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ANALYZING THE DETERMINANTS OF CREDIT RISK FOR DEPOSIT MONEY BANKS IN SOUTHERN NIGERIA (A CASE OF SOUTH-WEST NIGERIA)

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ABSTRACT
This study is on analyzing the determinants of credit risk in Nigerian Deposit Money Banks (DMBs). The study employed secondary data, sought from the financial statements of the banks from 2011-2020 and adopted the specific variables and macro-economic variables thereof. The data were measured with panel data regression method. The findings revealed that Loan Loss Provision/Total Loan, Total Loan/Asset Ratio, Gross Domestic Product Growth, and Inflation had a positive and significant relationship. The results also showed that Bank Liquidity and Capital Adequacy Ratio had a negative and significant relationship. In line with the outcome of the study, it is thus recommended among others that banks' management should endeavor to develop rigorous and robust credit policies that will enable efficient and effective assessment of the creditworthiness of banks' customers.

Keywords: Risk, Determinants, Growth, Variables,Inflation, Policies.

Introduction

Bank exist not only to accept deposit but also to grant credit facilities, this business activity therefore inevitably exposed banks to huge credit risk which might lead to financial distress including bankruptcy. The Basel Committee on Banking Supervision [1999] defined credit risk as the probability that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms or the possibility of losing the outstanding loan partially or totally due to credit events (BCSB 2001).Credit creation is the main income generating activity for the banks kargi (2011).Adequate management of credit risk is critical for the survival, growth and development of banks.

However, despite the creation of Risk Management Department in all the banks, which is responsible for managing the banks risk including credit risk, available records shows that the spate of bad loans [non-performing loans]was as high as 35% in Nigeria deposit banks between 1999 and 2009,Sanusi (2010).The increasing level of performing loan rates in banks books, poor loan processing, undue interference in the loan granting

process, inadequate or absence of loan collaterals among other things are linked with poor and ineffective credit risk management that negatively impact on banks performance. This is a very disturbing phenomenon because the high level of non-performing assets in the bank`s portfolio if not brought under control, might erode the capital base of the banks and reduce its profitability. The worst case can happen where liquidation or bankruptcy may occur due to the banks inability to manage its risk efficiently. Can it be concluded therefore that the current credit risk policies are ineffective in controlling credit risk in Nigeria banks, is there a lax in the implementation of credit risk policies ,and to what extent their performance can be augmented by proper credit risk management policies and strategies? These are questions which previous studies have not fully answered. It is therefore the crux of this study to answer these questions by examining the credit risk indicators and performance of selected banks in Nigeria thereby attempting to make a modest contribution to literature on credit risk. The paper has five sections, section one is the introduction, section two contains the literature review and theoretical framework, section three is the methodology, section four is the empirical results and discussion while section five is the conclusion and recommendation.

METHODOLOGY

The study population is the public financial institutions .These banks are Guaranty Trust Bank Plc., Access Bank Plc., Union Bank Nig. Plc., Fidelity Bank Plc., and United Bank for Africa, first bank, United bank for Africa Zenith bank Plc., First city monument bank Plc. will be considered within the scope and area of study earlier described. This is because the annual report for 2019 shows that these banks ranked as top ten banks in Nigeria.

The sampling size/techniques to be used in this research work include simple random sampling techniques. A simple random sampling technique is imposed in each stratified population to respond to research questions of the study.

The research methods used for the data collection will be secondary data. This is because the data from the variables were collected from the fact books of the central bank of Nigeria as well as the deposit money banks. Secondary data is collected through the use of past records. Secondary data is any information that has been collected, researched or published. The sources of secondary data include internet, textbook, journals, newspapers, company respondents and publications, past project work and so on. The sources of secondary data include internet, textbook, journals, newspapers, company respondents and publications, past project work and so on.

The audited annual financial statement of selected banks, financial publications and reports from the Central Bank of Nigeria covering the period 2011