENT OPERATION	2.889	.807	.807	.651	.000

Dependent Variable: PROFITABILITY

The tables above explains the relationship between the variables i.e. the effect of credit risk management on profitability of the banks that were used for this research study. The R is given as the coefficient of correlation while the R- square is called the coefficient of regression. The R = 0.807 which means that the correlation between credit risk management and profitability of the banks under study is given as 0.807 when this is converted to percentage; we have a correlation of 80.7% which is a perfect correlation. This implies that as credit risk management increases, profitability of the banks increases.

The R-square value is given as the regression coefficient; it helps to see the effect of one variable on another. From the table, the coefficient is 0.651, when this is converted to percentage, we have 65.1%. This infers that the credit risk management policies have a 65.1% effect on the profitability of the banks in question. The resultant effect is that the management of credit risk is effective and will need to be improved for a better performance i.e. profitability. The significance value from this analysis is given as 0.000 which is lower than the generally accepted alpha level of 0.05. This is an indicator that our estimate is statistically significant. From the coefficient table, the researcher focused on the test of hypothesis. The focus here was on the T -value. The T - value was used to test the hypothesis that was generated for this research.

To test the hypothesis, the decision rule was stated for the acceptance of hypothesis under T -test. The decision rules are given as: if Tcalculated>Ttabulated reject null hypothesis, if Tcalculated<Ttabulated accept null hypothesis.

The hypothesis tested here is given as:

H0: Adequate credit risk management has no significant effect on banks' profitability.

From the table of coefficient above, T-calculated is given as 12.807. For our T-tabulated, the table of critical

values was visited based on a degree of freedom of 99. From this table, the T-tabulated is given as 1.660. Based on the decision rule above we have to reject H0 and conclude that adequate credit risk management has a significant effect on banks' profitability. From the above, it is clearly evident that the management of credit risk in these banks has had a positive impact on their performance and profitability level. This is clearly evident in the values as obtained for the regression and the correlation.

Conclusions and Recommendations

The result of the correlation indicates that there is "moderate and positive" relationship between credit risk management and profitability; this was indicated by the correlation coefficient of **0.807** and the significant level of **0.000.** This means credit risk management operations influence profitability. A well configured credit risk management function can play a vital role on the level of profitability of the banking sector. Bank lending or credit is of interest to borrowers, government and financial institution concerned. The interest of these parties though interdependent enables banks to be careful in terms of lending. The saver is interested in the security of his saving and the rate of return from there, the borrower is interested in the amount available to him at the lowest possible rate (interest charge), the government is interested in financial stability of the banking system and, the lending institution has regulation and procedures to be observed, all aimed at maximizing the profit objectives of the institution, without flouting the law. An efficient credit management therefore may be considered as an important factor that determines bank profitability.

It is therefore recommended that bank should establish an appropriate credit risk environment. This will entail approving and periodically reviewing the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the bank's tolerance for risk and the level of profitability the bank expects to achieve for incurring various credit risks. The Banks used under this research work should ensure that the risks of products and activities new to them are subject to adequate risk management procedures and controls before being introduced or undertaken, and approved in advance by the board of directors or its appropriate committee.

The Banks used under this research work must operate within sound, well-defined credit-granting criteria. These criteria should include a clear indication of the bank's target market and a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment. The Banks used under this research work should establish overall credit limits at the level of individual borrowers and counterparties, and groups of connected counterparties that aggregate in comparable and meaningful manner different types of exposures, both in the banking and trading book and on and off the balance sheet. The Banks used under this research work must have in place a system for monitoring the condition of individual credits, including determining the adequacy of provisions and reserves.

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