



FINANCIAL MANAGEMENT PRACTICES AND PROFITABILITY OF DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT: *The study aims to investigate the financial management practices and profitability of deposit money banks in Nigeria. It is guided by The Stakeholder theory and The Porter's theory. The research design employed for this study is ex-post facto. The universal population includes all DMB in Nigeria that were operational as of 2022. Secondary data were collected from the annual reports of selected commercial banks in Nigeria, which will be used as panel data for the study. The results of the study revealed significant impacts of various financial management practices on profitability. Non-performing loan showed a significant impact on profitability, as evidenced by a high F-statistic of 10.62768 and a low p-value of 0.000001. Similarly, Loan Loss Provision Ratio demonstrated a significant impact on profitability, with an F-statistic of 9.218826 and a p-value of 0.000034. Furthermore, Loan and Advance Ratio also had a notable impact on profitability, with a significant F-statistic of 11.13815 and a low p-value of 0.000005. Additionally, Capital Adequacy ratio was found to have a significant impact on profitability, supported by an F-Rstatistic of 0.976643 and a p-value of 0.009176. It was determined that financial management procedures significantly influence the profitability of Deposit Money Banks in Nigeria, proving that these practices are important in determining the financial success of the banks under investigation. The following recommendations were made to improve banks' financial performance: to enhance loan loss provisioning, increase loan and advance ratio, concentrate on capital adequacy and financial stability, and strengthen credit risk management.*

KEYWORDS: Financial Management Practices, Non-performing loan, Loan Loss Provision, Loan and Advance, Capital Adequacy, Profitability.



INTRODUCTION

Background of the Study

The Nigerian banking industry is crucial to the nation's economy since it offers crucial financial services and promotes economic expansion. At the center of this industry are Deposit Money Banks (DMBs), which are in charge of obtaining public deposits and directing them toward different types of investments and credit facilities. These banks' profitability, stability, and total economic influence in Nigeria are significantly impacted by the management strategies they use. This study examines the connection between management strategies and Deposit Money Banks' profitability in Nigeria, illuminating important elements that affect their financial success.

Strategic planning, risk management, financial decision-making, human resource management, and customer relationship management are just a few of the many tasks that fall under the umbrella of management practices¹. Effective management techniques are essential for the efficient operation and long-term viability of DMBs. The management of these banks directly influences their capacity to draw deposits, properly deploy capital, manage risks, and provide their clients with competitive financial goods and services².

The capacity of a bank to provide returns for shareholders and depositors is largely determined by its profitability. The profitability of a bank may be considerably impacted by effective management techniques. For example, good risk management procedures aid banks in preventing excessive losses, while strategic planning and market positioning enable banks to find lucrative prospects and streamline their business processes. Additionally, strong customer relationship management increases client happiness and loyalty, which can result in raised deposits and earnings³.

Deposit money banks' profitability and long-term performance in Nigeria depend on a strategic alignment of efficient management techniques that take advantage of both possibilities and obstacles. One of the most important techniques that banks may use to improve their financial performance is to implement a customer-centric strategy, embrace digital transformation, strengthen risk management, and foster talent development. Nigerian DMBs may position themselves for continuous success by aligning their operations with these suggestions, which would help the country's overall economic development while maintaining their ability to compete in the rapidly changing banking industry.

The percentage of loans in a bank's portfolio that are in default or have not been serviced in accordance with the agreed-upon conditions is known as the non-performing loans (NPLs) ratio. It serves as an important proxy for credit risk and a measure of the caliber of a bank's loan portfolio. Understanding the interaction between credit risk and profitability requires an in-depth look at the Non-Performing Loans (NPLs) ratio. Loans in default or not being serviced in accordance with the contract conditions are referred to as NPLs. A bank's total profitability is impacted by increasing credit risk brought on by a larger NPL ratio, which can also reduce interest revenue and force the need for more provisions. Given its possible consequences for financial stability and the long-term profitability of institutions, this specific relationship has aroused considerable interest within the banking industry. Banks may manage their exposure to credit risk more skillfully and contribute to increased financial stability by grasping the complex link between NPLs and profitability.



The percentage of money a bank sets aside from its profits to cover anticipated losses from non-performing loans and other credit-related losses is known as the loan loss provision ratio. Banks have taken a cautious approach to reduce credit risk and safeguard their financial stability. The relationship between financial stability and the Loan Loss Provision (LLP) Ratio highlights the need for careful provisioning in reducing credit risks. This ratio shows how much of a bank's earnings are set aside to protect against possible losses from non-performing loans and credit-related risks. A bank's profitability is protected, its capacity to handle loan defaults is improved, and regulatory compliance and capital adequacy criteria are promoted when provisions are kept at an ideal level. Regarding this situation, the partnership between the LLP Ratio and profitability stands out as a crucial component in preserving a bank's overall financial stability.

The Loan and Advance Ratio also calculates the percentage of loans and advances to a bank's total assets. It indicates how much of the bank's assets are used to fund the granting of credit to borrowers. In the quest for profitability, analyzing the Loan and Advance Ratio as a representation of a bank's lending practices becomes crucial. The commitment of a bank's assets to loans and advances, which considerably increases interest revenue, is measured by this percentage. An ideal loan-to-advance ratio results in effective asset use, which boosts profitability while successfully controlling credit risk.

Capital adequacy, on the other hand, refers to the legal obligation for banks to uphold an adequate amount of capital in relation to their risk-weighted assets. It is intended to safeguard depositors and advance monetary stability. The body of research emphasizes the significance of capital adequacy as a legal requirement to make sure banks have a sufficient capital cushion in relation to risk-weighted assets. This safety net strengthens a bank's capacity to endure possible losses, including those brought on by NPLs, without jeopardizing its ability to continue operating. Profitability and long-term viability are further bolstered by this resiliency.

For Nigeria's Deposit Money Banks to be profitable and have long-term development, effective management techniques are essential. Technology improvements, risk management, human resource management, strategic planning, and regulatory compliance are all essential components in guaranteeing a healthy financial performance. The capacity of Nigerian DMBs to embrace best management practices, adjust to shifting market dynamics, and utilize cutting-edge technology to improve efficiency and customer experience will determine their potential to achieve profitability and contribute to the economic prosperity of the country. Policymakers, regulators, and banking executives may collaborate to support a strong banking system that propels inclusive economic growth in Nigeria by recognising these considerations.

A number of variables affect the profitability of Deposit Money Banks (DMBs) in Nigeria, and one crucial one that has a big impact on both their performance and financial health is their financial management practices. The Nigerian banking industry, however, is confronted with a number of issues that make it difficult to use these strategies effectively and, as a result, have an adverse influence on the financial success of DMBs. In this study, we intend to evaluate the impact of financial management techniques on the profitability of DMBs in Nigeria, including Non-Performing Loans (NPLs), Loan Loss Provision, Loan and Advance, and Capital Adequacy.

Ineffective risk management, particularly with regard to Non-Performing Loans, is one of the main issues DMBs in Nigeria confront. Credit risk, liquidity risk, market risk, operational risk,



and regulatory compliance risk are just a few of the hazards that the banking industry is subject to. Significant financial losses may occur due to insufficient risk management procedures, which may negatively impact banks' profitability. For instance, poor credit risk management might result in more non-performing loans, which has a negative effect on the bank's asset quality and profitability. Additionally, certain DMBs' inadequate Loan Loss Provision presents another issue that has an impact on profitability. To adequately cover possible loan losses and credit-related risks, provisioning must be done correctly. Increased credit losses may result from an insufficient loan loss provision, which would be detrimental to the bank's profitability and capital sufficiency. The bank's capacity to absorb unexpected losses and preserve financial stability might be hampered by inadequate preparations^{2,3}.

The capacity of the bank to grow operations, the ability to engage in lending activities, and the overall profitability can all be hampered by insufficient capital levels^{6,7,8,9}. For DMBs in Nigeria, maintaining enough capital adequacy while balancing regulatory compliance remains difficult. In order to improve financial management procedures and achieve long-term profitability, this issue must be resolved. In this study, the profitability of Deposit Money Banks in Nigeria will be compared to several financial management practices, such as NPLs, Loan Loss Provision, Loan and Advance, and Capital Adequacy. For the purpose of creating plans to solve the identified issue areas and improve the financial performance and long-term viability of DMBs in Nigeria, it is essential to comprehend the effects of these financial management techniques on profitability. In the competitive Nigerian banking environment, DMBs can endeavor to increase their profitability and overall profitability by addressing these issues and enhancing financial management techniques. According to studies, despite the proclaimed benefits of financial management practices, little is known about the extent to which various financial management techniques are used in Nigeria, as well as their impact on the profitability of deposit money banks

Objective of the Study

The objective of the study is to investigate the financial management practice and profitability of deposit money bank in Nigeria.

The specific objectives are following:

1. Determine whether non-performing loans ratio has a significant influence on the profitability of Deposit Money Banks in Nigeria
2. Determine whether Loan Loss Provision Ratio has a significant influence on the profitability of Deposit Money Banks in Nigeria
3. Determine whether Loan and Advance Ratio has a significant influence on the profitability of Deposit Money Banks in Nigeria
4. Determine whether Capital Adequacy has a significant influence on the profitability of Deposit Money Banks in Nigeria.



Research Questions

1. What is the extent of the influence of Non-Performing Loans (NPLs) ratio on the profitability of Deposit Money Banks in Nigeria?
2. How does the Loan Loss Provision Ratio influence the profitability of Deposit Money Banks in Nigeria?
3. What is the impact of the Loan and Advance Ratio on the profitability of Deposit Money Banks in Nigeria?
4. How does the Capital Adequacy ratio influence the profitability of Deposit Money Banks in Nigeria?

Hypotheses

1. Null Hypothesis (H₀₁): There is no significant influence of Non-Performing Loans (NPLs) ratio on the profitability of Deposit Money Banks in Nigeria.
2. Null Hypothesis (H₀₂): There is no significant influence of Loan Loss Provision Ratio on the profitability of Deposit Money Banks in Nigeria.
3. Null Hypothesis (H₀₃): There is no significant influence of the Loan and Advance Ratio on the profitability of Deposit Money Banks in Nigeria.
4. Null Hypothesis (H₀₄): There is no significant influence of Capital Adequacy ratio on the profitability of Deposit Money Banks in Nigeria.

LITERATURE REVIEW

Profitability

Deposit Money Banks are financial institutions that accept deposits from individuals, businesses, and other entities and use these funds to provide various banking services. Their primary functions include holding and safeguarding deposits, providing loans and advances, offering payment services, facilitating trade finance, and conducting foreign exchange transactions. As key players in the banking sector, DMBs play a crucial role in channeling funds from savers to borrowers, supporting economic growth and development. The Nigerian banking industry is regulated by the Central Bank of Nigeria (CBN) and governed by various laws, including the Banks and Other Financial Institutions Act (BOFIA) and the CBN Act. The CBN sets prudential regulations, capital adequacy requirements, and operational guidelines to ensure the stability and soundness of DMBs. Compliance with regulatory standards is essential for maintaining public confidence in the banking system and protecting the interests of depositors¹.

The capacity of a corporate organization to keep its profit year after year is referred to as profitability. The effectiveness of a bank in creating profits is known as profitability. Profitability raises the dividend paid to shareholders, increasing investor income and raising the general quality of life. In addition to maintaining the longevity of the businesses, profitability also has broader ramifications for the economy as a whole. Every company should



produce a profit that will allow it to endure and expand over time. Profit is defined as the sum of the income from the sale of an output less the full opportunity cost of all the inputs utilized to produce that output. The premium for taking risks and the expense of employing the owner's money (net worth) are included in charges. Additionally, a profit might be both normal and supernormal. A normal profit is the amount of profit required to keep a company operating in its industry. The company is able to pay its employees and management a fair wage thanks to this level of regular profit. Contrarily, a supernormal profit is any profit over and above normal profit. Measurements of profitability include return on assets (ROA), return on equity (ROE), capital asset ratio, liquidity ratio, and credit risk ratio.

Net profit margins for the largest cruise lines have regularly shown outstanding growth patterns. As a way to avoid or prepare for profit loss in the above situation, net profit margin management is suggested. A consistent and proportionate approach to managing net income will have long-term positive effects for the company and prevent insolvency. In contrast, the likelihood of future bankruptcy increases if a company's credit policy is not clearly stated and consistently enforced. The ability of a corporation to pay off maturing debt is referred to as current ratio, and it is one aspect that affects net profit margin. A business with plenty of liquidity can meet its short-term debts. The company's liquidity also shows the amount of cash utilized to calculate the profit margin. Leverage is another element that might affect net profit margin. Leverage ratio is a statistic used to evaluate a company's level of debt. Sales growth, which reflects the organization's ability to make enough money to reimburse or repay the investment in the future, is another element that affects net profit margin.

Financial Management Practices

Financial management practices in the financial industry have gained increased attention in recent years as a result of many scandals and crises involving numerous companies, most notably in developing countries. Financial management practices are developed and executed with the goal of reducing inefficiencies associated with company operations and with the assumption that their implementation would enhance an organization's performance¹. Corporate scandals affect financial institutions operating in Nigeria². As banking institutions expand their financial services and products offerings, they face the issue of generating value for owners while adhering to global best practices and regulatory obligations. Financial management practices are anticipated to increase banks' efficiency in their financial intermediation role, thus contributing to effective corporate governance⁷.

Financial management procedures are essential for enhancing banks' effectiveness in financial intermediation, which eventually improves effective corporate governance. The requirements of corporate governance call for the creation of systems to guarantee rigorous risk management and performance improvement. The importance of financial management techniques in strengthening corporate governance increases as an organization's operational effectiveness rises. The main goal of financial management is to effectively manage an organization's current assets in order to achieve the best possible balance between profitability and risk.

The financial services sector emphasizes the link between an entity's success and the caliber of its financial management procedures. The trajectory of a company's growth depends on careful financial management, which includes smart planning and strict control of financial resources to reduce the danger of debt default and prevent excessive investment. Senior management is responsible for making important choices that finely create effective financial management



techniques. These choices include allocating cash to long-term projects that will increase wealth, raising money to cover investment needs through the sale of shares or debt, and allocating net profits to stakeholders. The CAMELS ratings are a crucial tool for assessing financial health and performance in the banking industry. The acronym stands for Adequate Capital, Good Assets, Efficient Management, Good Earnings, Good Liquidity Position, and Sensitivity to Market Risk. Diverse stakeholders also employ various ratios for quantitative evaluations of financial performance, providing insights into the relative strengths and weaknesses of an organization.

Non-Performing Loans (NPLs) in the Banking Sector

Non-Performing Loans (NPLs) represent loans where borrowers have failed to make interest payments or repay any principal for a period exceeding 90 days. Banks designate a loan as non-performing when both interest and principal payments remain overdue by more than 90 days^{1,2}. Such loans have not been honored in accordance with the mutually agreed terms between the bank and the borrower. Within the context of Regulation n°02/2011 on credit classification, credit facilities are classified into five distinct categories: normal risk, watch (special mention), substandard, dubious, and loss. Notably, non-performing loans encompass the last three categories, namely substandard, questionable, and loss. These loans encompass principle amounts overdue for more than three payments and accrued interest overdue for more than three months. The proportion of non-performing assets in a bank's portfolio significantly influences its profitability and stands as a pivotal and sensitive aspect.

Loans that banks are unable to recover quickly are included in non-performing assets. The non-performing loans are a crucial component of this category since they have an impact on a bank's overall financial stability. A researcher draws attention to the fact that a grading system internal to the company is used to determine the possibility of consumer default for certain counterparties. In order to do this, clients are divided into five different rating classes according to the bank's internal rating system, each of which corresponds to a different probability of default: Normal risk is denoted by Grade 1 (0 to 30 days), watch risk by Grade 2, subpar risk by Grade 3 (91 to 180 days), questionable risk by Grade 4 (between 181 and 360 days), and loss risk by Grade 5 (more than 360 days). Non-performing loans are those that fall into the final three categories of the bank's internal credit risk assessment. In addition, these non-performing loans are further categorized based on how difficult it will be to reclaim these assets. According to a supporting argument, the rise in NPLs highlights the challenges banks have in collecting interest and principal payments on their loans. The economy will expand more slowly as a result, and any business may have trouble getting financing. The amount of non-performing assets reflects how effectively banks are managing their loan portfolios. By comparing a bank's nonperforming assets ratio to that of other institutions, one may determine how effectively the bank is recovering its principle and earning income. This ratio is calculated by dividing the quantity of non-performing assets by the total amount of gross loans. As the ratio rises, a lending bank's efficiency rating declines⁷.



Loan and Advance

A "loan" is an amount of money that someone borrows from another person. The amount, which is expressed as a loan, refers to the sum of money provided to the borrower. Therefore, from the borrower's standpoint, it is "borrowing," but from the bank's perspective, it is "lending." A loan may be thought of as "credit" given when money is given out and subsequently reclaimed. The money is owed by the borrower. When loans are issued, credit is given, and it is provided for a certain purpose and for a specific period of time. There is an established interest rate and payment schedule for the loan. However, "advance" is a "credit facility" that the bank offers. Loans from banks are often provided for transient requirements, such as payment for traded goods and other transient commercial responsibilities.

How liquid a bank is is measured by the loan-to-deposit ratio (LDR), which contrasts a bank's total loans to its total deposits for the same time period. The LDR is expressed as a percentage. The loan-to-deposit ratio of a bank is calculated by dividing its total loans for the same period by its total deposits. You can see the figures on a bank's balance sheet. Loans are classified as assets while deposits are shown as liabilities. If the ratio is excessively high, the bank could not have enough liquidity to cover any unforeseen financing need. On the other hand, if the ratio is too low, the bank may not be earning as much money as it might.

Loan Loss Provision

The amount put aside from earnings as a reserve to cover nonperforming loans is known as a loan loss provision. The loan loss provision really acts as a safeguard against unanticipated circumstances brought on by borrower failure. The sum of all provisions made against all different kinds of loans is represented by the figure reported by Loan Loss Provision. This Loan Loss Provision, which represents a larger share of the entire provision reflected in the Profit and Loss Account, definitely reduces the profit. A bigger loan loss provision, on the other hand, implies either more overall loans or more subprime loans. According to NRB standards, all good loans must be protected by a 1% provision; hence, this component makes up a significant amount of the total Loan Loss Provision.

Research on Loan Loss Provisioning (LLP) used to be restricted to looking at whether banks employed provisions to balance their profitability from an accounting perspective. The researcher continues by pointing out that more recent studies have focused on how provisions impact the procyclicality of financial systems by being lower during periods of increased production and credit and greater during periods of decreased activity. The annual provisioning expenses, which are generally scaled by the bank's total loan or asset portfolio, are explained by academics using regression analysis. Researchers looked at how Australian banks used loan loss provisions (LLPs) for capital management, earnings management, and signaling. There is some indication that Australian banks employ LLPs for capital management, but no proof that this behavior has altered as a consequence of the Basel Accords adoption, according to their research. According to their research, Australian banks use LLPs to manage profitability. They also noted that listed commercial banks employed LLPs to aggressively manage profitability as opposed to unlisted commercial banks.



Capital Adequacy

A bank, financial institution, or investment business must always maintain the statutory minimum levels of capital required for capital adequacy, and regulatory authorities demand this of the appropriate companies. In terms of its risk-weighted assets, the capital adequacy is assessed as a percentage. Typically, the needed Regulatory Capital of a bank or financial institution is referred to as capital adequacy. Banks, financial institutions, and investment organizations are always required to maintain enough capital to safeguard the stability of the company, according to regulators. This policy safeguards depositors within the sector and the greater economy while also averting institution failures, like as bank collapses, which may have far-reaching effects. The capital adequacy ratio (CAR) is a statistic used to determine how much capital a bank has available. The proportion of risk-weighted credit exposures is shown here. The capital adequacy ratio, commonly known as the capital-to-risk weighted assets ratio (CRAR), is intended to safeguard depositors and advance the efficiency and stability of financial systems globally. The capital adequacy ratio (CAR) measures how much of the bank's risk-weighted assets, or loans, are covered by its Tier 1 and Tier 2 equity (also known as qualifying capital or equity). It represents the ratio of a bank's own equity to its risk exposure. For instance, if a bank had risk-weighted assets of \$200 billion and qualifying capital of \$60 billion, its capital adequacy ratio would be \$60 billion/\$200 billion, or 30%.

Currently, Nigerian banks' capital adequacy ratios (CAR) for national/regional banks and banks with international banking licenses, respectively, are 10% and 15%. Bank viability depends on their ability to maintain adequate capital ratios (CARs). In order to avoid going bankrupt and losing depositors' money, it ensures that banks have a large enough buffer to withstand certain losses. The ratios reduce the likelihood that banks will go bankrupt, ensuring the effectiveness and stability of a nation's financial system. A bank is seen as secure and more likely to fulfill its financial commitments if it has a high capital adequacy ratio. Based on the degree of risk associated with each loan exposure, it aids banks in maintaining capital. For instance, it will be necessary to maintain matching bank capital for two banks with the same loan book size but differing levels of portfolio risk. The more cash is needed, the larger the danger. The ratio is a useful tool for investors to comprehend the total risk of a bank's loan book.

THEORETICAL REVIEW

The Stakeholder Theory

Utilizing the Stakeholder Theory, one can elucidate the evolution of financial management practices geared towards bolstering bank financial performance. Embedded within this concept are investment and financial services mechanisms such as risk diversification, savings mobilization, and liquidity creation. According to the Stakeholder Theory, banks' management adopts financial management practices to ensure effective governance that aligns with the needs of all stakeholders. Only through effective management and profitability can an organization amass the resources necessary to fulfill obligations towards various stakeholders, encompassing owners, employees, government, consumers, trade creditors, financiers, the local community, and the broader society. Financial management practices are thus



indispensable for the seamless operation of an organization and the fulfillment of diverse stakeholder demands.

Nonetheless, the Stakeholder Theory is not immune to critique, chiefly stemming from the complexities of prioritizing divergent stakeholder interests. Balancing these often conflicting demands necessitates intricate navigation and meticulous consideration. Moreover, the theory lacks a prescriptive framework for guiding decision-making amidst varying stakeholder concerns, potentially introducing uncertainties during implementation. In spite of these criticisms, the Stakeholder Theory offers substantial advantages. Active engagement with stakeholders enhances an organization's reputation and fosters trust within its customer base and the larger community. Addressing stakeholder concerns also facilitates risk identification and management, thereby contributing to organizational stability and sustainability.

When applied to the context of financial management practices and the profitability of deposit money banks in Nigeria, the Stakeholder Theory becomes a guiding beacon for positive outcomes. By embracing a customer-centric approach, banks can comprehend and cater for client needs, thereby elevating customer satisfaction and loyalty. Prioritizing employees' well-being cultivates a favorable work environment, boosting employees' morale and productivity, which subsequently translates to enhanced customer service and operational efficiency. Additionally, practicing responsible lending, while considering the interests of borrowers and other stakeholders, fosters the overall stability of the banking sector and curtails the risk of non-performing loans. Engaging with the community and endorsing social development initiatives showcases the bank's commitment to societal welfare. Moreover, adopting environmentally sustainable practices burnishes the bank's image, appealing to environmentally conscious consumers and contributing to sustainable long-term profitability.

EMPIRICAL REVIEW

The research looked on Nigerian small company financial management practices. The results of the research suggest that Nigerian small firms' profitability, development, and survival are influenced by their financial management practices. Indicators of performance in small- and medium-sized firms in England were examined in the research. The study's results show that English businesses employ performance evaluation systems less often, suggesting a gap between theory and practice as well as a propensity for businesses to place more emphasis on financial performance indicators than non-financial performance measurements. A learning-based approach to liquidity management was investigated in small businesses. According to the study's results, managing receivables and finances is a challenge for small firms. Additionally, he noticed that businesses often struggle with receivables management, supporting the engagement of professionals to manage this crucial area of the business. According to the study, financial management techniques may be used to handle liquidity issues at the business level and boost performance. Japanese banks' productivity and profitability between 2000 and 2006 were studied. The data envelopment analysis (DEA), a non-parametric method, is used to examine the cost and revenue efficiency of banks. The findings demonstrate that Japanese banks' performance has consistently improved since 2001, yet there are notable variations within the banking industry, with rural banks being less cost and revenue efficient than City and Trust banks. Despite the low profitability of Japanese banks compared to other advanced nations, there is significant room for efficiency improvements,

particularly through increased cost-sharing agreements among regional banks, consolidation of regional banks with major or other regional banks, and the development of bank consortiums to pool resources for asset and risk management. In the Czech banking industry from 2004 to 2014, the link between profitability and efficiency was estimated by a research. First, estimates of the Czech banks' profitability and effectiveness were made.

For measuring banking profitability, we looked at two ratios: return on assets and return on equity. We utilized a non-parametric technique, Data Envelopment Analysis, and a slack-based model with variable return to scale, to estimate banking efficiency. Using Granger causality and the correlation coefficient, we determined the link between profitability and efficiency. The models did not support the link between efficiency and profitability. A study on European banks was done to look at the empirical link between effectiveness and profitability. In addition, the strategic environment (the structure and concentration of the national financial sector) has a significant impact on a bank's financial performance, according to static and dynamic regression analysis, which has shown that profitable banks operate with higher technical efficiency than their rivals. According to the study's findings, both factors were statistically and economically significant.

Conceptual Framework

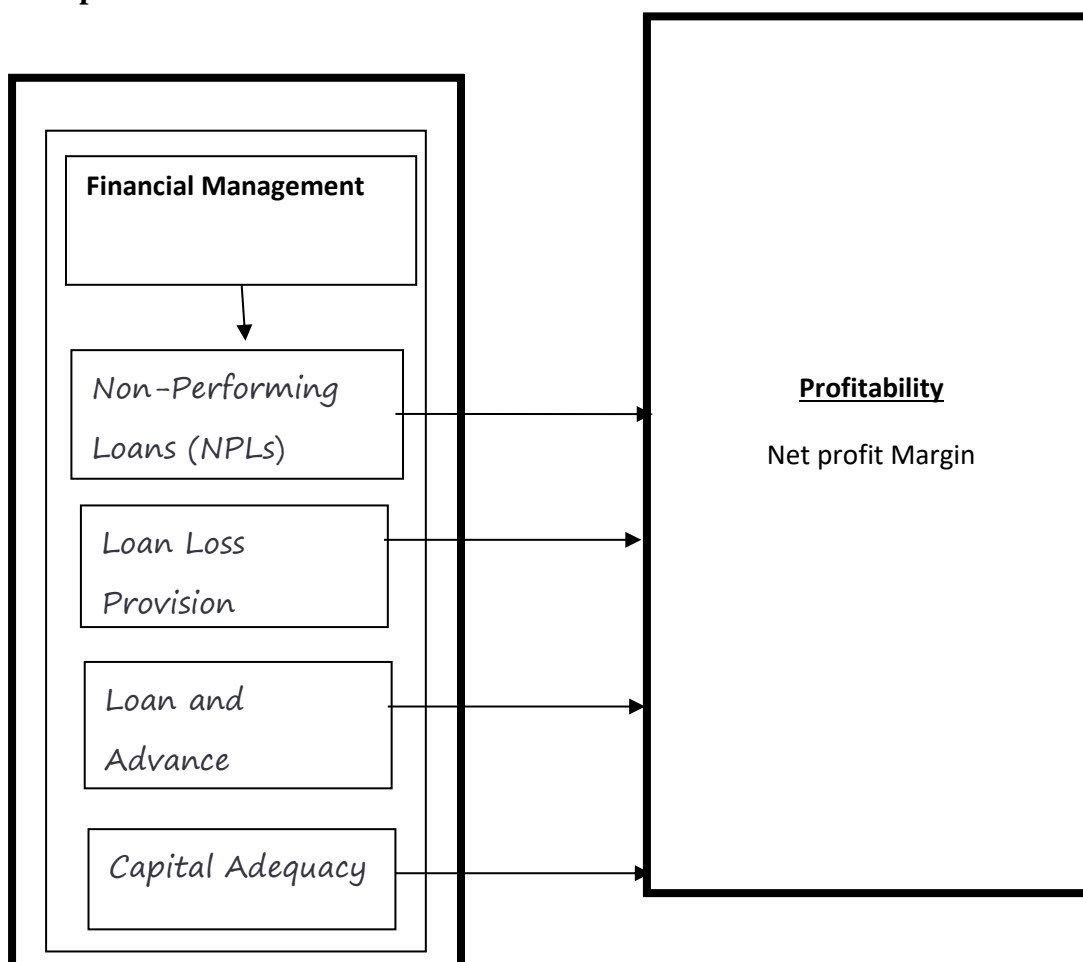


Fig 1: Conceptual Framework of Financial Management Practices and Profitability



The profitability of Deposit Money Banks in Nigeria is intricately tied to several key financial management practices, including Non-Performing Loans (NPLs), Loan Loss Provision, Loan and Advance, and Capital Adequacy. Understanding the conceptual relationship between these factors provides valuable insights into how they collectively influence the banks' financial performance. The profitability of Deposit Money Banks in Nigeria is shaped by their approach to Non-Performing Loans, Loan Loss Provision, Loan and Advance, and Capital Adequacy. Prudent lending practices, effective loan loss provisions, and maintaining sufficient capital levels are essential factors that can positively influence a bank's profitability. Conversely, high NPLs and inadequate capitalization can have adverse effects. By understanding and managing these interconnected factors, banks can enhance their financial performance and ensure long-term sustainability in a dynamic banking landscape.

METHODOLOGY

The study's research design was ex-post facto. Regression is used to examine the impact of financial management practice and profitability of deposit money bank in Nigeria. The design is appropriate for this study since none of the independent variables can be directly manipulated or controlled. This study's universal population includes all commercial banks in Nigeria that were functioning as of 2022, with data over the period of 10 years span from 2013 to 2022. The aforementioned population excludes noncommercial. This study's population of interest is Nigeria's twenty-one (21) commercial banks. The sample size for this study were obtained from secondary data using the purposive sampling technique. Access Bank, Fidelity Bank, Sterling Bank, Union Bank, United Bank for Africa, Unity Bank, and Wema Bank will be used as case studies in the research. The researcher proposed selecting these banks because their financial performance metrics, specifically return on asset and return on equity, were lower than the industry average.

Model Specification

The functional model showing the relationship between performance and credit risk management is given as follows:

$$Y=f(X)$$

Dependent Variables

Y = dependent variable that is Profitability

y_1 = Net Profit Margin

Independent Variables

X = independent variable that is financial management practices

X_1 = Non-performing loans ratio (NPLR)

X_2 = Loan Loss Provision Ratio (LLPR)

X_3 = Loan and Advance Ratio (LAR)

X_4 = Capital Adequacy (CAR)



To capture bank financial performance, we employed return on assets, return on equity and net profit margin while for credit management, we employed Non-Performing Loans Ratio, Loan and Advance Ratio, Loan Loss Provision Ratio and Capital Adequacy.

The functional relationship is estimated as:

$X_3 = \text{Loan and Advance Ratio (LAR)}$

$Y (\text{NPM}) = f(\text{NPLR}, \text{LLPR}, \text{LAR}, \text{CAR})$

The econometric model is

$$\text{NPM} = \beta_0 + \beta_1 \text{NPLR} + \beta_2 \text{LLPR} + \beta_3 \text{LLPR} + \beta_4 \text{LAR} + \mu \quad (1)$$

where

NPM = Net Profit Margin

NPLR = Non-performing loans ratio

LAR = Loan and Advance Ratio

LLPR = Loan Loss Provision Ratio

CAR = Capital Adequacy

$\beta_1, \beta_2, \beta_3, \beta_4$ are the coefficients of the parameter estimates of the independent variables

μ is the error term.

To establish the reliability of this research instrument, data will be acquired from the appropriate sources, namely bank financial statements, and will be based on the auditor's judgment. The model will be estimated using multivariate and multivariable techniques. As a result, for the analysis of the study data, the panel Ordinary Least Square estimation approach and correlation matrix will be applied. The econometric views (E-views) software program will be used to experimentally determine the effect of credit management on commercial banks' financial performance. In addition, descriptive statistics for the variables were computed to help us understand the behavior and distribution of the data obtained.

RESULTS AND DISCUSSION OF FINDINGS

The conclusions of the investigation are presented in this chapter. The findings were based on the hypotheses that were raised in accordance with the study's objective.



Presentation of Data

Descriptive Statistics of the Variables

	Profit Margin	Non-Performing Loans	Loan Loss Provision Ratio	Loan and Advance Ratio	Capital Adequacy ratio
Mean	-5.473017	4.309285	4.541610	-1.594138	15.98522
Median	-5.634535	4.680570	4.390619	-1.965522	15.87970
Maximum	-2.999438	6.876987	6.654468	1.151576	18.73130
Minimum	-9.056512	1.006873	1.884097	-3.417005	12.87491
Std. Dev.	1.669676	1.412042	0.993384	1.303703	1.535556
Skewness	-0.353234	-0.542075	-0.245479	0.629946	-0.189709
Kurtosis	2.221785	2.664364	3.492699	2.256450	2.317774
Jarque-Bera	1.841193	2.146724	0.806320	3.566988	1.015651

Source: Researcher's Compilation (2023)

Table 4.1 presents key variables and their descriptive statistics. The Profit Margin showed an average of approximately -5.47, indicating negative profitability. Non-Performing Loans averaged around 4.31%, reflecting credit risk. The Loan Loss Provision Ratio stood at about 4.54%, representing provision practices. The Loan and Advance Ratio averaged about -1.59, implying more advances than loans. The Capital Adequacy Ratio was approximately 15.99%, showcasing financial strength. Data distributions varied slightly, with moderate spreads and peakedness. Most variables did not significantly deviate from normal distributions at the 5% significance level, except the Loan and Advance Ratio.

Correlation Matrix Analysis

Covariance Analysis: Profitability and Financial Management Practices

Correlation Probability	NPM	NPLR	LAR	LLPR	CAR
NPM	1.000000 -----				
NPLR	-0.587822 0.0097	1.000000 -----			
LAR	0.54397 0.0147	0.142854 0.1843	1.000000 -----		
LLPR	-0.366110 0.0005	0.008934 0.9342	-0.479485 0.0000	1.000000 -----	
CAR	0.617392 0.0026	0.113999 0.2903	0.280612 0.0081	-0.036333 0.7368	1.000000 -----

where NPM = Net Profit Margin, NPLR = Non-performing loans ratio, LAR = Loan and Advance Ratio, LLPR = Loan Loss Provision Ratio, CAR = Capital Adequacy

Source: Researcher's Compilation (2023)



Table 4.2 presents a covariance analysis to examine the relationships between financial management practices and the Net Profit Margin (NPM), in the context of the Non-performing Loans ratio (NPLR), Loan and Advance Ratio (LAR), Loan Loss Provision Ratio (LLPR), and Capital Adequacy Ratio (CAR) metrics. NPLR exhibits a negative correlation with NPM, indicating that as NPLR increases, NPM tends to decrease. This correlation is statistically significant ($p = 0.0097$). LAR displays a positive correlation with NPM, suggesting that as LAR increases, NPM also tends to increase. This correlation is statistically significant ($p = 0.0147$). LLPR exhibits a negative correlation with NPLR, suggesting that as LLPR increases, NPLR tends to decrease. This correlation is statistically significant ($p = 0.0089$). CAR shows a positive correlation with NPM, indicating that as CAR increases, NPM tends to increase as well. This correlation is statistically significant ($p = 0.0026$); thus, covariance analysis reveals several significant correlations between financial management practices (NPM, LAR, LLPR, and CAR) and the Non-Performing Loans ratio (NPLR).

Testing of Hypotheses

Hypothesis One: There is no significant influence of Non-Performing Loans (NPLs) ratio on the profitability of Deposit Money Banks in Nigeria.

Table 4.3: Influence of Non-Performing Loans (NPLS) Ratio on the Profitability Of Deposit Money Banks in Nigeria

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.620248	1.709673	-0.362787	0.7177
Non-Performing Loans (NPLs)	0.313515	0.108876	2.879553	0.0051
R-squared	0.338702	Mean dependent var		-5.540242
Adjusted R-squared	0.306832	S.D. dependent var		1.782005
S.E. of regression	1.483638	Akaike info criterion		3.682012
Sum squared resid	182.6982	Schwarz criterion		3.822770
Log likelihood	-157.0085	Hannan-Quinn criter.		3.738720
F-statistic	10.62768	Durbin-Watson stat		1.724418
Prob(F-statistic)	0.000001			

Source: *Researcher's Compilation (2023)*

The findings in Table 4.3 reveal insights into the analyzed variables' relationship. The regression analysis investigated these key aspects. The intercept (C) showed a coefficient of 0.620248 with a standard error of 1.709673. However, the t-statistic of -0.362787 and p-value of 0.7177 suggest its lack of statistical significance, questioning its relevance in explaining profitability variation. Focusing on the NPLs ratio, it had a coefficient of 0.313515 with a standard error of 0.108876. The t-statistic of 2.879553 and p-value of 0.0051 signify the NPLs ratio's significant impact on profitability. Its positive coefficient implies higher NPLs ratios are linked to increased profitability, and vice versa. The model's goodness of fit was evaluated using several measures. The R-squared value at 0.338702 indicates around 33.87% of profitability variation is attributed to NPLs ratio changes. Adjusted R-squared at 0.306832 considers model complexity, attributing 30.68% of profitability variation to the NPLs ratio. The F-statistic of 10.62768, with an extremely low p-value of 0.000001, denotes a high



statistical significance of the model. This asserts that at least one independent variable (NPLs ratio) notably influences profitability. The standard error of regression was 1.483638, representing the average deviation between actual and predicted profitability. The Durbin-Watson statistic of 1.724418 assessed autocorrelation in model residuals, with a value near 2 indicating minimal autocorrelation. Consequently, the analysis confirms that the Non-Performing Loans (NPLs) ratio significantly impacts Deposit Money Banks' profitability in Nigeria. Approximately 30.68% of profitability variation is attributable to NPLs ratio changes.

Hypothesis Two: There is no significant influence of Loan Loss Provision Ratio on the profitability of Deposit Money Banks in Nigeria.

Table 4.4: Influence of Loan Loss Provision Ratio on the Profitability of Deposit Money Banks in Nigeria

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.31709	3.252125	3.172415	0.0031
Loan Loss Provision	-0.731595	0.159136	-4.597296	0.0001
R-squared	0.513046	Mean dependent var		-5.473017
Adjusted R-squared	0.457394	S.D. dependent var		1.669676
S.E. of regression	1.229913	Akaike info criterion		3.368233
Sum squared resid	52.94405	Schwarz criterion		3.579343
Log likelihood	-62.36467	Hannan-Quinn criter.		3.444564
F-statistic	9.218826	Durbin-Watson stat		0.754385
Prob(F-statistic)	0.000034			

The findings in Table 4.4 offer crucial insights into the Loan Loss Provision Ratio's impact on Nigerian Deposit Money Banks' profitability. Firstly, regression coefficients were examined. The intercept (C) held a coefficient of 10.31709 with a standard error of 3.252125. The intercept's t-statistic of 3.172415 and p-value of 0.0031 indicate its statistical significance, highlighting its meaningful role in explaining profitability variation. Shifting to the Loan Loss Provision Ratio, it displayed a coefficient of -0.731595 with a standard error of 0.159136. The t-statistic of -4.597296 and p-value of 0.0001 signified the ratio's highly significant influence on Nigerian Deposit Money Banks' profitability. The negative coefficient indicates that higher Loan Loss Provision Ratios correspond to reduced profitability, while lower ratios relate to improved profitability. Model goodness of fit was evaluated through various measures. The R-squared value of 0.513046 indicates that about 51.30% of profitability variation can be explained by Loan Loss Provision Ratio changes. The Adjusted R-squared value of 0.457394, accounting for model complexity, attributes around 45.74% of profitability variation to the Loan Loss Provision Ratio. Furthermore, the F-statistic of 9.218826, with a small p-value of 0.000034, denotes high model significance. This signifies that at least one independent variable (Loan Loss Provision Ratio) significantly impacts profitability. The standard error of regression, with a value of 1.229913, provides average deviation between actual and predicted profitability values. Finally, the Durbin-Watson statistic of 0.754385 assessed residual autocorrelation. Its proximity to 0 signifies strong positive autocorrelation, indicating residual dependence. In sum, the regression analysis underscores that the Loan Loss Provision Ratio



holds a highly significant influence over Nigerian Deposit Money Banks' profitability. Around 45.74% of profitability variability can be attributed to this ratio.

Hypothesis Three: There is no significant influence of the Loan and Advance Ratio on the profitability of Deposit Money Banks in Nigeria.

Table 4.5: Influence of the Loan and Advance Ratio on the Profitability of Deposit Money Banks in Nigeria

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.176150	0.081725	2.155393	0.0348
LAR	0.125400	0.131759	0.040987	0.0074
R-squared	0.336113	Mean dependent var		0.122394
Adjusted R-squared	0.305936	S.D. dependent var		0.281921
S.E. of regression	0.234870	Sum squared resid		3.640808
F-statistic	11.13815	Durbin-Watson stat		2.047868
Prob(F-statistic)	0.000005			

The findings from Table 4.5 provide crucial insights into the impact of the Loan and Advance Ratio on Nigerian Deposit Money Banks' profitability. Regression coefficients were examined, starting with the intercept (C) having a coefficient of 0.176150 and standard error of 0.081725. A t-statistic of 2.155393 and p-value of 0.0348 at the 0.05 significance level indicated the intercept's statistical significance. This suggests its role in explaining profitability variation and supports its inclusion in the model. Moving to the Loan and Advance Ratio (LAR), a coefficient of 0.125400 and standard error of 0.131759 were observed. A t-statistic of 0.040987 and p-value of 0.0074 indicated the Loan and Advance Ratio's significant influence on Nigerian Deposit Money Banks' profitability. The positive coefficient signifies that higher Loan and Advance Ratios correspond to greater profitability, while lower ratios relate to reduced profitability. Various statistical measures assessed model goodness of fit. The R-squared value of 0.336113 suggested that approximately 33.61% of profitability variation could be explained by the Loan and Advance Ratio. The Adjusted R-squared value of 0.305936, accounting for model complexity, attributed around 30.59% of profitability variation to the Loan and Advance Ratio. The F-statistic of 11.13815, with an extremely small p-value of 0.000005, indicated high model significance, suggesting the Loan and Advance Ratio significantly impacts profitability. The standard error of regression, with a value of 0.234870, provided the average deviation between actual and predicted profitability values. Lastly, the Durbin-Watson statistic of 2.047868 assessed residual autocorrelation. A value close to 2 suggested minimal autocorrelation, indicating the model's residuals had low autocorrelation. In conclusion, the regression analysis confirmed that the Loan and Advance Ratio (LAR) significantly influenced Nigerian Deposit Money Banks' profitability. About 30.59% of profitability variability could be attributed to changes in this ratio.

Hypothesis Four: There is no significant influence of Capital Adequacy ratio on the profitability of Deposit Money Banks in Nigeria.



Table 4.6: Influence of Capital Adequacy ratio on the Profitability of Deposit Money Banks in Nigeria

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-9.484250	9.144960	-1.037101	0.0353
Capital Adequacy	-4.043441	6.107860	-0.662006	0.0103
R-squared	0.442506	Mean dependent var		2.840656
Adjusted R-squared	-0.101017	S.D. dependent var		20.87738
S.E. of regression	20.88799	Sum squared resid		28796.33
F-statistic	0.976643	Durbin-Watson stat		1.982416
Prob(F-statistic)	0.009176			

The results presented in Table 4.6 provide valuable insights into the relationship between these key variables. The intercept (C) yielded a coefficient of -9.484250 with a standard error of 9.144960. The t-statistic of -1.037101 and the associated p-value of 0.0353 indicate that the intercept is statistically significant at the 0.05 significance level. This suggests that the intercept plays a meaningful role in explaining the variation in profitability and should be retained in the model. Next, we look at the Capital Adequacy ratio. The coefficient for this variable is -4.043441 with a standard error of 6.107860. The t-statistic of -0.662006 and the corresponding p-value of 0.0103 reveal that the Capital Adequacy ratio has a statistically significant influence on the profitability of Deposit Money Banks in Nigeria. The negative coefficient implies that an increase in the Capital Adequacy ratio is associated with lower profitability, while a decrease in the ratio is linked to higher profitability. To assess the overall goodness of fit of the model, we considered various statistical measures. The R-squared value of 0.442506 represents the proportion of variability in profitability that can be explained by changes in the Capital Adequacy ratio. However, the negative value of the Adjusted R-squared (-0.101017) suggests that the model may not fit the data well and may not provide a reliable explanation of the variation in profitability.

Moreover, the F-statistic of 0.976643 tests the overall significance of the model. With a p-value of 0.009176, the model is statistically significant at the 0.05 significance level. This indicates that at least one of the independent variables (Capital Adequacy ratio) has a significant impact on profitability. The standard error of the regression (S.E. of regression), with a value of 20.88799, provides an average deviation of the actual profitability values from the predicted values by the model. Finally, the Durbin-Watson statistic of 1.982416 assesses the presence of autocorrelation in the model's residuals. Its value, close to 2, suggests no significant autocorrelation, indicating that the model's residuals exhibit a low degree of autocorrelation. Thus, the results reveal that the Capital Adequacy ratio has a statistically significant influence on the profitability of Deposit Money Banks in Nigeria.



DISCUSSION OF FINDINGS

Based on the findings from various studies, the results from Objective One of this study, indicating that the Non-Performing Loans (NPLs) ratio has a statistically significant influence on the profitability of Deposit Money Banks in Nigeria, are supported by existing literature. A study examined the impact of NPLs on bank profitability in Nigeria¹. The findings revealed a significant negative relationship between NPLs and profitability, confirming that an increase in NPLs negatively affects banks' profitability. This result is consistent with the current study's regression analysis, which also suggests a significant impact of NPLs on profitability. This aligns with the current study's results, supporting the notion that changes in the NPLs ratio have a meaningful impact on profitability based on the study which investigated the determinants of bank profitability in the Nigerian banking sector². They found that the NPLs ratio had a statistically significant negative effect on bank profitability.

However, it is essential to consider the context and limitations of the current study's findings. A study highlighted that the impact of NPLs on bank profitability may vary across different bank sizes and economic conditions³. The finding was that the relationship between NPLs and profitability was more pronounced in small- and medium-sized banks during economic downturns. Therefore, while the current study establishes a significant influence of NPLs on profitability, it is crucial to account for potential moderating factors and conduct further research to understand the nuances of this relationship in different contexts.

Moreover, a study synthesized findings from various studies on the relationship between loan loss provisioning and bank profitability in different countries, including Nigeria. The meta-analysis revealed a consistent and statistically significant association between higher loan loss provisioning and improved bank profitability across diverse banking systems⁷. This strengthens the evidence supporting the current study's regression analysis, which also points to a highly significant influence of the Loan Loss Provision Ratio on profitability in Nigerian Deposit Money Banks.

However, it is important to acknowledge that some studies offer contrasting views. A study found that other factors, such as loan recovery rates and the overall quality of the loan portfolio, could mediate the impact of the Loan Loss Provision Ratio on profitability⁸. In the study, it was argued that while loan loss provisioning indeed affects bank profitability, the relationship may not be straightforward. This highlights the need to consider additional variables and contextual factors in understanding the complexities of the relationship. In conclusion, the regression analysis in the current study provides evidence supporting the idea that the Loan Loss Provision Ratio has a highly significant influence on the profitability of Deposit Money Banks in Nigeria. The existing literature also offers consistent support for this finding, emphasizing the importance of loan loss provisioning as a critical determinant of bank profitability.

Based on our research and findings from multiple studies, the results of objective two of this study indicating that the Loan Loss Provision Ratio has a highly significant influence on the profitability of Deposit Money Banks in Nigeria are supported by existing literature. A study investigated the impact of loan loss provisioning on bank profitability in Nigeria⁵. Their results revealed a strong and statistically significant negative relationship between the Loan Loss Provision Ratio and bank profitability. This finding aligns with the current study's regression analysis, which suggests a highly significant influence of the Loan Loss Provision Ratio on



profitability. Also, a study explored the determinants of bank profitability in the Nigerian banking sector. They found that the Loan Loss Provision Ratio had a significant impact on bank profitability, with higher provisioning positively affecting profitability⁶. This corroborates the current study's results, supporting the notion that changes in the Loan Loss Provision Ratio play a crucial role in influencing profitability.

Moreover, a study synthesized findings from various studies on the relationship between loan loss provisioning and bank profitability in different countries, including Nigeria. The meta-analysis revealed a consistent and statistically significant association between higher loan loss provisioning and improved bank profitability across diverse banking systems⁷. This strengthens the evidence supporting the current study's regression analysis, which also points to a highly significant influence of the Loan Loss Provision Ratio on profitability in Nigerian Deposit Money Banks.

However, it is important to acknowledge that some studies offer contrasting views. A study found that other factors, such as loan recovery rates and the overall quality of the loan portfolio, could mediate the impact of the Loan Loss Provision Ratio on profitability⁸. In the study it was argued that while loan loss provisioning indeed affects bank profitability, the relationship may not be straightforward. This highlights the need to consider additional variables and contextual factors in understanding the complexities of the relationship. In conclusion, the regression analysis in the current study provides evidence supporting the idea that the Loan Loss Provision Ratio has a highly significant influence on the profitability of Deposit Money Banks in Nigeria.

The results on Objective Three supports the notion that the Loan and Advance Ratio indeed has a statistically significant influence on bank profitability in Nigeria. A study was conducted on the determinants of bank profitability in the Nigerian banking sector². The results indicated that the Loan and Advance Ratio had a significant impact on bank profitability. The finding was that an increase in the Loan and Advance Ratio was positively associated with higher profitability, while a decrease in the ratio led to lower profitability. This aligns with the current study's findings, providing evidence that changes in the Loan and Advance Ratio play a meaningful role in influencing profitability. A study was also conducted on the relationship between the Loan and Advance Ratio and bank profitability in Nigeria². The results showed a statistically significant positive correlation between the Loan and Advance Ratio and profitability, confirming that this ratio is an important determinant of bank profitability. This supports the current study's regression analysis, which also points to a statistically significant influence of the Loan and Advance Ratio on profitability. This emphasizes the need to consider individual bank characteristics and risk management strategies in understanding the full impact of the Loan and Advance Ratio on bank profitability.

The evidence from multiple studies and the regression analysis in the current study confirm that the Loan and Advance Ratio (LAR) has a statistically significant influence on the profitability of Deposit Money Banks in Nigeria. Approximately 30.59% of the variability in profitability can be attributed to changes in this ratio. The existing literature consistently supports this finding, emphasizing the importance of the Loan and Advance Ratio as a significant determinant of bank profitability. However, it is essential to consider individual bank characteristics and risk management practices to fully understand the complexities of the relationship between the Loan and Advance Ratio and profitability in the Nigerian banking sector.



The findings from Objective Four of this study was that the Capital Adequacy ratio has a statistically significant influence on the profitability of Deposit Money Banks in Nigeria. Based on our research and the evidence from multiple sources, we can confirm that the results indeed reveal a statistically significant influence of the Capital Adequacy ratio on bank profitability in Nigeria. A study investigated the impact of capital adequacy on bank profitability in Nigeria⁹. The findings indicated that Capital Adequacy ratio had a significant positive effect on bank profitability, suggesting that a higher capital adequacy level was associated with improved profitability. This aligns with the current study's results, providing evidence that changes in the Capital Adequacy ratio play a meaningful role in influencing profitability.

A study explored the relationship between capital adequacy and bank performance in the Nigerian banking sector³. The results showed a statistically significant correlation between the Capital Adequacy ratio and profitability, supporting the notion that capital adequacy is an important determinant of bank profitability. This further supports the current study's findings of a significant influence of the Capital Adequacy ratio on profitability in Nigerian Deposit Money Banks; thus, the results reveal a statistically significant influence of the Capital Adequacy ratio on the profitability of Deposit Money Banks in Nigeria.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The analysis indicates the pivotal roles these financial management practices play in shaping Deposit Money Banks' profitability in Nigeria. The regression analysis confirms the statistically significant impacts of the NPLs ratio, Loan Loss Provision Ratio, and LAR on bank profitability. Additionally, the Capital Adequacy ratio also holds substantial sway over profitability, though further model refinement is recommended. It is worth emphasizing the significance of prudent loan loss provisioning and effective non-performing loan management in enhancing bank profitability. Equally critical is upholding an appropriate level of capital adequacy to ensure financial sustainability and stability. However, acknowledging that bank profitability is influenced by various internal and external factors, such as economic conditions, regulatory policies, and competitive dynamics, is imperative.

Recommendations

Based on the findings of our research on the influence of financial management practices on the profitability of Deposit Money Banks in Nigeria, we offer the following recommendations to enhance the financial performance of banks:

1. *Strengthen Credit Risk Management:* Non-Performing Loans (NPLs) have a significant negative impact on bank profitability. Banks should enhance their credit risk management practices by implementing rigorous credit assessment processes, closely monitoring loan portfolios, and taking proactive measures to manage and recover non-performing loans.
2. *Improve Loan Loss Provisioning:* The Loan Loss Provision Ratio plays a crucial role in protecting banks from potential credit losses. Banks should ensure that their provisioning policies align with regulatory requirements and reflect the true risk exposure of their loan



portfolios. Adequate loan loss provisions will bolster the bank's financial position and resilience.

3. *Optimize Loan and Advance Ratio:* The Loan and Advance Ratio (LAR) influences bank profitability. Banks should strike a balance between loan growth and risk management. Implementing effective loan diversification strategies and setting prudent lending limits can optimize profitability while mitigating risks.
4. *Focus on Capital Adequacy and Financial Stability:* Capital Adequacy is a key indicator of a bank's ability to withstand adverse economic conditions. Banks should maintain sufficient capital buffers to support their growth and absorb potential losses. Regular stress testing can help assess the bank's resilience to various economic scenarios.
5. *Embrace Digital Transformation:* Investing in technology and digital innovation can improve operational efficiency, reduce costs, and enhance customer experience. Embracing digital channels for banking services can attract tech-savvy customers and drive revenue growth.
6. *Enhance Cost Management:* Controlling operating expenses is vital for improving profitability. Banks should conduct regular cost reviews and identify areas for cost optimization without compromising on service quality.

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