ASSESSMENT OF THE EFFECT OF LOAN ADMINISTRATION ON PROFITABILITY IN THE NIGERIAN BANKING SECTOR (CASE STUDY OF COMMERCIAL BANKS)

BY

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NSU/ADM/PGDM/BUS/175/15/16

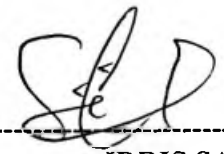
BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF BUSINESS ADMINISTRATION, FACULTY OF ADMINISTRATION, NASARAWA STATE UNIVERSITY, KEFFI, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF POST GRADUATE DIPLOMA IN BUSINESS ADMINISTRATION

DEPARTMENT OF BUSINESS ADMINISTRATION
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DECEMBER, 2020

DECLARATION

I hereby declare that this project has been written by me and it is a report of my research work. It has not been presented in any previous application for Post Graduate Diploma. All quotations are indicated and sources of information used have been duly acknowledged by means of references.



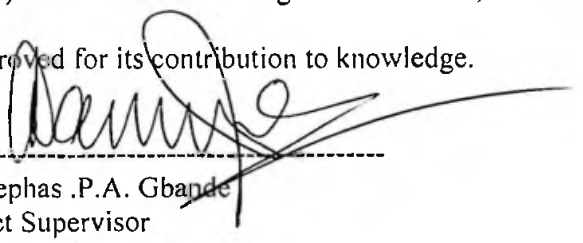
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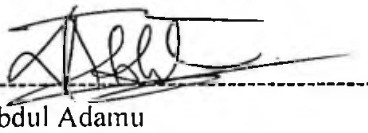
CERTIFICATION

The projects entitled; "An Assessment of the Effect of Loan Administration on Profitability in the Nigerian Banking Sector", A Case Study of Commercial Bank, meets the regulations governing the award of Master of Business Administration (MBA) of the School of Postgraduate Studies, Nasarawa State University, Keffi, and is approved for its contribution to knowledge.



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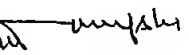


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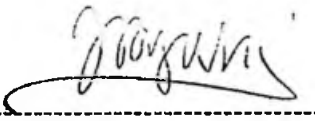


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DEDICATION

I dedicate this project to Almighty Allah my creator, my strong pillar, my source of inspiration, wisdom, knowledge and understanding.

ACKNOWLEDGEMENT

My profound gratitude first goes to Almighty Allah for the opportunity to start and successful completion o my MBA program.

It is my pleasure to express my deepest sense of appreciation and gratitude to my guide and project supervisor DR. CEPHAS .P.A. GBANDE, for his immense contributions, timely guidance, meticulous scrutiny, scholarly advice and scientific approach which has helped me greatly in accomplishing this task. His overwhelming disposition and keen interest in guiding students towards goal and objective attainment is quite commendable.

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ABSTRAC

The aim of this research work is to assess the effect of loan administration on profitability in the Nigerian banking sector using commercial banks as a case study within the period of 1999 to 2018. An in-depth analysis of the works of others scholar was reviewed. The research work adopted the famous Ordinary Least Squares (OLS) regression analysis for data analysis and test of hypotheses. Findings revealed that loans and advances (LAD) of banks to the private sector has a positive and significant relationship with bank profitability as revealed by its positive coefficient of 0.150 with a corresponding significant value of 0.032,this is in line with our a priori expectation. It was also found that total deposits of deposit money banks (TDDMBs) have a positive relationship with bank profitability (0.397); the relationship is statistically significant as revealed by the probability value 0.000. Finally, the study found that interest rate has a positive and significant relationship with bank profitability. The research work recommends that there is urgent need for institutions in Nigerian banking sector especially commercial banks to intensify their capacity in loan administration while the regulatory authority should monitor the activities of these institutions in this regard to ensure compliance with regulatory guidelines; that Banks must put in place sound credit-granting process, strictly hold fast to know your customer (KYC) system, applying effective measures in measuring and monitoring of credit and ensure effective controls over credit risk; that institutions in the Nigerian banking sector should ensure that only trained and experience loan/credit officers are in-charge of administration of loans to the general public; and that the Central Bank of Nigeria should as a matter of necessity through her Monetary Policy Committee, review the anchor borrowing rate, that is the monetary policy rate from time to time to reflect changing peculiarities of the Nigerian financial sector.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Banking industry has been known for its intermediation role in providing financial assistance (credit) needed in the economy. This role is normally carried out in many ways via granting of loans and advances to customers, which are the major part of bank lending. Apart from loans and advances, there are other forms of banking or bank credits or bonds issued by banks for and on behalf of customers. Banks are merely custodians of the money which they give out to their customers as a loan on which the interest must be paid to depositors and dividends to the investors. Loans and advances are the total amount of money a bank lends out to its customers at any given period of time. Bank loan is an amount of money loaned at interest by a bank to a borrower, usually on collateral security, for a certain period of time. It can be in form of overdraft which is on a short term basis or mortgage loan which is on a long term basis Nwankwo (1980) brought out that bank usually charges the borrower interest for using its money. These loans and advances usually have maturity period. Credits must be made to people who are capable of utilizing it well and repaying the loan at its maturity. The place of loans and advances in the affairs of banks can be explained by referring to the fact that "loans and advances are the largest single item in the assets structures of Nigeria commercial Banks. It also constitutes the main source of the operating income of banks and also the most profitable assets for the employment of banks funds. According to Osayameh (2018), the major objective of commercial banks' lending is to maximize profit. The staggering increase in volume of banks credit in Nigeria in 2005 alone lends credence to this assertion. In 2005,

aggregate banks credit to the domestic economy grew by 30.8% to a staggering increase of N2,007.4 billion compared with the rate of 22.5 per cent, while credit to the core private sector increased by 29.4 per cent to N1,950 billion(CBN). However, commercial banks decisions to lend out loans are influenced by a lot of factors such as the prevailing interest rate, the volume of deposits, the level of their domestic and foreign investment, banks liquidity ratio, prestige and public recognition to mention a few. Therefore, no matter the sources of the generation of income or the economic policies of the country, commercial banks would be interested in giving out loans and advances to their numerous customers.

1.2 Statement of the Problem

Commercial banks create loans from deposits of customers and these loans are major income generating source for majority of the banks. However this intermediation function of commercial banks is associated with enormous risks to both the banks and the deficit units. Banks are now working so hard to attract the massive number of people who are not banking with them. This has led to an increase in banks' surplus units and deficit units as well. With the aim of increasing revenue and gaining a large portion of the market share, many banks have given out loans and advances which could not be recovered leading to a massive growth in Non-Performing Loans (NPLs) in their accounts. This has become a worrisome situation for banks and other stakeholders.

However, the study carried out by Ogboi et al. (2013) on the topic "Impact of Credit Risk Management and Capital Adequacy of the Financial Performance of Commercial Banks in Nigeria" showed that sound credit risk management and capital adequacy impacted positively on the banks financial performance with the expectation of loan and advances

which was found to have a negative impact on bank's profitability. In the study "Loan Management and the Performance of Nigeria banks" there is no significant relationship between effective loan management and the performance of banks (Lawrence, 2018). This implies that, banks in Nigeria experience high profit irrespective of the huge credit risk exposure, conflicting with views shared by other researchers. The Prime concern of this study is to determine whether loan administration has an effect on the profitability of Nigerian banks with special reference to commercial banks using data from 1999 to 2019.

1.3 Research Questions

The following are the research questions of the study:

1. What is the effect of loans and advances on bank's profitability in Nigeria commercial banks
2. What is the impact of customer deposit on bank's profitability in Nigeria commercial banks
3. What is the effect of interest rate on profitability of Nigeria commercial banks

1.4 Objectives of the Study

The main objective of this study is to assess the effect of loan administration on profitability in the Nigerian banking sector using commercial banks as test case. The specific objectives examined are, to:

1. evaluate the effect of loans and advances on bank's profitability in Nigeria commercial banks
2. examine the impact of customer deposit on bank's profitability in Nigeria commercial bank
3. investigate the effect of interest rate on profitability of Nigeria commercial banks

1.5 Statement of the Hypotheses

The following hypotheses were formulated for the purpose of testing:

H_{01}: Loans and advances has no significant effect on bank's profitability in Nigeria commercial banks

H_{02}: Customer deposit (deposits of deposit money banks) has no significant impact on bank's profitability in Nigeria commercial banks

H_{03}: Interest rate has no significant effect on profitability of Nigeria commercial banks.

1.6 Significance of the study

The study will help the commercial banks management in Nigeria to boost their profitability haven known from the study that loan administration significantly and positively affects their profitability. In addition, the degree to which credit is controlled has a bearing on the progress and sustainability of commercial banks and the economy at large; the customers and investors need to know whether their deposits are managed or utilized efficiently, so it is an eye-opener. The research would serve as an incarnation of knowledge to individuals, management and practitioners in the banking and non-bank financial industry. The result would also be useful in academic field.

1.7 Scope of the Study

This study covers the effect of loan administration on the profitability in the Nigeria banking sector using commercial banks as a case study. The study will span from 1999 to 2018. This period is presumed adequate to capture changes in Nigeria banking sector especially in the area of commercial loan administration and how this has tended to affect their profitability. This study focuses on all the existing commercial banks in Nigeria. Thus, the Micro-finance banks and other banks will not be included in the study.

1.8 Operational Definition of Terms

a. **Commercial banks:** A commercial bank is a financial institution that provides services such as accepting deposits, making business loans, and offering basic investment products. Commercial bank can also refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses, as opposed to individual members of the public (retail banking).

b. **Profit:** Profit refers to the total income earned by the enterprise during the specified period of time.

c. **Profitability:** Profitability means ability to make profit from all the business activities of an organization, company, firm, or an enterprise.

d. **Effect:** this is the result or outcome of a cause.

e. **Financial intermediaries:** these are institutions that such as banks, building society, or unit-trust companies, that holds funds from lenders in order to make loans to borrowers. A financial intermediary is an institution that serves as a middleman among diverse parties in order to facilitate financial transactions.

f. **Model:** is a graphical, mathematical (symbolic), physical, or verbal representation or simplified version of a concept, phenomenon, relationship, structure, system, or an aspect of the real world.

g. **Investment:** this is a monetary asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit.

h. **Capital:** this is wealth in the form of money or assets, taken as a sign of the financial strength of an individual, organisation, or nation, and assumed to be available for development or investment.

i. **Normality tests:** are used to determine if a data set is well-modeled by a normal distribution and to compute how likely it is for a random variable underlying the data set to be normally distributed.

j. **Mahalanobis Transformation:** this is used by statisticians to decorrelate two random variables.

k. **Loan:** A loan is money, property or other material goods given to another party in exchange for future repayment of the loan value or principal amount, along with interest or finance charges.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

The major concepts that would be discussed in this project are loan administration, profitability and commercial banks

2.1.1 Loan Administration

Loan administration means a lender's processing of a loan and includes review, underwriting and evaluation of the loan application, document processing and preparation and administration of the loan closing, but does not include appraisals, inspections, surveys, credit reports or other activities incidental to loan origination and normally taking place outside the office of the lender or performed by third parties (Ajayi and Ajayi, 2017).

Deposit money banks exists not only to accept deposits but also to grant credit facilities, therefore inevitably exposed to risk of credit management. Credit is the faith lender has in a borrower so that resources can be transferred to the borrower without immediate payment (Greuning & Bratanovic, 2003). This means the lender gives a borrower an asset with the intention of getting an equal asset in value on the day of payment in a later date. 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 greater extent than any other risks. In the financial parlance, Credit also refers to the giving out of loans and the making of debt Gieseche (2004). According to Tetteh (2012), sound credit-giving is one of the most essential principles which strengthen financial institutions in their financial standing. This researcher stressed that, sound credit giving

establishes credit limits as well as develop credit granting process for approving new credits. Credit plays a very vital part in the economic growth and development of a country. These roles credit plays can be categorized into two: it enables the transfer of funds to where it will be most effectively and efficiently used and secondly, credit economizes the use of currency or coin money as granting of credit has a multiplier effect on the volume of currency or coin in circulation.

Lending involves a number of risks. Among these risks, credit risk plays the major role since by far the largest asset item for banks is loans, which generally account for half to almost three-quarters of the total value of all bank assets. Credit risk comes up from uncertainty in a given counterparty to meet up with the obligation of honouring the terms and conditions of the credit arrangement (Fatemi & Foolad, 2006). In essence, credit risk arises from uncertainty in counterparty's ability or willingness to meet his/her contractual obligations. In the same vein, Naomi (2011) argued that credit risk represents the potential variation in the net income from non-payment or delayed payment of credit facility granted to customers. According to Basel committee on Banking Supervision, 1999, credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. From the above definitions and meanings given by these researchers, they bore down to the fact that, credit risk is a cancer which causes serious financial problems when it is not properly managed.

2.1.2 Concept of Profitability

Profitability means ability to make profit from all the business activities of an organization, company, firm, or an enterprise. It shows how efficiently the management

can make profit by using all the resources available in the market. According to Harward and Upton (1961), "profitability is the 'the ability of a given investment to earn a return from its use." However, the term 'Profitability' is not synonymous to the term 'Efficiency'. Profitability is an index of efficiency; and is regarded as a measure of efficiency and management guide to greater efficiency (Pandey, 2002). Though, profitability is an important yardstick for measuring the efficiency, the extent of profitability cannot be taken as a final proof of efficiency. Sometimes satisfactory profits can mark inefficiency and conversely, a proper degree of efficiency can be accompanied by an absence of profit. The net profit figure simply reveals a satisfactory balance between the values receive and value given. The change in operational efficiency is merely one of the factors on which profitability of an enterprise largely depends. Moreover, there are many other factors besides efficiency, which affect the profitability (Pandey, 2002).

Sometimes, the terms 'Profit' and 'Profitability' are used interchangeably. But in real sense, there is a difference between the two. Profit is an absolute term, whereas, the profitability is a relative concept. However, they are closely related and mutually interdependent, having distinct roles in business. Profit refers to the total income earned by the enterprise during the specified period of time, while profitability refers to the operating efficiency of the enterprise. It is the ability of the enterprise to make profit on sales. It is the ability of enterprise to get sufficient return on the capital and employees used in the business operation. As Weston and Brigham (2002) rightly notes "to the financial management profit is the test of efficiency and a measure of control, to the owners a measure of the worth of their investment, to the creditors the margin of safety,

to the government a measure of taxable capacity and a basis of legislative action and to the country profit is an index of economic progress, national income generated and the rise in the standard of living", while profitability is an outcome of profit. In other words, no profit drives towards profitability. Firms having same amount of profit may vary in terms of profitability. That is why Kulshrestha (1999) has rightly stated, "Profit in two separate business concern may be identical, yet, many a times, it usually happens that their profitability varies when measured in terms of size of investment" (James, Horne and Wachowicz, 2015).

2.1.3 Dimensions of Profitability

The early contribution to empirical literature about profitability analysis began mainly with Bain (1951) who studied the relationship between profitability and Structural variables, such as concentration, growth, economics of scales, and advertising. Bain found that concentration had a positive impact on profitability. Mann (1966) supported Bain's findings when he indicated that there was a positive relationship between concentration and profitability. Additionally, other researchers such as Coins and Perston (1968), Weiss (1974) and Porter (1979) have showed that industry concentration had a positive effect on profitability. In the Stockmarket, Ghosh, Nag, and Sirnmans (2000) confirmed that return on assets (ROA) is widely used by market analysts as a measure of financial performance, as it measures the efficiency of assets in producing income. In another field, Mishra, Wilson and Williams, (2009) indicated that returns on assets (ROA), a measure of financial performance commonly utilized in the farm management literature, is the ratio of net farm income plus interest payment to total assets. Because many researchers adopted and used return on assets to measure the firm's financial

performance, the current study however adopts return on assets as a measure of profitability.

2.1.4 Profitability of Commercial Banks

Banking Profitability may also show managers attitude toward risk. Banks that make huge profits are not scared when venturing into risky activities. In a similar fashion, banks that are not effective in their management encounter higher bad debt. Profitability measure is important to the investors. The level of profitability is very significant for shareholders of a bank because it shows how effective management has utilized their investments (Devinaga, 2010). In determining the financial strength of a deposit money bank, the level of profitability is predominant. ROA and ROE are used as main profitability measures in most of the organizations including banks and financial institutions. The ROA demonstrates the level of net income produced by the bank and also determines how the assets utilized by banks generate profit over the years. On the other hand, the return on equity (ROE) is the ratio of net income to total equity indicating returns to shareholders on the book value of their investment. It measures the rate of return for ownership interest (shareholders)' equity of common stock owner, it tells how efficient a firm/bank is at generating profits from each unit of shareholder equity, also known as *net assets or assets minus liabilities.* The ranking of banks is usually based upon the higher ROA ratio and total assets. As a general view, particularly in banking sector, ROA is known as good profitability multiplier for the reason that equity multiplier does not influence it (Saeed et al., 2016). Profitability can be measured in a number of ways. They include return on assets (ROA), return on equity (ROE). Over the year, most researchers prefer using return on asset (ROA) and Return on Equity (ROE) as indicators

of profitability or performance. Researchers often use both ROA and ROE as measures for profitability. In their defense, these researchers selected ROA and ROE over others because it is free of financial leverage and the risks associated with it (Flamini et al., 2009). Additionally, it is possible to compare companies in the same industry or diverse industry when ROA and ROE is employed as a proxy for profitability. This makes ROA and ROE strong measures for profitability (Devinaga, 2010).

Return on Assets (ROA) is the ratio of net income to total assets, measure how profitable and efficient a bank' management is, based on the total assets. How bank manage its assets to generate profit within a period. ROA can be disintegrated into the following elements.

ROA= Net Income / Total Assets.

Return on Equity (ROE) is the net profit divided by shareholders' equity. It measures the bank's profitability by calculating how much profit is generated with the money invested by shareholders. ROE is the best and most common measure of profitability, it does not consider factors such as timing of cash flows or turnovers (Angela D., 2016).

Profitability is an indicator of banks' capacity to carry risk and/or increase their capital. It indicates banks' competitiveness and measures the quality of management (Adinde, 2018). Profitability is one of the key concepts in our research. This is due to the topic of this research is about the relationship between the profitability and credit management. Clear explanation to the profitability of deposit money banks is crucial for readers to understand the research procedure and meaning.

The determinants of commercial banks' profitability can be concluded into two categories, namely those that are management controllable (internal determinants) and

those are beyond the control of management (external determinants) Guru, Staunton, and Balashanmugam, 1999). The internal determinants reflect upon banks' management policy and decision concerning sources and uses of funds management, capital and liquidity management and expenses management. This kind of profitability factors can be examined by financial statements of commercial banks (Guru et al., 1999). The external factors are environment factors and firm-specific ones (Guru et al., 1999). This research mainly focuses on the analysis of internal determinants because our purpose is to test the effect of credit management to deposit bank's profitability. The determinants reflected upon credit management should be included into internal policy and decisions which can be examined by financial statements. On the other hand, bank's decisions are also affected by external regulation, thus this research also involves the consideration of external factors.

2.1.5 Concept of Commercial Banks

A Commercial bank is a monetary organization that gives administrations, for example, receiving of deposits from customers, making business payments and offering other investment products. As per Rose (2002), it is a business enterprise with a definitive motivation behind amplifying the estimation of shareholder's investment and put resources of an organization to acceptable levels.

A commercial bank is a financial institution that provides services such as accepting deposits, making business loans, and offering basic investment products. Commercial bank can also refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses, as opposed to individual members of the public (retail banking).

2.1.6 History of Commercial Banking in Nigeria

Commercial banking activities started 1892 with the establishment of the African Banking Corporation ledger depositor and Co. A shipping company based in Liverpool was instrumental in its formation. This bank was however, taken over in 1984 by the bank of the British West African which later became standard bank and now first bank of Nigeria Plc with the bank on observation. The next was Barclays bank and company (now Union bank of Nigeria Plc) was established in 1917. These banks were set up to provide banking services for the British Commercial interest and the colonial administration in West African when the west African currency board (Gyasi Central Bank) was set up in 1912, the bank of British became the agent of the currency board. The National Bank of Nigeria came into existence in 1933 as the first indigenous bank that was to survive other banks that were established before that time including the merchant banks, failed as a result of inadequate capital, fraudulent practices and poor management.

After the Second World War, economic activities and with high export prices, many Banks grow up in the Nigeria economy. Between 1945 and 1947, four (4) other indigenous bank, Africa Continental Bank (ACB) Agbenmagbe, Nigeria farmers and commerce bank were established but only two were able to survive the African Continental Bank and Agbenmagbe Bank (Now Wema Bank). The period (1945 – 1952) was a period of free for all banker. In the period (1905 – 1975) alone 18 banks were established but by 1975 most of them had gone to liquidation or close down by the police or never started business at all. A lot of factor lead to the fall of these banks must had insufficient capital, most expanded their offices too rapidly to cover trading and these

were no banking regulations to specify the code of conduct. Nigeria commercial banks have been divided into two (2) main categories namely; Indigenous bank (owned 100% by Nigerians) and Mixed banks (with majority indigenous shareholders at least 60%) Nigerian law does not allow any foreign bank with a majority foreign interest.

Functions of Commercial Banks

The main functions of commercial banks are accepting deposits from the public and advancing them loans.

However, besides these functions there are many other functions which these banks perform. All these functions can be divided under the following heads:

1. **Accepting Deposits:** The most important function of commercial banks is to accept deposits from the public. Various sections of society, according to their needs and economic condition, deposit their savings with the banks. For example, fixed and low income group people deposit their savings in small amounts from the points of view of security, income and saving promotion. On the other hand, traders and businessmen deposit their savings in the banks for the convenience of payment.

   Therefore, keeping the needs and interests of various sections of society, banks formulate various deposit schemes. Generally, there are three types of deposits which are as follows:

   a. *Current Deposits:* The depositors of such deposits can withdraw and deposit money when-ever they desire. Since banks have to keep the deposited amount of such accounts in cash always, they carry either no interest or very low rate of

interest. These deposits are called as Demand Deposits be-cause these can be demanded or withdrawn by the depositors at any time they want. Such deposit ac-counts are highly useful for traders and big business firms because they have to make payments and accept payments many times in a day.

b. *Fixed Deposits:* These are the deposits which are deposited for a definite period of time. This period is generally not less than one year and, therefore, these are called as long term deposits. These deposits cannot bc withdrawn before the expiry of the stipulated time and, therefore, these are also called as time deposits. These deposits generally carry a higher rate of interest because banks can use these deposits for a definite time without having the fear of being withdrawn.

c.*Saving Deposits:* In such deposits, money upto a certain limit can be deposited and with-drawn once or twice in a week. On such deposits, the rate of interest is very less. As is evident from the name of such deposits their main objective is to mobilise small savings in the form of deposits. These deposits are generally done by salaried people and the people who have fixed and less income.

2. **Giving Loans:** The second important function of commercial banks is to advance loans to its customers. Banks charge interest from the borrowers and this is the main source of their income. Banks advance loans not only on the basis of the deposits of the public rather they also advance loans on the basis of depositing the money in the accounts of borrowers. In other words, they create loans out of deposits and deposits out of loans. This is called as credit creation by commercial banks.

Modern banks give mostly secured loans for productive purposes. In other words, at the time of advancing loans, they demand proper security or collateral. Generally, the

value of security or collateral is equal to the amount of loan. This is done mainly with a view to recover the loan money by selling the security in the event of non-refund of the loan.

At limes, banks give loan on the basis of personal security also. Therefore, such loans are called as unsecured loan. Banks generally give following types of loans and advances:

a. *Cash Credit:* In this type of credit scheme, banks advance loans to its customers on the basis of bonds, inventories and other approved securities. Under this scheme, banks enter into an agreement with its customers to which money can be withdrawn many times during a year. Under this set up banks open accounts of their customers and deposit the loan money. With this type of loan, credit is created.

b. *Demand loans:* These are such loans that can be recalled on demand by the banks. The entire loan amount is paid in lump sum by crediting it to the loan account of the borrower, and thus entire loan becomes chargeable to interest with immediate effect.

c. *Short-term loan:* These loans may be given as personal loans, loans to finance working capital or as priority sector advances. These are made against some security and entire loan amount is transferred to the loan account of the borrower.

3. **Over-Draft:** Banks advance loans to its customer's upto a certain amount through over-drafts, if there are no deposits in the current account. For this banks demand a security from the customers and charge very high rate of interest.
4. **Discounting Bills of Exchange:** This is the most prevalent and important method of advancing loans to the traders for short-term purposes. Under this system, banks advance loans to the traders and business firms by discounting their bills. In this way,

businessmen get loans on the basis of their bills of exchange before the time of their maturity.

5. **Investment of Funds:** The banks invest their surplus funds in three types of securities—Government securities, other approved securities and other securities. Government securities include both, central and state govern-ments, such as treasury bills, national savings certificate etc. Other securities include securities of state associated bodies like electricity boards, housing boards, debentures of Land Development Banks units of UTI, shares of Regional Rural banks etc.
6. **Agency Functions:** Banks function in the form of agents and representatives of their customers. Customers give their consent for performing such functions. The important functions of these types are as follows:

   a. Banks collect cheques, drafts, bills of exchange and dividends of the shares for their custom-ers.

   b. Banks make payment for their clients and at times accept the bills of exchange: of their cus-tomers for which payment is made at the fixed time.

   c. Banks pay insurance premium of their customers. Besides this, they also deposit loan installments, income-tax, interest etc. as per directions.

   d. Banks purchase and sell securities, shares and debentures on behalf of their customers.

Banks Under this theory, bank's management can plan its liquidity based on the expected income of the borrower and this enables the bank to grant a medium and long-term loans, in addition to short-term loans as long as the repayment of these loans are linked by the borrowers expected income to be paid in the periodic and regular premiums, and that will

enable the bank to provide high liquidity, when the cash inflows are regular and can be expected. Deposit money banks can manage its liquidity through appropriate credit management that is directing of granted loans, and ensuring that these loans are collected as at when due in a timely manner and minimize the possibility of delays in repayment at the maturity date (Okoh, Nkechukwu&Ezu, 2016).

e. arrange to send money from one place to another for the convenience of their customers.

2.2 Theoretical Framework

2.2.1 Shiftability Theory

Shiftability is the approach to keep the banks liquid by supporting the shifting of assets. When a bank is short of ready money, it is able to sell its assets to a more liquid bank. The approach allows the banking system run more efficiently: with fewer reserves or investing in long-term assets. Under shiftability, the banking system tries to avoid liquidity crises by enabling banks to always sell or repo at good prices (Okoh, Nkechukwu, and Ezu 2016).

2.2.2 Modern Portfolio Theory (MPT)

Modern Portfolio theory was introduced by Harry Markowitz in 1952. It attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. The portfolio theory integrates the process of efficient portfolio formation to the pricing of individual assets. It emphasized that risk is an inherent part of higher reward. The theory also explained that some sources of risk associated with

individual assets can be eliminated or diversified away, by holding a proper combination of assets (Bodie, Kane and Marcus, 1999).

Some of the issues not addressed by the theory include; how banks can form a portfolio of loans that minimize risk and maximize return. It does not outline ways of determining a risk free portfolio. Lastly, the theory does not address various risks that are faced by banks when managing a loan portfolio. Therefore, the theory cannot apply holistically when managing credit risk in banks.

2.2.3 Asymmetry Theory

The theory was developed in the early 1970s by these three economists: George Akerlof, Michael Spence and Joseph Stiglitz. Information asymmetry arises when a borrower has better information about the potential risks and returns associated with investment projects than the lender. It may be difficult to distinguish between good and bad borrowers, which may result into adverse selection and moral hazards problems which have led to significant accumulation of nonperforming loans in banks.

The theory argues that, the person possessing more information on a particular item for transaction is in a position to negotiate appropriate terms for the transaction than the other party (Auronen, 2003)

This study adopts the asymmetry theory to explain the research problem because the theory emphasizes the existence of information asymmetrywhich in the view of the researcher is what is obtainable in the Nigerian banking sector.

2.3 Empirical Review

Adegbite and Azeez (2016) conducted a study on 'analysis of the impacts of credit administration on profitability in Nigeria: Banking sector perspective'; and empirically analysed the effect of impacts of credit administration on profitability in Nigerian banking sector. Secondary data were used in this study. The data was obtained from annual reports accounts of ten (10) quoted Nigerian commercial Banks. The variables for which data were sourced include return on capital employed (ROCE), deposits, loans, and money transfer from 2004 to 2013. Panel data analysis was employed in this study. Finding reveals that there is a positive significant effect of loan and deposit on ROCE (β= .1572368; t=13.41, β = .1544665; t=2.88). Credit administration has strong and statistical significant positive impact on profitability of banking sector in Nigeria. In order to improve bank profitability there should be efficient management of credit administration. Banks should also focus on other revenue rivulet that will enhance the profitability of the bank apart from over reliance on interest income.

Ajayi and Ajayi (2017) carried out a study on 'Effects of Credit Risk Management on Performance of Deposit Money Banks in Nigeria' and examined the effects of credit risk management on the performance of deposit money banks in Nigeria from 2001-2015. The study employed panel regression analysis in which Profit after Tax (PAT) was used as proxy for bank performance while Non-Performing Loan Ratio (NPLR), Loan Loss Provision Ratio (LLPR), Loan to Total Asset Ratio (LTAR) and Cost per Loan Ratio (CPLR) were used as indicators of credit risk management. Fixed effect, random effect and Hausman test were conducted on the variables. This study revealed that banks profitability is negatively influenced by NPLR, LLPR and CPLR while LTAR influences

performance of banks positively. The study therefore concluded that deposit money banks in Nigeria have a high growth rates on loans and advances, with corresponding high rate of non-performing loans by customers. Also, the provisions for loan loss were slightly below the required amount 8% by Basel Accord with high administration costs. The study recommended that Nigerian banks should ensure high quality credit management and strict adherence to professional banking ethics. Also, deposit money banks should make adequate effort toward deposit mobilization and reduce credit administrative cost so as to be more efficient and enhance profitability.

Nwanna and Oguezue (2017) conducted a study on 'Effect of Credit Management on Profitability of Deposit Money Banks in Nigeria'. The study examined the nexus between credit management and profitability (ROA) of Deposit Money Banks (DMBs) in Nigeria context for the period of 2006 to 2015. Secondary data were sourced from Central Bank of Nigeria Statistical Bulletins and the Annual Reports of all the existing DMBs studied. The study employed multiple regression technique in analyzing the data that gathered, the analysis was done using ordinary least square with E-View 9 Econometric tool. The study found that loans and advances and loan loss provision have positive and insignificant effect on profitability, while non-performing loan has a negative and insignificant effect on profitability. The overall estimates of the two regressions have good fit and are adequate statistically. The R-squared which measures the overall goodness of fit of the entire regression shows the value of 84% and 79% in models one and two respectively. While the Durbin Waston statistic with value of 2.808450 and 2.499545 shows that there is no auto correlation among the considered variables and the overall regression is statistically significant. Thus, the study concluded that sound credit management

heightens profitability and holds the financial strength of the DMBs. It was recommended that DMBs should put in place sound credit management policies and practice. Issue recoverable loan and advances and provide for loan losses for desired credit risk exposure and increased profitability.

Alalade, Binuyo & Oguntodu (2014) examines the impact of managing credit risk and profitability of banks in Lagos state. The research hypothesis was tested and analyzed in relation to credit risk 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. Data for the study was an obtained through the 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. The results revealed that credit risk reduces the profit and therefore management of credit risk should be of great importance to management of bank in Lagos state.

In their study 'Credit Risk management and Profitability in Deposit money Banks in Sweden' Ara, Bakaeva and Sun (2009) they observed that credit risk management has effect on performance of the financial institutions. Regression model was used on the data collected from the sample banks annual report from 2000 - 2008. The study found that the impact of credit risk management on the financial performance is not the same on all four deposit money banks sampled. They recommended that Banks should improve on credit risk management strategies to improve their profitability.

Al-Khouri (2011) studied the impact of bank's specific risk characteristics, and the overall banking environment on the performance of 43 deposit money banks operating in 6 of the Gulf Cooperation Council (GCC) countries from 1998-2008. Fixed effect regression analysis was used. The results showed that credit risk, liquidity risk and capital risk were the major factors that affect bank performance measured by return on assets while liquidity risk only affects return on equity. He recommended that bank should be more efficient in risk management.

Mureithi (2016) carried out a study on 'the effect of credit management techniques on the financial performance of commercial banks in Kenya', and observed thatSound credit management is a basic for institutions in financial sector performance. With declining performance of the institutions due to increasing competition and changing regulatory framework, credit quality is imperative for continued wellbeing of the institutions in terms of financial performance. The greatest hazard in the credit business is loaning cash and not getting it back as with every single budgetary organization. Credit chance specifically is one of the greatest attentiveness toward banks since a portion of the loaning is unsecured. Some of the general populations financed are new companies who do not have the capacity to give assurances or security against the cash acquired as assurance of that payment will be done which exposes the lenders. In this way this study tried to evaluate the impact of credit management procedures on the financial performance of business banks in Kenya. The indicator factors of the study were customer evaluation, Collection arrangement and Credit hazard control while the needy variable was money related execution of Commercial Banks in Kenya. This study embraced a descriptive research. The design was fit as it allowed a thorough investigation

of the effect of credit management on the money related execution of banks in Kenya. The number of population in the study comprised of all the 45 banks in Kenya. . A census study was used to carry out the research. Data collection instruments that were used included questionnaires, financial statements, annual reports on record and data from the financial market. Primary data was collected using questionnaires where all the concerns on the questionnaire were addressed. Secondary data was collected from annual reports and financial statements. The secondary data from the financial statements included after tax profit, written off debt, total assets and value of loans outstanding. The researcher will administer the questionnaire to each respondent in the study. The questionnaire consisted both open and close ended questions. The closed ended questions were used to test the rating of various attributes and this helped to reduce the number of related responses so as to obtain more varied responses. The open-ended questions will provide additional information that will not have been captured in the close-ended questions. The study revealed that credit management techniques had a significant effect on the performance of the commercial Banks. Therefore the study recommended that there is need for CBK to enhance their client appraisal techniques so as to improve their financial performance.

Uwalomwa, Uwuigbe, and Oyewo(2015) critically assessed the effects of credit management on banks's performance in Nigeria. In achieving the objectives identified in this study, the audited corporate annual financial statement of listed banks covering the period 2007-2011 were analyzed. More so, a sum total of ten (10) listed banks were selected and analyzed for the study using the purposive sampling method. However, in an assessing the research postulations, the study adopted the use of both descriptive statistics and econometric analysis using the panel linear regression methodology consisting of

periodic and cross sectional data in the estimation of the regression equation. Findings from the study revealed that while ratio of non-performing loans and bad debt do have a significant negative effect on the performance of banks in Nigeria, on the other hand, the relationship between secured and unsecured loan ratio and bank's performance was not significant.

Chen and Pan (2017) examined the credit risk efficiency of 34 Taiwanese commercial banks over the period 2005-2008. Their study used financial ratio to assess the credit risk and was analysed using Data Envelopment analysis (DEA). The credit risk parameters were credit risk technical efficiency (CR-TE), credit risk allocative efficiency (CR-AE) and risk cost efficiency (CR-CE). The result indicated that only one bank is efficient in all types of efficiencies over the evaluated periods. Overall, the DEA results show relatively low average efficiency levels in CR-TE, CR-CE and CR-CE in 2008.

Lawrence (2013) focuses on the effect of loan management on performance of Nigerian banks. Relevant data were collected from financial report. The data was obtained from a survey of some selected banks in Nigeria. The data collected were analyzed by the use of regression. Some performance indicators such as profit after tax, earnings per share and dividend were used to measure the performance of the selected banks. The analyses reveal that loan is a predominate source of revenue, and effective management of loan portfolio and credit function is fundamental to banks safety and soundness. Although these activities continue to be mainstays of loan portfolio management, analysis of past credit problems, such as those associated with the banking sector, has made it clear that portfolio managers should do more. There is also the failure of bank management to establish sound lending policies and adequate credit administration procedure. Banks, as

custodians of depositors' fund therefore, are obliged to exercise due care and prudence on their lending operations. While the test reveals that there is no significant relationship between effective loan management and the performance of banks. The work concludes that loan management has not affected the performance of Nigerian banks.

Iwedi and Onuegbu (2014) carried out an empirical investigation into the effect of credit risk and performance of banks in Nigeria over the period of 15 year (1997-2011). Five banking firms were selected from the twenty existing deposit money banks in Nigeria using judgmental sampling techniques. Data were sourced from the annual reports and accounts statements/sheets of the banks in the sample. The data comprises of time- series and cross sectional data which were pooled into a panel data set and estimated using panel data regression techniques. The result shows that there is a positive relationship between Ratio of non- performing loans to loan and advances (LogNPL) and banks performance (LogROA). This indicates that banks in the study carry a very minimal level of non-performing loans in their loan portfolio and as such this does not conform to our apriori expectations. While also there exist a positive relationship between Ratio of loan and advances to total deposit (LogLA) and banks performance (LogROA), and this is significant at 1%. An increase in loan and advances increases banks performance through interest income generated from loan and advance.

Kolapo, Ayeni and Oke (2018) carried out an investigation into the quantitative effects of credit risk on the performance of five deposit money banks in Nigeria over the period of 11 years (2000-2010). Panel model analysis was adopted to estimate the determinants of the profit function. The results showed that the effect of credit risk on bank performance is cross-sectional invariant. They 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 guidelines.

Taiwo and Abayomi (2013).evaluated the impact of credit risk management on bank profitability of some selected deposit money banks in Nigeria using econometric analysis method on annual time series data of ten banks over the period of 2006 to 2012. The results from Panel Least Square (PLS) estimate found that that credit risk management had a significant impact on the profitability of Nigeria banks. They therefore suggested that, 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. Also that capitalization and total assets of the bank should be periodically evaluated.

2.4 Gap in Literature

Most of researchers have focused on one or several countries and showed different results. However, no researcher has put the research in Nigeria using commercial banks in Nigeria. Therefore, the researcher has found the existence of 'geographical' gap and the study is devoted to conduct a research on it. Most research work reviewed focus on credit management and profitability of banks and covered time scope not beyond 2015; this has also left a 'time' and 'conceptual' research gap which this study has filled. The period 1999 -2018 of this study also falls within the period of global economic recession and many loan administration issues that were evident in the banking sector of Nigeria making some of the commercial banks to merge.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

Research design explains the nature of the pattern the research intends to follow. This is the overall plan or strategy for conducting the research. The main purpose of the study was to evaluate the relationship between credit management and the profitability of deposit money banks in Nigeria. The research was conducted through a Historical Research Design. Historical research design is where the researcher explores, explains and understands past phenomenon from already existing data. This helped the researcher to arrive at conclusions about the effect of credit management on the profitability in order to explain the present and predict and control the future. The study adopted quantitative research approach which answered the "How many?" questions in the study, thus allowed the measurement of relationships between variables in a systematic and statistical method.

3.2 Sources of Data

There are numerous sources through which data can be sourced for a research work. In this study we concern with secondary data sources. We employed document analysis in accessing aggregated data for the research and used this technique to obtain data from the central bank statistical bulletin, annual reports and audited financial accounts of all the existing commercial banks from 1999 to 2018.

3.3 Method of Data Collection

The data was obtained from Central Bank of Nigeria statistical bulletin and annual reports accounts of Nigerian commercial Banks. The variables for which data were

sourced include bank profit (measured as returned on capital employed), deposits, loans and interest rate from 1999 to 2018

3.4 Techniques for Data Analysis

The study uses descriptive statistics to summarize the collected data in a clear and understandable way using numerical approach. The study further employed the use of OLS multiple regressions to determine the effect of the independent variables on the dependent variable. The choice of OLS is mainly because it minimizes the error sum of squares and has a number of advantages such as un-biasedness, consistency, variance and efficiency; it is widely used based on its property of BLUE (Best, Linear, Unbias, Estimates), simple and easy to understand (Koutsoyannis, 1971).

3.5 Model Specification

Adegbite and Azeez (2016) formulated the following model to determine the effect of loan administration on profitability of commercial banks:

$$ROCE = f(LOAN, DEPOSIT, MONTRAF, \mu) \quad \ldots\ldots(3.1)$$

Where: ROCE is return on capital employed; LOAN is loan of commercial banks; DEPOSIT is deposit of customers in commercial banks; MONTRAF is money transfer and μ is the error term.

Equation (3.1) was rewritten in its explicit form as:

$$ROCE = \alpha_0 + \beta_1 LOAN + \beta_2 DEPOSIT + \beta_3 MONTRAF + \mu \quad \ldots\ldots(3.2)$$

Ajayi and Ajayi (2017) specified a model to examine the effects of credit risk management on the performance of deposit money banks in Nigeria from 2001-2015. Their model specification is as follows:

$$Profitability = f(Cridit\ Ristk) \ldots\ldots\ldots\

adjustment. Hence there is no comparability from one borrower to another, because their credit risk differs from one trading transaction to another. Also, the market varies across products (Markowitz, 1988). Therefore their study used PAT as measure of banks' performance. The modified model is:

$$PAT = f(NPLR, LLPR, LTAR, CPLR) \ldots\ldots\ldots\

Because of the time series and cross sectional nature of the data, fixed effect test, random effect test, and Hausman test were performed on the data.

Following Adegbite and Azeez (2016) and Ajayi and Ajayi (2017), the model for this study is formulated below to achieve the specific objectives of the study:

$$BP = f(LAD, TDDMBs, INTR) \ldots\ldots\ldots\

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation and Analysis

The data on the variables used in this study are presented and analysed using the research method described in chapter three. Test of hypotheses are performed with the aim of answering the research questions earlier stated in chapter one of this study.

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Sum	Mean	Std. Deviation	Skewness	Kurtosis
BP	19	15919.56	28986.44	226631.44	22663.1440	4944.28972	-.086	-1.896
LAD	19	10750.49	17235.64	141979.82	14197.9820	2953.46254	-.035	-2.434
TDDMBs	19	9054.23	18009.56	134787.34	13478.7340	3500.56465	-.062	-1.790
INTR	19	-42.31	23.71	46.13	4.6130	17.43998	-2.490	7.435
Valid N (listwise)	19							

Source: Researcher's Computation from SPSS 21.

A look at Table 4.1 has reveal that between 1999 and 2018, Bank Profitability (BP), loans and advances (LAD), total deposits of deposit money banks (TDDMBs), and interest rate (INTR) have averaged about N22663.14, N14197.98, N13478.73, and 4.6%.

and the maximum values of bank profitability, loans and advances, total deposits of deposit money banks, and interest rate recorded in various years during the period of the study areN28986.44, N17235.64, N18009.56and 23.71% respectively; with their corresponding minimum values of N15919.56, N10750.49, N9054.23 and -42.31%, and been captured in various years. The deviation of bank profitability, loans and advances, total deposits of deposit money banks, and interest rate from the expected showed N4944.29, N2953.46, N3500.56, and 17.44%, respectively.

It is worthy to note that the total units of bank profitability, loans and advances, total deposits of deposit money banks, and interest rate over the time of study was computed at N226631.44, N141979.82, N134787.34 and 46.13%, respectively.

According to Dornanski (2010), 'several comprehensive investigations of power of tests of multivariate normality can be distinguished, yet none of them is fully versatile'. This is because it would be needless to investigate every existing method, and practically impossible to test every likely deviation from normality. The Jarque-Bera test is frequently applied to test normality of distributions; Jarque & Bera (1987) gave skewness and kurtosis measures based on the Mahalanobis transformation. In conducting normality test for the series used in this study, we used the skewness and kurtosis only since the SPSS does not report Jarque-Bera test.

The standard value of skewness of distribution (i.e. distribution of the series along its mean) such as normal distribution is zero. The skewness for most of the series used in the study are substantially far from those considered to be normally distributed. However, these series are neither substantially skewed to the left (negatively) nor the right

(positively). This suggests that our distribution does not significantly differ from a normal distribution.

The kurtosis (i.e. the peakedness and flatness of a normal curve) statistic of a normal distribution is 3. The kurtosis measures the peakedness of a distribution that is usually assumed to be relatively normal. The series generally do not exhibit characteristics of a distribution with a high peak and "fat tails" called leptokurtic (k>3). They however, have somewhat flat-topped curves and "thinner tails called platykurtic (k<3). Nevertheless, these series are not substantially biased.

Table 4.2: Summary of Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.800	4.218		.664	.627
	LOGLAD	.150	.804	.083	-2.141	.032
	LOGTDD	.397	1.619	.281	-6.208	.000
	MBs					
	LOGINTR	.018	.082	.032	-1.797	.023

Dependent Variable: LOGBP

Adjusted R^2 = 0.738, Durbin-Watson = 1.884

F-statistic = 8.716, Sig. 0.026

Source: Researcher's Computation from SPSS 21

Table 4.2 above revealed the regression results of the study model (logged equation 3.8) specified in chapter three in line with the specific objectives of the study. A cursory look at the table revealed that in the absence of all the regressors (dependent variables), bank profitability (BP) would be 2.800, this is reported by the intercept of the model which was symbolized as β_0 and now have an estimated value of 2.800. This constant value of BP is however statistically insignificant at 5% level.

The table also revealed that loans and advances (LAD) of banks to the private sector has a positive relationship with bank profitability as revealed by its positive coefficient of 0.150. This is in line with our *a priori* expectation. The coefficient of 0.150 further means that when there is a 1% increase in loans and advances, the profit of commercial banks will increase 15% and whenever there is a 1% decrease in loans and advances, commercial banks' profitability will decrease by 15%. This relationship is statistically significant at 5% level.

Similarly in line with *a priori* expectation, total deposits of deposit money banks (TDDMBs) have a positive relationship with bank profitability (0.397). The coefficient of 0.397 implies that any small change (say 1% change) in total deposits of deposit money banks would positively change profit of commercial banks by 39.7%. With the probability value 0.000, we can convincingly say that the relationship is statistically significant at 5% level of significance, and of course, at all conventional test sizes.

The positive value of interest rate (INTR) reported at 0.018 is in consonance with *a priori* expectation which implies that when INTR increase by 1%, profitability of commercial

banks would increase by 1.8% and vice versa. This relationship is also statistically significant at 5% level.

The results of the estimated model showed in Table 4.2 above further revealed the Durbin-Watson value of 1.884, which is very close to 2 meaning that there is no serial autocorrelation among the variables of the model under study.

The R^2 measures the percentage of the total variation in the dependent variable (bank profitability) that is been explained by the independent or explanatory variables (loans and advances, total deposits of deposit money banks and interest rate). The adjusted R^2 is preferred to R^2 in providing this explanation because of the presence of several explanatory variables. In this case, the adjusted R^2 of 0.738 means that about 73.8% of variations in bank profitability are been accounted for by explanatory variables specified in the model of the study and the remaining 26.2% are been captured by the error term and constitutes the unexplained variation in bank profitability been accounted for by other factors not in the model of the study.

The F-statistic provides information about joint effect of explanatory variables. In this case, the F-statistic value of 8.716 shows that the model is statistically significant, that means the model is good enough in providing information about variations in the profits of commercial banks in Nigeria been explained by variations in loans and advances, total deposits of deposit money banks and interest rate. In simple terms, the explanatory power of the model is strong. The low values of the standard errors have further substantiated this claim.

4.2 Test of Hypotheses

There are three ways of judging the statistical reliability or significant of estimated regression coefficients. These include the use of standard errors, the use of t-statistic or z-statistic and the use of probability values or significance values. This study employed the significance values to determine the acceptance or otherwise of null hypotheses.

4.2.1 Hypothesis One

H_{01}: Loans and advances has no significant effect on bank's profitability in Nigeria commercial banks

Since loans and advances (LAD) has a significant value of 0.032 which is less than the 5% level of significance (0.05), we reject the null hypothesis that Loans and advances has no significant effect on bank's profitability in Nigeria commercial banks and conclude that loans and advances of banks significantly affects their profitability.

4.2.2 Hypothesis Two

H_{02}: Customer deposit (deposits of deposit money banks) has no significant impact on bank's profitability in Nigeria commercial banks

Given the significant value of total deposits of deposit money banks (TDDMBs) of 0.00 which is less than 0.05, we reject the null hypothesis that Customer deposit (deposits of deposit money banks) has no significant impact on bank's profitability in Nigeria commercial banks and accept its alternative. Therefore, deposits of banks have significantly contributed to commercial banks profitability in Nigeria.

4.2.3 Hypothesis Three

H_{03}: Interest rate has no significant effect on profitability of Nigeria commercial banks.

Given a significant value of 0.023 associated with interest rate (INTR) in the estimated model, which is less than 0.05 (5%) level of significance, we reject the null hypothesis that Interest rate has no significant effect on profitability of Nigeria commercial banksand accept the alternative that Interest rate has significant effect on profitability of Nigeria commercial banks. We therefore conclude that interest rate has contributed to the profitability of commercial banks in Nigeria during the period of this study.

4.3 Discussion of Findings

The first objective of the study was to evaluate the effect of loans and advances on bank's profitability in Nigeria commercial banks. This objective means examining whether the relationship between loans and advances which commercial banks in Nigeria give to the public and the profitability of commercial banks is statistically significant at 5% level. Consequently a null hypothesis was formulated in line with this objective with the aim of testing it at 5% level of significance. Finding from this test revealed that loans and advances of commercial banks have significantly contributed to the profitability of commercial banks in Nigeria during the period of the study. The result also revealed that there is positive relationship between LAD and BP implying that LAD (loans and advances) and BP (bank profitability) move in the same direction. This finding is consonance to that of Kolapo, Ayeni and Oke (2012) who found a positive and significant relationship between return of assets (ROA), which was used to measure profitability of banks, and loans and advances.

In the second place, the study aimed at examining the impact of customer deposit on bank's profitability in Nigeria commercial bank where a null hypothesis that Customer deposit (deposits of deposit money banks) has no significant impact on bank's profitability in Nigeria commercial banks was formulated for the purpose of testing. Finding from the test result revealed that deposits of deposit money banks have significantly contributed to the profitability of commercial banks in Nigeria. Furthermore, the relationship between total deposits of deposit money banks and bank profitability was a positive relationship as revealed by its positive coefficient of 0.397. This is in line with our a priori expectation. The coefficient of 0.397 further means that when there is a 1% increase in bank deposits, profitability of commercial banks will increase 39.7% and whenever there is a 1% decrease in bank deposits, commercial banks' profitability will decrease by 39.7%. This finding was consistent with that of Adegbite and Azeez (2016).

Thirdly, the study sought to investigate the effect of interest rate on profitability of Nigeria commercial banks. A hypothesis was formulated and tested to achieve this objective. Interest rate has significant effect on profitability of Nigeria commercial banks; with the interest rate coefficient reporting a coefficient of 0.018. This, as earlier pointed out, means that when INTR increase by 1%, profitability of commercial banks would increase by 1.8% and vice versa. This relationship is also statistically significant at 5% level, implying that interest rate contributes significantly to commercial banks profitability in Nigeria. This finding do not collaborates that of Ajayi and Ajayi (2017) who documented that interest rate in Nigeria have not contributed significantly to commercial banks profitability; a development which may be attributed to the loan mismanagement of most of the commercial banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study attempted an investigation of the effect of loan administration on the profitability in the Nigerian banking sector using commercial banks as test case. The major findings of the study are:

i. That loans and advances of banks significantly affects their profitability.

ii. That, deposits of banks have significantly contributed to commercial banks profitability in Nigeria.

iii. That Interest rate has significant effect on profitability of Nigeria commercial banks. Buttressing that interest rate has contributed to the profitability of commercial banks in Nigeria during the period of this study.

5.2 Conclusion

The estimated result on the effect of loan administration on profitability in Nigerian banking sector with focus on commercial banks; the study found that the regression coefficients all the independent variables (loans and advances; total deposits of deposit money banks and interest rate) have a positive relationship with the dependent variable (bank profitability) with all of them exerting significant effects on the later implying that they positively influence profitability, during the period studied. Based on the findings, the study concluded that loan administration of commercial banks affect and increases their profitability. Although, the high interest rate charged on loans discourages some

investors and therefore making some of their deposits to lie idle making them to resort to other charges to make profit and keep the business of banking moving.

5.3 Recommendations

The following recommendations are made based on the findings of this study:

i. There is urgent need for institutions in Nigerian banking sector especially commercial banks to intensify their capacity in loan administration while the regulatory authority should monitor the activities of these institutions in this regard to ensure compliance with regulatory guidelines.

ii. Banks must put in place sound credit-granting process, strictly hold fast to know your customer (KYC) system, applying effective measures in measuring and monitoring of credit and ensure effective controls over credit risk.

iii. Institutions in the Nigerian banking sector should ensure that only trained and experience loan/credit officers are in-charge of administration of loans to the general public

iv. The Central Bank of Nigeria should as a matter of necessity through her Monetary Policy Committee, review the anchor borrowing rate, that is the monetary policy rate from time to time to reflect changing peculiarities of the Nigerian financial sector.

5.4 Contribution to Knowledge

The essence of the research work is to make contributory impact to knowledge and to extend or validate the wisdom of mankind. Therefore this study's contributions to knowledge are as follows:

i. The study has contributed to unravel the true cause and effect relationship between interest rate and profitability of commercial banks. This relationship best explains why banks make huge profit at high interest rate regimes.

ii. The work has provided additional literature for further research attention and scholarly discuss on the subject matter of loan administration and profitability of the institutions in the banking study. This would spark scholarly research debate across Nigeria and beyond where some scholars will align or refuting the findings of this study.

5.5 Suggested Areas for further Studies

This study cannot claim to cover all facets of loan administration and its effects on the banking sector in Nigeria, therefore, the following are suggested for further study:

i. The study used commercial banks in Nigeria as a test case, as such it will be ideal to x-ray other financial institutions in the banking sector especially microfinance banks where findings from such a study could be used to make useful in recommending to owners of microfinance institutions in Nigeria and even beyond.

ii. A similar study of this kind can focus on credit risk management and recapitalization of commercial banks where such a stud would assess the risk associated with credit administration and how this go a long way to affect the recapitalization of commercial banks.

iii. Research could also be conducted on the nexus between private sector access to credit facilities by financial institutions and development of small and medium scale enterprises.

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