TITLE PAGE

GLOBAL ECONOMIC CRISIS AND CREDIT RISK MANAGEMENT IN NIGERIAN DEPOSIT MONEY BANKS

A Case Study of First Bank Nigeria Limited

BY

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CERTIFICATION

This Project by Tukur Bawa (12120905029) has been read and approved for meeting part of the requirements for the award of the Postgraduate Diploma in management of Department of business Administration, Faculty of Management Sciences, Usmanu Danfodiyo University, Sokoto and is approved for its Contribution to knowledge.

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DEDICATION

This work is first dedicated to Almighty God for His infinite mercies on me. Also to my parents; Alhaji Bawa Shehu and Hajiya Khadija Bawa whose help and parental care made my education a success and finally to my entire family.

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All praises are due to Almighty God, the Alpha and Omega, the Beginning and the End, for giving me the privilege to complete this Project and pray for His continuous guidance in all my present and future endeavors.

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ABSTRACT

This research titled "Global Economic Crisis and Credit Risk Management in Nigerian Deposit Money Banks: A Case Study of First Bank Nigeria Limited". Chapter one is the introduction of the study, statement of the problem, objective of the study and prelude to the significant of the study, research hypothesis and scope and limitation of the study. Chapter two the review of related literature, Concept of Credit Risk, Credit Risk Management in Nigerian Deposit Money Banks, Recent Development in the Nigerian Deposit Money Banks, Risk Factors in the Nigerian Deposit Money Banks, Softwares Used In Managing Risk in the Nigerian Deposit Money Banks and Lessons from the Current Global Economic Crisis, Causes and Consequences of Current Global Economic Crisis, Credit Risk Management and its Effect on Nigerian Deposit Money Banks, Effect of Credit Risk Management in

Nigeria Deposit Money Bank Before, During, and After the Global Economic Crisis. Chapter three is the research methodology and primary data were generated through the use of the questionnaire. The study employed the use of chi-square in analyzing the data obtained. The findings of this study pointed out the fact that the global economic crisis had a deteriorating effect on all sectors in the economy. Chapter four is the data presentation and analysis where frequency table was used. Chapter five is the summary, conclusion and recommendations were drawn.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The global economic crisis has begun in August 2007 and has been considered the worst economic crisis since the` Great Depression by George Soros, Alan Greenspan, Joseph Stiglitz, Jean Claude Trichet, and the International Monetary Fund. Among the factors that contributed to the current economic crisis are cited: increased innovation in economic products and their growing complexity; inappropriate regulation and supervision of financial markets; poor credit risk management practices at Nigerian deposit money banks and other financial institutions; increased complexity of financial systems; financial market speculation; predatory lending practices; a combination of cyclical and structural factors (Dianu and Lungu, 2008); Credit risk management is described in the financial literature as being concerned with identifying and managing a firm's exposure to financial risk; financial risk is defined as the variability in cash flows and market values caused by unpredictable changes in the commodity prices, interest rates and exchange rates (Kaen, 2005).

Credit risk management has become a booming industry starting '90 as a result of the increasing volatility of financial markets, financial innovations (financial derivatives), the growing role played by the financial products in the process of financial intermediation, and important financial losses suffered by deposit money banks without credit risk management systems (for example, First Bank, Eco Bank and GT Bank etc). Some credit risk management practices in recent years appear to have been driven by the need to meet regulatory expectations set by such initiatives as in Nigeria. Forward contracts, futures, options, swaps, and other more complex financial instruments allow today banks to transfer risks to other economic agents who are able or more willing to bear them (Kaen, 2005).

Credit risk management is nowadays considered as a key activity for all banks. Many of the disastrous losses of the 1990s, such as those at Orange County in 1994 and Barings bank in 1995, would have been avoided if good credit risk management practices have been in place (Hull, 2007).

In today's world, managing risk has become a necessity, not an option. Sanusi, (2010) pointed out that in recent years excessive credits and financial asset growth went unchecked. Risk, in insurance terms, is the possibility of a loss or other adverse event that has the potential to interfere with an organization's ability to fulfill its mandate, and for

which an insurance claim may be submitted. The current CBN Governor (Sanusi) sanitization in the banking industry revealed the holes in the Nigerian banking industry, especially on the recklessness of the bank chief executives. But before that, the former CBN Governor Soludo (2004) made it known in one of his speeches that Nigerian banking system today is fragile and marginal.

Commercial banks are in the risk business, in the process of providing financial services, they assume various kinds of financial risks Anthony (2009). On 22nd July 2008, The Basel Committee on Banking Supervision issued for public comment Guidelines for Computing Capital for Incremental Risk in the Trading Book as well as Proposed Revisions to the Basel II market risk framework. In Basel II, risk management is divided into credit, market and operational risk management. In many cases, credit and market risks are handled through a company's financial department, whereas operational risk management is through a company's coordinated centrally but most commonly implemented in different operational units.

1.2 Statement of the Problem

The Nigerian money deposit banks has been strained by the deteriorating quality of its credit assets as a result of the significant dip in equity market indices, global oil prices and sudden depreciation of

the naira against global currencies (BGL Banking Report, 2010).The poor quality of the banks' loan assets hindered credit risk management in Nigeria deposit money banks to extend more credit to the domestic economy, thereby adversely affecting credit risk management. This prompted the Federal Government of Nigeria through the instrumentality of an Act of the National Assembly to establish the Asset Management Corporation of Nigeria (AMCON) in July, 2010 to provide a lasting solution to the recurring problems of non-performing loans that bedeviled Nigerian banks. According to Ahmad and Ariff (2007), most banks in economies such as Thailand, Indonesia, Malaysia, Japan and Mexico experienced high non-performing loans and significant increase in credit risk Management during global economic crisis, which resulted in the closing down of several banks in Nigerian.

In a globalised world, transactions are carried out in different countries in integrated markets. The world has over the past two decades headed towards liberalization and deregulation, with the goal of integrating world markets. Nigerian markets, although not well integrated into the world market, have been facing serious destabilizing effects since the emergence of the global economic crisis in July 2008. The capital market has been shrinking: major international hedge funds

have been withdrawn; and the international credit line has faded out of loadable funds for domestic industry (Soludo, 2009).

1.3 Objectives of the Study

The main objective of this study is to determine global economic crisis and credit risk management in Nigerian deposit money bank. To determine the effects of global economic crisis and credit risk management on the performance of deposit money banks in Nigeria. The specific objectives of the study are to:

- Assess the global economic crisis and credit risk management in Nigerian deposit money banks on share price of banks.
- Evaluate the global economic crisis and credit risk management in Nigerian deposit money banks on capital adequacy of banks
- Evaluate the global economic crisis and credit risk management in Nigerian deposit money banks on asset quality of banks; and
- Assess the global economic crisis and credit risk management in Nigerian deposit money banks on liquidity ratio of banks.

1.4 Research Hypothesis

The following hypotheses were formulated in line with the research objectives:

H_0: There is no significant relationship between economic crisis and credit risk management on the performance of deposit money banks.

1.5 Scope and Limitation of the Study

This study essentially covers the Global Economic Crisis and Credit Risk Management in Deposit Money Banks in Nigeria with First Bank Ltd as a case study. However due to time constraints, the main limitations of this study would be the gathering of data from all financial institutions within the limited time frame of the study.

1.6 Significant of the Study

The study will assist policy makers in taking timely actions or decisions on banks in times of future crises and also to put in place measures of early warning detection system. A lot has been written on the global economic crisis and credit risk management in Nigerian deposit money banks on the Nigerian financial sector as a whole, but little efforts have been put in place in terms of research on the impact global economic crisis and credit risk management in Nigerian deposit money banks. The study serves as a centre piece of the financial institutions and also bridges that gap and provides a basis for further research.

1.7 Chapterization

Chapter One: This chapter is considered as the introductory part of the whole work. It highlights the genesis of the project, the statement of the problem under study, followed by the objectives of the study. The research hypothesis coupled with the scope and limitations of the study were presented following the above order, and then the significance of the study is being looked into in this chapter and organization of the study followed.

Chapter Two**:** Is the review of the related literatures.

Chapter Three**:** Is the Research methodology, where research design, research population, sample and sampling techniques, sources and method of data collection and the techniques of data analysis .

Chapter Four: In this Chapter we look at the Data analysis and hypothesis testing, data presentation and analysis test of hypothesis and summary of the findings.

Chapter Five: This chapter attempts to provide summary, draw conclusion and finally make recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews some comments, statements, and opinions made by various writers and groups of persons as contained in books, newspapers, magazines and journals e.t.c. with direct or indirect bearing on this study entitled "The Global Economic Crisis and Credit Risk Management in Nigeria Deposit Money Bank (A case study of First Bank Ltd)".

2.2 The Concept of Credit Risk

A bank exists not only to accept deposits but also to grant credit facilities, therefore inevitably exposed to credit risk. 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 (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 the 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.

2.3 Credit Risk Management in Nigerian Deposit Money Banks

The banking industry is a highly regulated industry with detailed and focused regulators. While banks struggle to keep up with the changes in the regulatory environment, regulators struggle to manage their workload and effectively regulate their banks. The impact of these changes is that banks are receiving less hands-on assessment by the regulators, less time spent with each institution, and the potential for more problems slipping through the cracks, potentially resulting in an overall increase in bank failures. Jaiye (2009) mention that the business of Banking is to manage risks associated with accepting deposits, granting loans and trading portfolios.

The changing economic environment has a significant impact on banks and thrifts as they struggle to effectively manage their interest rate spread in the face of low rates on loans, competition for deposits and the general market changes, industry trends and economic fluctuations. Andrea (2010) in his study mentioned that Management failure can be easily recognized in losses resulting from over-aggressive lending practices and risk tolerances that were too high.

However, as one digs deeper, more subtle failures can be recognized in operational inefficiencies, weak internal control environments, and lack of management attention to detail. , It has been a challenge for the Nigerian Banks to effectively set their growth strategies with the recent economic market. A rising interest rate environment may seem to help financial institutions, but the effect of the changes on consumers and businesses is not predictable and the challenge remains for banks to grow and effectively manage the spread to generate a return to their shareholders. Also the management of the Nigerian banks' asset portfolios also remains a challenge in today's economic environment. Loans are a bank's primary asset category and when loan quality becomes suspect, the foundation of a bank is shaken to the core.

Credit risk management 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, 2011). Demirguc-Kunt and Huzinga (1999) opined that credit risk management is in two-fold which includes, the realization that after losses have occurred, the losses becomes unbearable and the developments in the field of financing commercial paper, securitization, and other non-bank competition which pushed banks to find viable loan borrowers.

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 (Kithinji, 2010).An increase in bank credit risk gradually leads to liquidity and solvency problems. Credit risk may increase if the bank lends to borrowers it does not have adequate knowledge about.

There are two approaches of the credit risk management process: the traditional one and the ERM. The traditional approach, a segmented and compartmentalized one, consists in the following: different credit risks are delegated to different specialized persons who use different instruments to tackle these risks. For example, the property and liability credit risks are the responsibility of the credit risk manager. At the same time, the treasurer is responsible to manage financial risks (such as exchange rate, interest rate, and credit risk) using different types of derivatives contracts (options, forwards, futures, and swaps).

In the second approach, called Integrated Credit Risk Management (ICRM) or Enterprise Credit Risk Management (ECRM), all the risks are assembled in a strategic and coordinated framework.

Enterprise risk management requires an entity to take a portfolio view of the risk. Corporate Risk Management is subsequently motivated by market imperfections, such as asymmetric information, transactions costs, non-neutral taxes and limited access to external financing (Hull, 2007).

2.4 Recent Development in the Nigerian Deposit Money Banks

The president is totally committed to sanitizing the Nigerian Deposit Money Banks, protect all depositors and ensure that no Bank is allowed to fail. In his effort of strengthening the financial system and engender financial stability, the central Bank of Nigeria has effected some changes in the executive management of the under- listed Banks : Afribank, Intercontinental Bank, Union Bank, Oceanic Bank Fin bank, Bank PHB, Spring Bank and Equatorial Trust Bank. Chukwuma (2010) commented that the recent firing of the CEOs of the above Banks by the CBN Governor must have been a surprised to many Nigerians, but to some in the financial sector, it was a day of reckoning that has been long awaited Incentives for risky lending and wider use of capital arbitrage contributed to the deteriorating quality of bank loan portfolios in recent years Julius (2008). The central Bank of Nigeria injected fresh capital into the Banks up to the tune of N400b to ensure

that the Banking system is safe but also to protect all depositors and creditors. The largest debtors in the list are as follows:

Table 2.1: List of Banks with Largest Number of Debtors

Oceanic Bank	Intercontinental Bank	Fin Bank	Afri Bank	Union bank
-Notore Chemical Industries Ltd 32,392,951,000	-Ascot Offshore Nigeria Ltd 44,670,080,228.83	Aquitane Oil and Gas Ltd 3,656,502,137.27	Kolvey Company Ltd 16,500,000,000.00	-Transnational Corp. Plc. 30,863,304,173
Rahamaniyya Global resources Lt 28,589,958,000	- Rockson Eng. Limited 36,989,685,692.84	- Falcon Securities Ltd 3,049,001,918.10	- Rehoboth Assets Ltd 15,000,000,000.00	-Mts first wireless ltd. 9,849,331,689
- Falcon Securities Nig. Ltd. 22,260,476,000	United Alliance Company of Nig. Ltd 16,247,686,168.18	- Spring board Trust and Invest Co. Ltd 1,944,938,367.83	- Resolution Trust and Invest Co. Ltd 12,000,000,000.00	- Zenon 6,251,658,228
- Mid-Western Oil & Gas Coy Plc 23,863,485,000	-Accountant General Special Project 14,528,671,304.81	- Jevkon Oil and Gas Ltd 1,608,912,798.75	- Petosan Property and Dev. Co. Ltd 10,000,000,000.00	- IRS Airlines Ltd 3,331,882,287
- Spark West Steel Industry 18,449,629,000	-Rahamaniyya Oil and Gas Ltd. 12,799,823,561.55	- RuhantiNig.Ent. 1,073,172,545.37	-Larix Nig. Ltd 6,100,000,000.00	-Bao Yao HuanJian 3,136,303,163
- Global Fleet Industry Ltd 14,782,994,000	-Dansa Oil and Gas Limited 8,836,682,542.69	DE – LORDS Securities Ltd 942,506,602.57	- African Petroleum 12,804,121,542.49	- Ziklagsis Networks 4,339,343,543
		- Frajend Investment Nig. Limited 941,360,020.26	- Suletical Nig. Ltd. 5,000,000,000.00	- Ibeto Industries 2,479,103,704
			-Brunel Engr. 6,935,006,115.89	-Communication Trends Ltd. 1,127,361,164

Source: CBN, 2009

The central Bank of Nigeria on Wednesday, 19 August 2009, made the list of debtors known to the public. On the list are the names of prominent businessmen, Bankers and politicians. It was discovered that these people own the first five banks discovered to be shaking after auditing by the CBN to the tune of N747b. For the purpose of this paper, the debtors of the first five Banks that the CEOs were sacked would be showed above.

These are the largest debtors and the debts are as at may 2009. Thirty – five customers are indebted to Intercontinental Bank Plc, 28 to Afribank, 22, Union Bank Plc, 32, Oceanic Bank and 104, Finbank Plc. The loans are non- performing and that led to the sack of the Bank MDs because they failed to applied the risk management rules especially their exposures to margin loans and the oil and Gas. Sanusi (2010) also made it known that there is a general failure in recognizing the limitations of the banking system when it comes to delivery economic development. The recent reform by the current CBN Governor is to put the Nigeria bank to shape. Chris (2011) in his report suggested that there is need for the establishment of a strong institutional investor's base that will spur the banks for behavioural change.

2.5 Risk Factors in the Nigerian Deposit Money Banks

The following are the risk factors in the Nigerian Deposit Money Banks:

- Credit risk
- Liquidity risk
- Interest rate risk
- Market risk
- Operational risk
- Legal risk
- Reputational risk

Credit Risk*:* Joel (2009) defined “Credit Risk” as the risk of losses in on – and off – balance sheet positions arising from movements in market prices. The risks subject to this requirement are:

i. The risks pertaining to interest rate – related instruments and equities in the trading book.

ii. Foreign exchange risk and commodities risk throughout the bank.

Credit risk is also the risk of loss due to a debtor’s non-payment of a loan or other of credit (either the principal or interest (coupon) or both. This definition is expanded to include the risk of loss in portfolio value as result of migration from a higher

grade to a lower one. The risk arising from the type and nature of credit activities undertaken by the bank include the following:

- Appetite of the bank,
- The nature of counter party exposures involve in the bank’s products and services,
- Portfolio characteristics and the nature and extent of credit risk mitigation.

For most banks, loans are the largest and most obvious source of credit risk; losses in bank portfolio stem from outright default due to inability or unwillingness of a customer or counter party to meet commitment in relation to lending, trading, settlement and other financial transactions.

Steps Banks Should Take to Manage Credit Risk Include:Julius (2008).

1. Establishing an appropriate credit risk environment
2. Operating under a sound credit – granting process
3. Maintain an appropriate credit administration, measurement and monitoring process
4. Ensuring adequate controls over risk.

Although specific credit management practices may differ among banks depending upon the nature and complexity of their activities, a comprehensive credit risk management programme will

address these four areas. These practices should be applied in conjunction with sound practices related to the assessment of asset quality, the adequacy of provisions and reserves, and disclosures of credit risk.

Liquidity Ris*k:* Liquidity Risk is the ability of a bank to fund increases in assets and meet obligation as they come due, without incurring unacceptable losses. The fundamental role of banks in the maturity transformation of short-term deposit into long-term loans makes banks inherently vulnerable to liquidity risk. Effective liquidity risk management helps ensure cash flow obligations, which are uncertain as they affected by external events and other agents behavior.

Principles That Bank Use in Managing Liquidity Risk(Hull, 2007).

A bank is responsible for the sound management of liquidity risk. A bank should establish a robust liquidity risk management framework that ensures it maintains sufficient liquidity, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

A bank should clearly articulate a liquidity risk tolerance that is appropriate for its business strategy and its role in the financial system. Senior management should develop a strategy, policies and practices to

manage liquidity risk in accordance with the risk tolerance and to ensure that the bank maintains sufficient liquidity. Senior management should continuously review information on the bank's liquidity development and report to the board of directors on a regular basis. A bank's board of directors should review and approve the strategy, policies and practices related to the management of liquidity at least annually and ensure that senior management manage risk effectively. A bank should incorporate liquidity cost, benefits and risks in the product pricing, performance measurement and new product approval process for all significant business activities (both on – and off-balance sheet), thereby aligning the risk-taking incentives of individual business lines with the liquidity risk exposures their activities create for the bank as a whole.

A bank should have a sound process for identifying, measuring, monitoring and controlling liquidity risk. This process should include a robust framework for comprehensively projecting cash flow arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons. A bank should actively manage liquidity risk exposures and funding needs within and across legal entities, business lines and currencies, taking into account legal, regulatory and operational limitations to transferability of liquidity.

A bank should actively manage its intraday liquidity positions and risks to meet payment and settlement obligation s on a timely basis under both normal and stressed conditions and thus contribute to the smooth functioning of payment and settlement systems. A bank should maintain a cushion of unencumbered, high quality liquid asses to be held as insurance against a range of liquidity stress scenarios, including the loss or impairment of unsecured and typically available secured funding sources. These should be no legal, regulatory or operational impediment to using these assets to obtain funding. A bank should publicly disclose information on a regular basis that enables market participants to make an information judgment about the soundness of its liquidity risk management framework and liquidity position.

Interest Rate Risk*:* Is the risk (variability in value) borne by an interest –bearing asset, such as a loan or a bond, due to variability of interest rates. In general, as rates rise, the price of a fixed rate bond will fall, and vice versa.

Interest rate risk faced by banks

There are five types of interest rate risk faced by Banks. They are as follows:

i. **Basis Risk**: The risk presented when yield on asset and costs on liability are based on different bases. In some circumstances

different bases will move at different rates or in different directions, which can cause erratic changes in revenues and expenses.

ii. **Yield Curve Risk:** The risk presented by different between short-term and long-term interest rates. Short-term rates are normally lower than long-term rates, and bank earn profits by borrowing shot- term money (at lower rates) and investing in long-term assets (at higher rates). But relationship between short-term and long- term rates can shift quickly and dramatically, which can cause erratic changes in revenues and expenses.

iii. **Reprising risk**: The risk presented by assets and liabilities that reprise at different times and rates. For instance, a loan with variable rates will generate more income when rates rise and less interest income when rates fall. If the loan is funded with fixed rated deposits, the bank's interest margin will fluctuate.

iv. **Option Risk**: It is presented by optionally that is embedded in some assets and liabilities. For instance, mortgage loans present significant option risk due to prepayment speeds that change dramatically when interest rates rise and fall.

v. **Hedging Interest Rate Risk**: Interest rate risk can be hedging using fixing income instruments or interest rate swaps. Interest

rate risk can be reduced by buying bonds with shorter duration, or by entering into a fixed-for floating interest rate swap.

Market Risk: As with other forms of risks, market risk may be measured in a number of ways. Traditionally, this is done using a value market risk and this may be measured in a number of ways. Traditionally, this is done using a value at Risk methodology. Value at is established as a risk management technique, but contains a number of limiting assumptions that constrains its accuracy. The first assumption is that the composition of the portfolio measured remains unchanged over the single period of the model. For short time horizons, this limiting assumption is often regarded as acceptable.

Approaches to Regulating Market Risk in Banks

There are three approaches to regulating market risk in banks on the basis of efficiency, competitive neutrality, and effectiveness in regulation. Each approach is judged on how well it fulfills the aims of regulation without overburdening the financial system with the cost of regulation. The three approaches are the building bloc approach where separate capital requirements are determined; the internal models approach where loss to the bank's portfolio is calculated with a specified probability over a specified holding period of time; and the pre-commitment approach where each bank pre-commits a capital

amount to cover what is believed to be its maximum trading loss exposure over a given regulatory period.

Operational Risk: Operational risk is the potential financial loss as a result of breakdown in day to day operational processes. Operational risk can arise from failure to comply with policies, laws and regulations, from fraud or forgery. The risk arising from this type and nature of operational risk involve in the bank activities. These include direct and indirect laws resulting from inadequate of fail internal processes, people and systems or from external event (note operational risk in relation to the control environment is accesses within the relevant control sections).

Methods of Operational Risk Management

There are 3 broad method of capital calculation for operational risk

i. Basic indicator approach - this is base on annual revenue of the financial institutions
ii. Standardized approach – this is base on annual revenue of each of the broad business lines of the financial institutions
iii. Advanced measurement approach – this is base on the internally developed risk measurement framework of the bank adversely to the standards prescribed.

The operational risk management framework should include identification, measurement, and monitoring, reporting, control and mitigation frameworks for operational risk.

Legal Risk*:* Legal risk arises from the potential that enforceable contact, lawsuits, or adverse judgments can disrupts or otherwise negatively affect the operations or condition of a banking organization.

Reputational Risk: Reputational risk is any risk to an Bank's reputation that is likely to destroy shareholder value. Reputational risk leads to negative publicity, loss of revenue, litigation, loss of clients and partners, exit of key employees, share price decline, difficulty in recruiting talent. A comprehensive reputational risk assessment is necessary as an important part of a risk assessment.

2.6 Softwares Used In Managing Risk in the Nigerian Deposit Money Banks

The ongoing development of contemporary credit risk management methods and the increased use of innovative financial products such as securitization and credit derivatives have brought about substantial changes in the business environment faced by credit institutions today. Especially in the field of lending, these changes and innovations are now forcing banks to adapt their in house software

systems and the relevant business process to meet these new requirements. The following are the softwares used in the Nigerian Deposit Money Banks:

i. **SAS Softwares*:*** With the global economy ailing, banks needs to actively manage risk, accurately track regulatory compliance and precisely measure forecast economic capital to support business strategies. To avoid potential disaster but also uncover opportunities for growth, effective governance, risk compliance (GRC) program is necessary. SAS, the leader business analytics, assists with this business needs. SAS helps banks proactively manage enterprise-wide risk, while complying with regulations and tracking and enhancing overall corporate performance. SAS offers existing and new software solution to tackle the three parts of GRC. All build on a flexible and integrated business analytics framework In October 2008, SAS ranked first in operational risk and GRC categories in Chartis Research's Risk Tech 100 report. "SAS brings together best-in-class qualitative and quantitative risk assessment and reporting. SAS provides a firm-wide platform to automate the collection, analysis and monitoring of risk- related information.

ii. **Nucleus Software:** Nucleus software is a leading software power house providing innovative and pioneering software solutions for Banks Financial organizations globally. Nucleus software offers a

host of competitive IT solutions and consultancy services designed to support the whole spectrum of business offerings spanning Retail and Corporate Banking, Cash Management, Credit Card Relationship Banking, Financial CRM, Credit Risk & Appraisal, Internet Banking, Data warehousing and Analytics. Nucleus Risk Management for Banking helps organizations achieve comprehensive risk governance by incorporating a performance management approach into all areas risk. Adekun, Owojori, Ishola and Felix (2011) in their study, stated that the moral view of risk taking in business assumes that shareholders make the lending and investment decisions and therefore take a risk to maximize the value of insurance if they so desire. In this case this solution addresses key requirement for financial institutions, including a quality integrated risk data infrastructure with timely access, the ability to measure exposure and risk across all risk type and books of business; and the ability to distribute incentives for consistence optimization of risk adjusted returns throughout the organization. Nucleuses has expedited and enhance customer service by automating the credit to origination, effectively tracking applications, timely disbursement, faster collections, Untimely income accruals and swift decision making.

2.7 Lessons from the Current Global Economic Crisis: A Credit risk Management Approach

In the global economic crisis we can observe in the last two years a substantial amount of analysis regarding the credit risks management practices before and during the current global economic crisis. Some example of recent papers include: Enhancing Market and Institutional Resilience (Financial Stability Forum, 2008); Credit risk transfer (Working Group on Risk Assessment and Capital, 2008); Observations on credit risk management practices during the recent market turbulence (Senior Supervisors Group, 2008); Supervisory lessons from the sub-prime mortgage crisis (Basel Committee on Bank Supervision, 2008); Study of market best practices (International Institute of Finance, 2008); credit Risk management practices including the identification of credit risk management challenges and failures, lessons learned and policy considerations (International Monetary Financial Committee, 2008). One important finding of these studies is that the investors have underestimated the risks due in part to products complexity and over-reliance on quantitative analysis. In many cases, including rating agencies, the risk evaluation of Collateralized Debt Obligations was wrong. Theoretical and empirical studies presented the limitations of credit risk management practices before and during the current global economic crisis. Rene Stulz

(2008) argued that there are five ways in which credit risk management systems can break down, all exemplified in the current crisis and other recent ones:

- Failure to use appropriate risk metrics;
- Mis-measurement of known risks;
- Failure to take known risks into account;
- Failure in communicating risks to top management;
- Failure in monitoring and managing risks.

Empirical evidence suggests also the limitations of the credit risk management practices during the current global economic crisis. A study conducted in 2008 among 125 top finance executives representing a solid cross section of American industry showed that approximately 72% of respondents expressed concern about their own companies' credit risk management practices and ability to meet strategic plans. Similar, a survey carried out in 2008 by the Economist 500 senior management involved in credit risk management from leading banks around the world identified the weaknesses in credit risk management that contributed to the current global economic crisis:

- Weaknesses in risk culture and governance;
- The lack of risk experience and skills amongst senior executive and nonexecutive management;
- Lack of influence of the risk function;

- The way risk is measured and reported;
- A compensation culture too oriented towards year on year profit increases;
- Business models that were overly reliant on ample market liquidity, ignoring the liquidity risk (KPMG, 2009).

Many studies have highlighted the need for improved Integrated Credit Risk Management: Hanziger (2008), Stulz (2008), Danu and Lungu (2008), KMPG (2009), Stulz (2009), Hull (2009).

Turmoil on financial markets has spread, since many big banks and brokering societies did not have an effective credit risk management. Some firms invested in assets or sold credits to special investment vehicles, even though they were not bond by contract to do so. Few companies have anticipated the liquidity deficit at the level of the balance sheet. Issuers of Collaterized Debt Obligations, whose reference is securitised financial instruments (ABS CDO), have preserved the least risky positions (senior or super-senior) and have registered losses in the market marking process under the circumstances of deepened subprime credit crisis. The complexity of the positions of these instruments has led to difficulties in their evaluation when market liquidity decreased markedly and correlation risk was materialized on the Collaterized Debt Obligations market as concentrated exposure to subprime credit risk.

2.8 Current Global Economic Crisis – Causes and Consequences

The deep crisis that the global economic markets and the banking sector have been confronted with for more than a year has three main causes (Anton, 2009). First, the USA has been blocked in one of the worst real-estate recessions in its history. What is occasionally seen as the crisis of modern financial instruments has a real economic background. The massive boom on the real estate market in the USA, accompanied by the doubling of prices between 2000 and 2006, is now followed by a significant decrease. Thus, in August 2008, housing prices were 15% under the level of prices in the previous year. At present, price stabilization is not foreseeable and one should not exclude the hypothesis that prices will continue to fall in the same proportion. At the same time, a significant number of debtors cannot pay back their interests and mortgage installments. The total volume of subprime and Alt-A mortgages that have been affected by the crisis amounts up to $ 2.000 billion.

Second, financial innovations of the last two decades facilitate the transfer of risks associated with mortgage credits. A significant part of risks associated with mortgages have been transferred via securitization and sold to investors at global level. In principle, the broader spread of risks stabilizes the system, because in opposition with previous crises, banks no longer need to bear the ensuing losses

alone. The broad spread of risks, however, changes the dynamics of the market.

While a few years ago credit risks were evaluated only by a small number of experts, nowadays the market analyses them through thousands of participants. Doubts concerning rating quality and price formation caused, in the summer of 2007, the abrupt exit of investors from the market, massive price falls and the total loss of liquidity of the market. Owing to the ensuing uncertainty, the crisis has seized other segments of the market as well, such as the segment of commercial buildings or of credits to finance acquisitions. Because transaction positions are reported as fair value or net recovery value, many banks have registered huge losses. It was only through the decisive intervention of central banks that tensions could be kept under control.

Third, the development of credit risk management could not evolve at the same pace as financial innovation. For years, the financial and banking sector has striven to implement the Basel II Agreement. Yet the latter refers to assets from the investment portfolio. Innovative structured products affected by the crisis are highlighted in the transaction portfolio, since they were intended for resale. Due to the decreasing demand for these products and the corresponding decrease in prices, credit risk management in many banks was caught totally

unprepared by the crisis. Banks that did not have credit derivatives in their transaction portfolio found themselves, all of a sudden, confronted with the necessity to correct their value in the balance sheet.

Similarly, Mizen (2008) acknowledges the period to exceptional macro stability, the global savings glut, and financial innovation in mortgage-backed securities. Raynes and Zwag (2009) cited in Murinde (2009) suggest that the proper valuation of those securities are seen as being crucial to resolving the global economic crisis. Avgouleas (2008) cited in Adamu (2009) enumerated the causes of the crisis as: breakdown in underwriting standards for subprime mortgages: assessments of subprime Residential Mortgage back Securities (RMBS) and other complex structured credit products especially collatorized debt obligations (CDOs) and other Asset-Backed Securities (ABS): credit risk management weaknesses at same large US and European Financial Institutions; and regulatory policies, including capital and disclosure requirements that failed to mitigate credit risk management weaknesses. In his comments, Soludo (2009) summarizes the causes as follows, financial innovations (leverage, swaps, sub-prime lending etc); Loose regulatory regimes and product; uncoordinated and late interventions by Government and central bank; Easy monetary policy in the aftermath of 9/11 to avoid a recession;

High liquidity; investor/lenders seek higher return through riskier investment.

2.9 Credit Risk Management Strategies

The credit risk management strategies are measures employed by banks to avoid or minimize the adverse effect of credit risk. A sound credit risk management framework is crucial for banks so as to enhance profitability guarantee survival. According to Lindergren (1987), the key principles in credit risk management process are sequenced as follows; establishment of a clear structure, allocation of responsibility, processes have to be prioritized and disciplined, responsibilities should be clearly communicated and accountability assigned. The strategies for hedging credit risk include but not limited to these;

i. **Credit Derivatives**: This provides banks with an approach which does not require them to adjust their loan portfolio. Credit derivatives provide banks with a new source of fee income and offer banks the opportunity to reduce their regulatory capital (Shao and Yeager, 2007). The commonest type of credit derivative is credit default swap whereby a seller agrees to shift the credit risk of a loan to the protection buyer. Frank Partnoy and David Skeel in *Financial Times* of 17 July, 2006 said that

"credit derivatives encourage banks to lend more than they would, at lower rates, to riskier borrowers". Recent innovations 3in credit derivatives markets have improved lenders' abilities to transfer credit risk to other institutions while maintaining relationship with borrowers (Marsh, 2008).

ii. **Credit Securitization**: It is the transfer of credit risk to a factor or insurance firm and this relieves the bank from monitoring the borrower and fear of the hazardous effect of classified assets. This approach insures the lending activity of banks. The growing popularity of credit risk securitization can be put down to the fact that banks typically use the instrument of securitization to diversify concentrated credit risk exposures and to explore an alternative source of funding by realizing regulatory arbitrage and liquidity improvements when selling securitization transactions (Michalak and Uhde,2009). A cash collateralized loan obligation is a form of securitization in which assets (bank loans) are removed from a bank's balance sheet and packaged (tranched) into marketable securities that are sold on to investors via a special purpose vehicle (SPV) (Marsh,2008).

iii. **Compliance to Basel Accord**: The Basel Accord are international principles and regulations guiding the operations of banks to ensure soundness and stability. The Accord was

introduced in 1988 in Switzerland. Compliance with the Accord means being able to identify, generate, track and report on risk-related data in an integrated manner, with full auditability and transparency and creates the opportunity to improve the risk management processes of banks. The New Basel Capital Accord places explicitly the onus on banks to adopt sound internal credit risk management practices to assess their capital adequacy requirements (Chen and Pan, 2012).

iv. **Adoption of a Sound Internal Lending Policy*:*** The lending policy guides banks in disbursing loans to customers. Strict adherence to the lending policy is by far the cheapest and easiest method of credit risk management. The lending policy should be in line with the overall bank strategy and the factors considered in designing a lending policy should include; the existing credit policy, industry norms, general economic conditions of the country and the prevailing economic climate (Kithinji,2010).

v. **Credit Bureau**: This is an institution which compiles information and sells this information to banks as regards the lending profile of a borrower. The bureau awards credit score called statistical odd to the borrower which makes it easy for banks to make instantaneous lending decision. Example of a

credit bureau is the Credit Risk Management System (CRMS) of the Central Bank of Nigeria (CBN).

2.10 Credit Risk Management and its Effect on Nigerian Deposit Money Banks

Credit risk is a serious threat to the performance of banks; therefore various researchers have examined the impact of credit risk on banks in varying dimensions. Kargi (2011) evaluated the impact of credit risk on the profitability of Nigerian banks. Financial ratios as measures of bank performance and credit risk were collected from the annual reports and accounts of sampled banks from 2004-2008 and analyzed using descriptive, correlation and regression techniques. The findings revealed that credit risk management has a significant impact on the profitability of Nigerian banks. It concluded that banks' profitability is inversely influenced by the levels of loans and advances, non-performing loans and deposits thereby exposing them to great risk of illiquidity and distress. Epure and Lafuente (2012) examined bank performance in the presence of risk for Costa-Rican banking industry during 1998-2007. The results showed that performance improvements follow regulatory changes and that risk explains differences in banks and non-performing loans negatively

affect efficiency and return on assets while the capital adequacy ratio has a positive impact on the net interest margin.

Kithinji (2010) assessed the effect of credit risk management on the profitability of commercial banks in Kenya. Data on the amount of credit, level of non-performing loans and profits were collected for the period 2004 to 2008. The findings revealed that the bulk of the profits of commercial banks are not influenced by the amount of credit and non-performing loans, therefore suggesting that other variables other than credit and non-performing loans impact on profits. Chen and Pan (2012) 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 analyzed using Data Envelopment Analysis (DEA). The credit risk parameters were credit risk technical efficiency (CR-TE), credit risk allocative efficiency (CR-AE), and credit risk cost efficiency (CR-CE). The results 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-AE and CR-CE in 2008.

Felix and Claudine (2008) investigated the relationship between bank performance and credit risk management. It could be inferred from their findings that return on equity (ROE) and return on assets (ROA) both measuring profitability were inversely related to the ratio

of non-performing loan to total loan of financial institutions thereby leading to a decline in profitability. Ahmad and Ariff (2007) examined the key determinants of credit risk of commercial banks on emerging economy banking systems compared with the developed economies. The study found that regulation is important for banking systems that offer multi-products and services; management quality is critical in the cases of loan-dominant banks in emerging economies. An increase in loan loss provision is also considered to be a significant determinant of potential credit risk. The study further highlighted that credit risk in emerging economy banks is higher than that in developed economies.

Al-Khouri (2011) assessed the impact of bank's specific risk characteristics, and the overall banking environment on the performance of 43 commercial banks operating in 6 of the Gulf Cooperation Council (GCC) countries over the period 1998-2008. Using fixed effect regression analysis, results showed that credit risk, liquidity risk and capital risk are the major factors that affect bank performance when profitability is measured by return on assets while the only risk that affects profitability when measured by return on equity is liquidity risk. Ben-Naceur and Omran (2008) in attempt to examine the influence of bank regulations, concentration, financial and institutional development on commercial banks' margin and profitability in Middle East and North Africa (MENA) countries from

1989-2005 found that bank capitalization and credit risk have positive and significant impact on banks' net interest margin, cost efficiency and profitability.

Ahmed, Takeda and Shawn (1998) in their study found that loan loss provision has a significant positive influence on non-performing loans. Therefore, an increase in loan loss provision indicates an increase in credit risk and deterioration in the quality of loans consequently affecting bank performance adversely.

2.11 Effect of Credit Risk Management in Nigeria Deposit Money Bank Before, During, and After the Global Economic Crisis

Credit risk is the current and prospective risk to earnings or capital arising from an obligor's failure to meet the terms of any contract with the bank or otherwise to perform as agreed. Credit risk is found in all activities in which success depends on counterparty, issuers, or borrower performance. It arises any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. Thus risk is determined by factor extraneous to the bank such as general unemployment levels, changing socio-economic conditions, debtors' attitudes and political issues.

Credit risk according to Basel Committee of Banking Supervision BCBS (2001) and Gostineau (1992) is the possibility of losing the outstanding loan partially or totally, due to credit events (default risk). Credit events usually include events such as bankruptcy, failure to pay a due obligation, repudiation/moratorium or credit rating change and restructure. Basel Committee on Banking Supervision-BCBS (1999) defined credit risk as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Heffernan (1996) observe that credit risk as the risk that an asset or a loan becomes irrecoverable in the case of outright default, or the risk of delay in the servicing of the loan. In either case, the present value of the asset declines, thereby undermining the solvency of a bank. Credit risk is critical since the default of a small number of important customers can generate large losses, which can lead to insolvency (Bessis, 2002).

BCBS (1999) observed that banks are increasingly facing credit risk (or counterparty risk) in various financial instruments other than loans, including acceptances, interbank transactions, trade financing foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transaction. Anthony (1997) asserts that credit

risk arises from non-performance by a borrower. It may arise from either an inability or an unwillingness to perform in the pre-committed contracted manner. Brownbridge (1998) claimed that the single biggest contributor to the bad loans of many of the failed local banks was insider lending. He further observed that the second major factor contributing to bank failure were the high interest rates charged to borrowers operating in the high-risk. The most profound impact of high non-performing loans in banks portfolio is reduction in the bank profitability especially when it comes to disposals.

BCBS (1982) stated that lending involves a number of risks. In addition to risk related to the creditworthiness of the borrower, there are others including funding risk, interest rate risk, clearing risk and foreign exchange risk. International lending also involves country risk. BCBS (2006) observed that historical experience shows that concentration of credit risk in asset portfolios has been one of the major causes of bank distress. This is true both for individual institutions as well as banking systems at large.

Robert and Gary (1994) state that the most obvious characteristics of failed banks is not poor operating efficiency, however, but an increased volume of non-performing loans. Non-performing loans in failed banks have typically been associated with

regional macroeconomic problems. DeYoung and Whalen (1994) observed that the US Office of the Comptroller of the Currency found the difference between the failed banks and those that remained healthy or recovered from problems was the caliber of management. Superior mangers not only run their banks in a cost efficient fashion, and thus generate large profits relative to their peers, but also impose better loan underwriting and monitoring standards than their peers which result to better credit quality.

Koehn and Santomero (1980), Kim and Santomero (1988) and Athanasoglou et al. (2005), suggest that bank risk taking has pervasive effects on bank profits and safety. Bobakovia (2003) asserts that the profitability of a bank depends on its ability to foresee, avoid and monitor risks, possible to 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 and 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 mangers might find market pressure for higher profits very difficult to overcome.

The deregulation of the financial system in Nigeria embarked upon from 1986 allowed the influx of banks into the banking industry. As a result of alternative interest rate on deposits and loans, credits were given out indiscrimately without proper credit appraisal (Philip, 1994). The resultant effects were that many of these loans turn out to be bad. It is therefore not surprising to find banks to have non-performing loans that exceed 50 per cent of the bank's loan portfolio. 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 bailout. This calls for efficient management of risk involving loan and other advances to prevent reoccurrences.

A high level of financial leverage is usually associated with high risk. This can easily be seen in a situation where adverse rumours, whether founded or precipitated financial panic and by extension a run on a bank. According to Umoh (2002) and Ferguson (2003) few banks are able to withstand a persistent run, even in the presence of a good lender of last resort. As depositors take out their funds, the bank hemorrhages and in the absence of liquidity support, the bank is forced eventually to close its doors. Thus, the risks faced by banks are endogenous, associated with the nature of banking business itself, whilst others are exogenous to the banking system.

Owojori et al (2011) highlighted that available statistics from the liquidated banks clearly showed that inability to collect loans and advances extended to customers and directors or companies related to directors/managers was a major contributor to the distress of the liquidated banks.At the height of the distress in 1995, when 60 out of the 115 operating banks were distressed, the ratio of the distressed banks' non-performing loans and leases to their total loans and leases was 67%. The ratio deteriorated to 79% in 1996; to 82% in 1997; and by December 2002, the licences of 35 of the distressed banks had been revoked. In 2003, only one bank (Peak Merchant Bank) was closed. No bank was closed in the year 2004. Therefore, the number of banking

licences revoked by the CBN since 1994 remained at 36 until January 2006, when licences of 14 more banks were revoked, following their failure to meet the minimum re-capitalization directive of the CBN. At the time, the banking licences were revoked, some of the banks had ratios of performing credits that were less than 10% of loan portfolios. In 2000 for instance, the ratio of non-performing loans to total loans of the industry had improved to 21.5% and as at the end of 2001, the ratio stood at 16.9%. In 2002, it deteriorated to 21.27%, 21.59% in 2003, and in 2004, the ratio was 23.08% (NDIC Annual Reports- various years).

In a collaborative study by the CBN and the Nigeria Deposit Insurance Corporation {NDIC} in 1995, operators of financial institutions confirmed that bad loans and advances contributed most to the distress. In their assessment of factors responsible for the distress, the operators ranked bad loans and advances first, with a contribution of 19.5%.

In 1990, the CBN issued the circular on capital adequacy which relate bank's capital requirements to risk-weighted assets. It directed the banks to maintain a minimum of 7.25 percent of risk-weighted assets as capital; to hold at least 50 percent of total components of capital and reserves; and to maintain the ratio of capital to total risk-

weighted assets as a minimum of 8 percent from January, 1992. Despite these measure and reforms embodied in such legal documents as CBN Act No. 24 of 1991 and Banks and other financial institutions (BOFI) Act No.25 of 1991 as amended, the number of technically insolvent banks increased significantly during the 1990s.

The role of bank remains central in financing economic activity and its effectiveness could exert positive impact on overall economy as a sound and profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system (Athanasoglou et al, 2005). Therefore, the determinants of bank performance have attracted the interest of academic research as well as of bank management. Studies dealing with internal determinants employ variables such as size, capital, credit risk management and expenses management. The need for risk management in the banking sector is inherent in the nature of the banking business. Poor asset quality and low levels of liquidity are the two major causes of bank failures and represented as the key risk sources in terms of credit and liquidity risk and attracted great attention from researchers to examine the their impact on bank profitability.

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 risk (Giesecke, 2004). Increases in credit risk will raise the marginal cost of debt and equity, which in turn increases the cost of funds for the bank (Basel Committee, 1999).

To measure credit risk, there are a number of ratios employed by researchers. The ratio of Loan Loss Reserves to Gross Loans (LOSRES) is a measure of bank's asset quality that indicates how much of the total portfolio has been provided for but not charged off. Indicator shows that the higher the ratio the poorer the quality and therefore the higher the risk of the loan portfolio will be. In addition, Loan loss provisioning as a share of net interest income (LOSRENI) is another measure of credit quality, which indicates high credit quality by showing low figures. In the studies of cross countries analysis, it also could reflect the difference in provisioning regulations (Demirgiic-Kunt, 1999).

Assessing the impact of loan activities on bank risk, Brewer (1989) uses the ratio of bank loans to assets (LTA). The reason to do so is because bank loans are relatively illiquid and subject to higher default risk than other bank assets, implying a positive relationship between LTA and the risk measures. In contrast, relative improvements in credit risk management strategies might suggest that LTA is

negatively related to bank risk measures (Altunbas, 2005).Bourke (1989) reports the effect of credit risk on profitability appears clearly negative This result may be explained by taking into account the fact that the more financial institutions are exposed to high risk loans, the higher is the accumulation of unpaid loans, implying that these loan losses have produced lower returns to many commercial banks (Miller and Noulas,1997).The findings of Felix and Claudine(2008) also shows that return on equity ROE and return on asset ROA all indicating profitability were negatively related to the ratio of non-performing loan to total loan NPL/TL of financial institutions therefore decreases profitability.

The Basel Committee on Banking Supervision (1999) asserts that loans are the largest and most obvious source of credit risk, while others are found on the various activities that the bank involved itself with. Therefore, it is a requirement for every bank worldwide to be aware of the need to identify measure, monitor and control credit risk while also determining how credit risks could be lowered. This means that a bank should hold adequate capital against these risks and that they are adequately compensated for risks incurred. This is stipulated in Basel II, which regulates banks about how much capital they need to

put aside to guide against these types of financial and operational risks they face.

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 on profitability of the banking sector and the economy at larger that this research work is motivated.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section attempt to highlight the various techniques and methods used for the collection of data and analysis.

3.2 Research Design

Descriptive survey research design is used for this study because the research sample was drawn from the population of the study and sought for their views on the subject matter. Questionnaire was used to collect data for the study, percentage and frequency table were used in presentation and analysis of data.

3.3 Population of the Study

A total of Fifty (50) staffs formed the population of the study. Where Thirty (30) staffs are taken from First Bank Nigeria (FBN)

3.4 Sampling Techniques and Sample Size

The research used the purposeful and judgement sampling. This is because the target groups are believed to have an depth knowledge of the subject matter (Global economic crisis and credit risk management in Nigeria deposit money bank).

The sample size of this research is Thirty (30) respondents, who were selected randomly selected from the total population of Fifty (50).

3.5 Sources of Data Collection

There are basically two types of data collection namely: Primary; and Secondary methods of data collection

i. **Primary Method:** This method contains a direct description by an original participant or observer. Data from this source is meant for specific purpose. The source provide a more accurate and exact information than the secondary method, hence, researchers are encouraged to attempt to view and reference the primary method. The primary sources of this study include personal interview and questionnaire.

ii. **Secondary Methods:** These are sources written by an author who was not a direct participant or observer in a study being reported, as in the case of most textbooks, periodical and so forth. They are sometimes referred to as documentary sources. Care must be taken in the use of data from these sources since they may not give the exact kind of information needed and also, the data may not be in the most suitable form. This study specifically used textbooks, journals, research works and internet sources.

3.6 Method of Data Analysis

The statistical technique employed for data analysis is percentage and frequency table.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In this chapter the data collected in chapter three will be presented and analyzed. Thirty (30) questionnaires were sent out, and out of these twenty eight (28) were completed by the respondents. Therefore this analysis is based on the twenty eight (2) questionnaires returned.

Table 4.1: Showing Number of Questionnaire Distributed

Number of questionnaire sent out	30	100%
Number of questionnaire returned	28	93.3%
Number of questionnaire not returned	2	6.7%
Percentage response Rate	28	93.3%

Sources: Field Survey 2014

The above table is on the number of questionnaires administered and it can be seen that a total of Thirty questionnaires were administered out of which twenty eight were duly completed and returned, which represents 100% total number of questionnaires administered while two (2) questionnaires were not returned which represents 6.7% of the respondents.

Section A: Socio Demographic Characteristics of the Respondents (Bio Data)

Table 4.2: Showing the Gender of the Respondents

Marital Status	No. of Respondents	Percentage (%)
Male	20	71.4
Female	8	28.6
Total	**28**	**100**

Sources: Field Survey 2014

The table above is showing the gender of the respondents and can be seen that 71.4% of the respondents are male, while 8 respondents, representing 28.6% of the respondents are female.

Table 4.3: Showing the Marital Status of the Respondents

Marital Status	No. of Respondents	Percentage (%)
Married	17	60.7
Single	6	21.4
Divorced	4	14.3
Widow	1	3.5
Total	**28**	**100**

Sources: Field Survey 2014

The table above is showing the marital status of the respondent and can be seen that 60.7% of the respondents are married, while 6 respondents, representing 21.4% of the respondents are single, while divorced and widows has 14.3% and 3.5% responses respectively

Table 4.4: Level of Respondents.

Level	No. of Respondents	Percentage (%)
Junior Cadre	10	35.7
Senior Cadre	18	64.3
Total	**28**	**100%**

Sources: Field Survey 2014

The above table seeks to know the level of the respondents and it can be seen that 35.7% of the total responses are junior cadre, 64.3% of the respondents are of senior cadre.

Table 4.5: Educational Qualification of the Respondents

Qualification	No. of Respondents	Percentage (%)
Diploma/ ND/NCE	9	32.1
HND/Degree	15	53.6
Masters/PhD	4	14.3
Others	-	-
Total	**28**	**100**

Sources: Field Survey 2014

Above is the table that indicates the educational qualification of the respondents and by the analysis it can be said that 32.1% of the total respondents are holders of degree or HND which shows that majority of the respondents are graduates, while 53.6% of the respondents are HND/Degree holders, and 14.3% are masters/ PhD Holders.

Questionnaire to Staff of First Bank of Nigeria (FBN)

Section B: Global Economic Crisis and Credit Risk Management in Money Deposit Banks

Table 4.6: Affected by Global Economic Crisis and Risk Management

Effects	No. of Respondents	Percentage (%)
Yes	19	67.9
No	9	32.1
Total	**28**	**100%**

Sources: Field Survey 2014

Table 4.6 above seeks to know whether the money deposit bank are affected by the global economic crisis and risk management and it show that 67.9% of the total respondents says yes the global economic crisis and risk management affect the money deposit banks, while 32.1% of the remaining respondents says No, the money deposit bank are not affected.

Table 4.7: The Global Economic Crisis and Risk Management on bank

Effect on	No. of Respondents	Percentage (%)
Deposits	8	28.6
Capital base	-	-
Credit analysis	6	21.4
Profit	14	50.0
Total	**28**	**100%**

Sources: Field Survey 2014

Table 4.7 above seek to know the type of effect on the global economic crisis and risk management has on the money deposit banks and the analysis show that 28.6% of the respondents say the effect is on the deposit, and has no effect on capital base, while 21.4% of the respondents says that effects is on credit analysis of the banks and the remaining 50% of the respondents says the effect is on the profit and further investigation reveal that the profit margin of first bank ltd is low as a result of the global economic crisis. Gross earnings of the bank reduce by 40% from N218.3 billion in 2008 to N155.7 billion in 2009.

Table 4.8: Effectiveness of banks in managing global economic crisis as it relate to credit risk management

Option	No. of Respondents	Percentage (%)
Very effective	13	46.4
Effective	8	28.6
Ineffective	5	17.9
Total	**28**	**100**

Sources: Field Survey 2014

The analysis of table 4.8 above is on how effective the money deposits bank manage the global economic crisis, as it relate to credit risk management and it shows that 46.4% of the respondents are of the view that the banks manage the crisis very effectively as further

investigation revealed that majority of the banks used their profit to service the credit risk during the global economic crisis and 28.6% of the respondents says that the management of the global economic crisis as it relate to risk management is effective by the banks, while the remaining 17.9% of the respondents opined that it is ineffective.

Table 4.9: Giving credit facilities to customer

Option	No. of Respondents	Percentage (%)
Yes	13	46.42
No	15	53.58
Total	**28**	**100**

Sources: Field Survey 2014

Table 4.9 above wants to know whether the money deposit bank give credit facilities to its customers and it shows that 46.42% of the total respondents says 53.58% of the respondents says **No** the money deposit do not give credit facilities to its customers and on investigation it is found that it is due to the global economic crisis.

Table 4.10: Oftenness of Giving Credit to Customers

Option	No. of Respondents	Percentage (%)
Always	-	-
Very often	9	32.1
Often	8	28.6
Not often	11	39.3
Total	**28**	**100**

Sources: Field Survey 2014

Table 4.10 above is on how often the money deposit banks give credit facilities to its customers and it shows that 8 responses, representing 32.1% of the respondents says very often and 28.6% of the respondents says often, while 39.3% of the remaining respondents says not often and this was attributed to global economic crisis.

Table 14.11: Types of Loan facilities

Option	No. of Respondents	Percentage (%)
Short Term Loan	13	46.4
Medium Term Loan	9	32.1
Long Term Loan	4	14.3
None of the above	-	-
Total	**28**	**100**

Sources: Field Survey 2014

Table 4.11 above is on the types of loan facilities the money deposit banks give to its customers and the analysis show that 46.4% of the respondents says the banks give short term loan and 32.1% of the respondents are of the view that the banks give medium term loan to its customers, while the remaining 14.3% of the respondents opined that the banks give long term loan to its customers.

Table 4.12: Collateral security before giving loan

Option	No. of Respondents	Percentage (%)
Yes	20	71.4
No	8	28.6
Total	**28**	**100**

Sources: Field Survey 2014

The analysis of table 4.12 above is on collateral security and it shows that 71.4% of the customers opined Yes the money deposit bank demand for collateral security before giving loan/credit facilities to its customers, while the remaining 28.6% of the respondents said No collateral security is not required.

Table 4.13: Viability of Customers

Option	No. of Respondents	Percentage (%)
Yes	19	67.9
No	9	32.1
Total	**28**	**100**

Sources: Field Survey 2014

Table 4.13 above wants to know whether the money deposit banks measure the viability on the basis measure the viability of customers on the basis of their collateral security interms of global economic crisis as relate to credit risk management and it shows that 67.9% of the

respondents said yes, the money deposit banks measure their viability strength of the collateral security especially during the global economic crisis, while 32.1% of the customers said No, their viability strength is not measured despite the global economic crisis.

Table 4.14: Type of Security Required

Option	No. of Respondents	Percentage (%)
Share certificate	6	21.4
Certificate of occupancy	18	64.3
Letter of guarantee	4	14.3
All of the above	-	-
Total	**28**	**100**

Sources: Field Survey 2014

The analysis of table 4.14 is on the type of security required by the money deposit banks due to global economic crisis as its relate to credit risk management and it shows that 64.3% of the respondents said certificate of occupancy (C of O) is required and 21.4% of the respondents opined that share certificates is required, while 14.3% of the respondent said letter of guarantee is required and no responses for all of the above

Table 4.15: Assessment of Customer patronage

Option	No. of Respondents	Percentage (%)
Giving short term loan/Low interest rate	12	42.6
Giving medium term loan/ High Interest rate	5	17.9
Giving long term loan/ medium interest rate	11	39.3
Total	**28**	**100**

Sources: Field Survey 2014

Table 4.15 above seeks to know customer patronage to the money deposit banks during the global economic crisis and credit risk management and it shows that 42.6% of the respondents patronized the bank due to short term loan/ low interest rate and 17.9% of the respondents patronized the bank because of medium term loan/ high interest rate, while the remaining 39.3% of the respondents opined that they patronized the money deposit banks due to long term loan/medium interest during the global economic crisis.

Table 4.16: Bank rating by Customers during global economic crisis

Option	No. of Respondents	Percentage (%)
High	8	28.6
Very high	-	-
Low	17	60.7
Very log	3	10.7
Total	**28**	**100**

Sources: Field Survey 2014

Table 4.16 above is on rating of the money deposit banks of customers during the global economic crisis as it relate to credit risk management and it shows 28.6% of the respondent said it is high, and 60.7% of the respondents opined that the customers rated the money deposit banks low during the global economic crisis and credit risk management, on further investigation it is found that the charged high interest rate, while 10.7% of the remaining respondents said customers rated the banks very low during the global economic crisis.

Table 4.17: CBN fairness to the money deposit banks during global economic crisis as relate to it credit risk management

Option	No. of Respondents	Percentage (%)
Yes	15	53.58
No	13	46.42
Total	**28**	**100**

Sources: Field Survey 2012

The analysis of table 4.17 above seek to know whether the CBN is fair to the money deposit banks during the global economic crisis as it relate to credit risk management, it shows that 53.58% of the respondents says yes, the CBN is fair to the money deposit banks on further investigation it is found that the money deposit banks are made to meet up their capital base by the CBN while the remaining

respondents opined that the NO, the CBN is not fair to the money deposit banks.

Table 4.18Recommendation efforts of the CBN and NDIC on situation of Money deposit banks during global economic crisis as it relate to risk management

Option	No. of Respondents	Percentage (%)
Yes	22	78.6
No	6	21.4
Total	**28**	**100**

Sources: Field Survey 2014

The analysis of table 4.18is on the recommendation effort of CBN and NDIC on the situation of money deposit banks during economic crisis as it relate to credit risk management and it shows that 78.6% of the respondents opined yes by not allowing the money deposit bank to charge higher interest rate and the remaining percentage of the remaining respondent said No, they do not recommend the effort of CBN and NDIC because the banks charge high interest rate during the global crisis in order to management their credit risk management.

Table 4.19: Affected during Global economic crisis in terms of risk management

Option	No. of Respondents	Percentage (%)
Individual	-	-
Corporate	6	21.4
Government	8	28.6
Private sector	14	50.0
Total	**28**	**100**

Sources: Field Survey 2012

Table 4.19 above want to know those mostly affected during the global economic crisis in terms of risk management and the analysis show that 21.4% of the respondents are of the view that corporate bodies are mostly affected, while 50.0% of the respondents opined that private sector are the mostly affected and 28.6% of the remaining respondents said government are also affected during the global economic crisis interms of risk management.

Table 4.20: Alert on Risk Management

Option	No. of Respondents	Percentage (%)
Yes	17	60.7
No	11	39.3
Total	**28**	**100**

Sources: Field Survey 2012

Table 4.20 above is on the alertness of money deposit banks on risk management during global economic crisis and by the analysis it can be clearly seen that 60.7% of the respondents said yes the global economic crisis has make the money deposit bank more alert interms of credit risk management, while 39.3% of the respondents are on the contrary.

4.2 Test of Hypothesis

H_0: There is no significant relationship between economic crisis and credit risk management on the performance of deposit money banks.

Using the chi-square formula, we shall test the hypothesis from the questionnaire raised and the thinking and feelings of the respondents.

$$X^2 = \frac{(F_o - F_e)^2}{F_e}$$

$$Fe = \frac{TcxTr}{N}$$

Where: Tc = Total respondents on column

Tr = Total respondents on row

N = Total number of respondents

Fe = Expected Frequency

From question 12, the following analysis is hereby outlined using the sample questionnaire. How is your rated by the customers during global economic crisis as it relate to credit risk management?

Table 4.13: Observed Frequency

Category	Yes	No	I don't know	No Response	Total
Senior staff cadre	52	10	4	5	71
Junior staff cadre	10	6	6	3	25
Percentage	62%	16%	10%	8%	100%

Source: 2014 Survey Research by this Author

Table 4.14: Computation of Expected Frequency

Category	Yes	No	I don't know	No Response	Total
Senior staff cadre	$\frac{52\ x\ 70}{100}$ $= 36.4$	$\frac{10\ x\ 12}{100}$ $= 1.2$	$\frac{4\ x\ 10}{100}$ $= 0.4$	$\frac{5\ x\ 8}{100}$ $= 0.4$	54
Junior staff cadre	$\frac{10\ x\ 70}{100}$ $= 7.0$	$\frac{6\ x\ 12}{100}$ $= 0.72$	$\frac{6\ x\ 10}{100}$ $= 0.6$	$\frac{3\ x\ 8}{100}$ $= 0.24$	16

Source: 2014 Survey Research by this Author

Table 4.4.3: Computation of Chi Square

Degree of Freedom:

Category	Fo	Fe	(fo – fe)	(fo – fe)^2	$\sum\frac{(fo-fe)^2}{Fe}$
Senior Staff Cadre					
Yes	52	37.6	16.4	268.98	0.7857
No	10	0.96	(7.04)	49.6	0.0545
I Don't Know	4	0.4	(3.6)	12.96	2.2272
No Response	5	0.4	(4.6)	21.16	0.4454
Junior Staff Cadre					
Yes	10	11.2	(4.8)	23.04	0.3753
No	6	0.48	(3.52)	12.4	0.0775
I Don't Know	6	0.6	5.4	29.2	3.2818
No Response	3	0.24	2.76	7.62	0.0163
Total	**100**	**100**			**9.3216**

Source: 2014 Survey Research by this Author

D.f = (4 – 1) (3 – 1)

= 3 x 2

= 6

Therefore the critical value X^2 0.05 = 12.592

Test the Result

Observed value = 12.592

Critical value = 12.592 see appendix for chi –square table)

9.3216 < 12.592

The observed value (test statistics) is more than the critical value

Decision: It can be observed that at 5% level of significance and 6 degree of freedom, the critical value of chi-square is 12.592 while the observed value of the computed chi-square is 9.3216. Since the observed value of the computed chi-square is less than the critical value, the Null hypothesis (H_0) is rejected "There is no significant relationship between economic crisis and credit risk management on the performance of deposit money banks"

4.3 Summary of Findings

Based on literature reviewed so far, and specific methodology adopted for the present study, we can say that no one yet has investigated the impact of Global Economic Crisis on the credit risk Management of banks operating in Nigeria. Typically, studies on credit risk of banks have focused on theoretical issues and the empirical work has relied mainly on the analysis of descriptive statistics rather than

rigorous statistical estimation. This study is an attempt to fill out the gap found in the literature on empirical analysis of Money deposit banks operating in Nigeria with special focus on the impact of Global Economic crisis on the credit risk management of banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Based on literature reviewed so far, and specific methodology adopted for the present study, we can say that no one yet has investigated the impact of Global Economic Crisis on the credit risk Management of banks operating in Nigeria. Typically, studies on credit risk of banks have focused on theoretical issues and the empirical work has relied mainly on the analysis of descriptive statistics rather than rigorous statistical estimation. This study is an attempt to fill out the gap found in the literature on empirical analysis of Money deposit banks operating in Nigeria with special focus on the impact of Global Economic crisis on the credit risk management of banks.

5.2 Conclusion

The study explored the perceived effect of global financial crisis on branding of bank services. This has become necessary because the present financial crisis in the Nigerian banking industry has been attributed to a lot of factors. The characteristic features of the Nigerian banks show that the banking sector before the global financial crisis was sound and vibrant enough to support the nation's economic growth and development. This was revealed from the in-depth interview and

questionnaire that was distributed to strategic marketers in the banking industry. The management teams attempt to boost the standards of their banks and also to have high returns on investments have exposed some the banks to the financial crisis. The impacts of the crisis could have been avoided if there were precautionary measures.

5.3 Recommendations

Based on the findings of this study, it becomes very crucial to suggest the following;

- The Nigerian banks do not have access to long term deposits that would enable them to grant long term loans to their customers. This made the banks to over rely on foreign financial institution and banks for credit lines. In order to avoid this, the Nigerian government through the CBN should organize and strengthen the growth of institutions like the pension fund, Housing fund, Health insurance fund etc. This could be achieved through a financial liberalization policy.
- The Nigerian government should find alternative ways to fund their budget deficit so as to reduce the pressure of financing projects in the real sector of the Nigerian economy by banks.

- Nigeria Deposits Insurance Corporation should strengthen its legal frame on insuring of deposit fund. This will create confidence in the mind of the public.
- Banks should stop giving out loans to invest in the stocks of banks that are quoted in the Nigerian stock market.
- The survival and strength of the brand will be determined by the strength of the marketing strategy of that organization. Therefore, in order to maintain a strong brand in a turbulent environment there is need for bank management to engage a team of marketers who are strategic thinkers.
- Business leaders need to change their business models if they are to maintain strong brands. One of the major strategies required is excellent service culture. This service culture will be as a result of staff branding.
- The managements of such banks are encouraged to embrace internal marketing. The vision, mission and strategies put in place should be properly marketed to the employees. Teamwork must also be encouraged among the staff.

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APPENDIX

DEPARTMENT OF ECONOMICS
FACULTY OF MANAGEMENT SCIENCE
USMANU DANFODIYO UNIVERSITY, SOKOTO
(POST GRADUATE SCHOOL)

QUESTIONNAIRE FOR BANK OFFICIALS

Dear Sir/Madam,

I am a Postgraduate student of the above mentioned institution and currently undertaking a PGDM dissertation titled ‘Global Economic Crisis and Credit Risk Management in Nigeria Deposit Money Banks: A case study of First Bank Ltd.

The research work is for academic purpose only. Thus, all information given would be treated confidentially. Please kindly answer the following questions by ticking the space provided appropriately and to the best of your knowledge.

Thanks for your anticipated cooperation.

TUKUR BAWA

SECTION A: **Socio-Demographic Characteristics of the Respondents**

1. Gender: Male ( ) Female ( )
2. Marital Status: Single ( ) Married ( )
3. Age: a. 18 – 25 years ( ) b. 26 – 36 years ( )
   c. 37 – 46 years ( ) d. 46 years and above ( )
4. What is your level? a. Junior Cadre ( ) b. Senior Cadre( )

5. Your qualification:

a. NCE/OND ( ) b. HND/Bachelor Degree ( )

c. Other (Please specify) ___________________________________

____

SECTION B: RESEARCH DATA

1. Does Global Economic Crisis and Credit Risk Management affected your bank? a) Yes ( ) b) No ( )

2. If Yes, Please comment briefly on how …...…………………………… ……………………………………………………………………………

3. What effect has global economic crisis and risk management on your bank?

   a) Deposits ( ) b) Capital Base ( ) c) Credit Analysis ( )

   d) Others (specify)……………………………………………………

4. How effective is your bank in managing global economic crisis and credit risk management? a) Very effective ( ) b) Effective ( ) c) Ineffective ( ) d) Less effective ( )

5. Does your bank give credit facilities to its customers?

   a) Yes ( ) b) No ( )

6. How often does your bank credit facilities to its customers?

   a) Always b)Very often c) Often d) Not often

7. What type of loanfacilities does your bank give to its customers?

   a) Short term loans ( ) b) Medium term loans ( )

c) Long term loans ( ) d) none of the above ( )

8. Does your bank require any collateral security before giving loan/credit facilities to its customers?

a) Yes ( ) b) No ( )

9. Does your bank measure the viability of the customers on the basis of strength of their collateral security interms of global economic crisis and risk management in money deposit banks?

a) Yes ( ) b) No ( )

10. Which of these types of securities does your bank require from its customers as a result of global economic crisis and risk management in money deposit banks?

a) Shares certificates ( ) b) Certificate of occupancy (C of O)( )

c) Letter of guarantee from employer ( ) d) All of the above ( )

11. How can you access your customer's patronage during this global economic crisis?

a) Giving short term loans/low interest rate ( )

b) Giving medium term loans/high interest rate ( )

c) Giving long term loans/ medium interest rate ( )

d) None of the above ( )

12. How is your rated by the customers during global economic crisis and risk management?

a) High ( ) b) Very High c) Low ( ) d)Very low ( )

13. Was CBN fair to the money deposit banks during global economy crisis interms of risk management?

a) Yes ( ) b) No ( )

14. If No, please briefly comment on why ……………………...............

……..………………………………………………………………

…..…………………………………………………………………

15. Do you recommend the efforts of CBN and NDIC on the present banks situation during global economic crisis as it relate to risk management?

a) Yes ( ) b) No ( )

16. If No, please comment on why? ………………………………………

….……………………………………………………………………

17. What are the lessons learnt by money deposit banks generally as a result of global economic crisis interms of risk management?

………….……………………………………………………………

……………………………………………………………………

……………………………………………………………………..

18. Who are the mostly affected during the global economic crisis interms of risk management?

a) Individuals ( ) b) Corporate ( ) c) Government ( )

d) Private Sector ( )

19. Do you think the global economic crisis has made the money deposit banks more alert in risk management?

a) Yes ( ) b) No ( )

20. Do you think the global economic crisis has effects on risk management in money deposit banks?

a) Yes ( ) b) No ( )

21. If yes, please briefly comment ………………………………………….

…………………………………………………………………………

22. In your own opinion what advice can you give the money deposit banks in order to guide them on risk management in future occurrence of global economic crisis?

…………………………………………………………………………

…………………………………………………………………………