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PROBLEM LOANS AND WORKING OUT THE PINNACLE OF BANK FAILURES IN NIGERIA

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ABSTRACT: *This study was designed to evaluate managing problem loans and work out the pinnacle of bank failures in Nigeria. One of the recommendations of the Basel Committee on Banking Supervision was credit risk management which is the optimization of the bank's risk-adjusted rate of return by maintaining credit risk exposure within an acceptable level. Descriptive survey research was used and data were collected via annual reports of the sampled bank within the period of 2011–2016. The population of the research included the Deposit Money Banks. Pearson Coefficient of Correlation was the statistical tool used to analyse the hypotheses and this was done with the aid of Statistical Package for Social Sciences (SPSS). The researcher concluded that there is no significant relationship between credit risk management and bank failure in Nigeria. However, there were traces of weak negative relationships which keen interest should be given to because of the sensitive nature of the banking sector.*

KEYWORDS: Credit Risk Management, Bank Performance, Pinnacle, Deposit Money Banks, Work out, Risk Exposure, Bank failures.

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INTRODUCTION

Lending is one of the main activities of banks all over the world. This is evidenced by the volume of loans that constitute bank assets and the annual substantial increase in the amount of credit granted to borrowers in the private and public sectors of the economy. The reason why banks give much attention to the lending activity, especially in periods of a stable economic environment, is that a substantial amount of banks' income is earned on loans, which contribute significantly to the financial performance of these commercial banks (Auronen, 2013). The deterioration in the quality of the loan portfolio of banks was the main cause of failures in the banking system and financial crisis in developed economies. Indeed, the increase in loan defaults, banking mortgages in the United States, underlines the links between macroeconomic and financial shocks, and the relationship between the friction in the loan market and the risk of financial instability (Ahlem & Fathi, 2013).

The banking sector is still the primary form of financial intermediation in the Asian and Pacific region and, as such, is the largest conduit for the mobilization of domestic savings, the main source of external capital to firms and the key player in the payment system. Consequently, the development of an efficiency banking sector is crucial for the growth of the economies in the region (Auronen, 2013). As liberalization of the banking sector around the world continues apace, banking markets in different countries are now becoming increasingly integrated. Malaysia and Singapore are constrained by banks whose capitals have been eroded by the accumulation of problem loans. Although the problem loan ratios in Malaysia have fallen recently, the reduction in problem loan ratios were largely brought about by the transfer of non-performing loans from banks to public asset management companies (Bessis, 2020). The question here is how problem loans affect the cost efficiency of banks. It is argued that it will have a detrimental effect since such banks will exert additional managerial efforts and give additional expense dealing with these problem loans (Mohd & Sallahudin, 2020). According to Fan and Shaffer (2014), issues of problem loans and bank failures are related in several important ways where a number of researchers have found that failing banks tend to be located far from the best practice frontier.

The existence of banks is not only to accept deposits; they also grant credit facilities. The business world largely depends on banks to fulfill their running finance requirements as well as paying or receiving the amount of transactions, or to make up for the shortage of funds for the completion of transaction or performing any other business operation, therefore inevitably exposed to credit risk. Gieseche (2014) posited that one of the most significant risks faced by banks is problem loans and the success of their business depends on accurate measurement, and efficient management of this risk credit creation can be said to be the main income generating activity of banks which at the same time exposes the banks to risk. This is so because a large amount of banks' revenue comes from loans on which interest is derived. However, interest rate risk is directly linked to credit risk, implying that a high interest rate increases the chances of loan default (Kolapo, Ayeni & Oke, 2012).

According to Adeusi, Akeke, Obawale and Oladunjoye (2013), credit failure in banks is not a rare occurrence; they affect their liquidity position as well as cash flows and profits. Greuning and Bratanovic (2019) maintained that it is the biggest threat to any bank performance and the principal cause of bank failures. According to Owojori, Akintoye and Adidu (2021), available statistics from liquidated banks clearly showed that inability to retrieve loans and advances

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extended to customers and creditors, or companies related to directors or managers majorly contributed to the distress of liquidated banks in Nigeria.

Failures in deposit money banks in Nigeria can be attributed to poor credit risk management resulting from problem loans (Adesugba & Bambale, 2016). In Nigeria, banks have been known to be accommodating loads of toxic assets that rose progressively from year to year without being reported through good credit risk management (Ugoani, 2012). This has resulted in the liquidation of 33 banks between 1994 to 2012 leading to a loss of over N200 billion (Nwaze, 2016). Such problem loans came into existence as a result of giving out loans indiscriminately without proper loan risk appraisal and management, which further resulted in the mismanagement of funds and then bad and irrecoverable loans which degenerated and contributed to bank failures (Philip, 2017).

Ajekigbe (2018) reported problem loans, advances and discounts portfolio of First Bank of Nigeria Plc. kept from N2.021 billion in 2007 to N6.015 billion in 2008. This was just a single example of one of the best rated banks in Nigeria and when such problem loans from many of the distressed banks were added, the banking system only waited patiently until the bubble burst again in 2009 when the banking licenses of 10 out of 24 banks in Nigeria were revoked by the Central Bank of Nigeria (CBN), accusing their executive management teams of a high display of poor loan risk management, poor sense of judgment as well as inexperience. According to Oyedotun (2019), because of their involvement in capital issues and operations, many banks have failed in recent years, and the crash of the stock market in most cases is directly linked to poor loan risk management. Since banks perform very important financial functions in Nigeria, they are regulated especially by the Central Bank of Nigeria (CBN). Traditionally, a Central Bank can be said to have two main types of roles namely: macroeconomic, when ensuring price stability and a sound financial system; and microeconomic, when functioning as lender of last resort. Thirdly, Central Banks have a key mandate to ensure a sound financial system through the provision of clearing facilities for banks, development of payment systems, banking regulation and supervision. However, despite these regulatory functions, six banks failed in 2011, putting depositors and shareholders' funds in excess of N700 billion in jeopardy.

Experts have noted that institutional disconnect between monetary and regulatory authorities led to gaps and lapses that were believed to have contributed to the financial crisis in Nigeria (Moghalu, 2021). In the literature on finance, it is generally accepted that credit risk is the most prominent risk in terms of the level at which it impacts on the quality of risk assets as well as bank performance and eventually bank failure (Sinkey, 2019; Spadaford, 2019; Merton, 2019). The importance of credit risk management as a practical theory is coordination of the means of control towards a definite integral objective of a bank (Maynard, 2017). Despite innovation in the financial services sector, credit risk is still the major single cause of bank failures. The reason is that more than 80% of a bank's balance sheet generally relates to this aspect of risk management. According to Greuning and Bratanovic (2013), because of the potentially dire effects of credit risk, it is important to perform a comprehensive evaluation of a bank's capacity to assess, administer, supervise, enforce and recover loans, advances, guarantees and other credit instruments, so as to avoid bank failures. An overall loan risk management review will include an evaluation of the loan risk management policies and practices of a bank.

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This evaluation should also determine the adequacy of financial information received from a borrower or the issuer of a financial instrument, which has been used by a bank as the basis for investing in such financial instruments, or the extension of credits and the periodic assessment of its inherently changing risk. Recent banking history shows how critical it is for banks to control the risks of lending, because poor loan quality was the main factor in the growing number of bank failures in recent times. According to Nwankwo (2019:144), "The experience of the eighties (and nineties) has underlined the importance of credit risk in domestic and international banking. Many banks across the wide range of countries suffered both from realized losses and loan rescheduling in the domestic market and from large and well publicized rescheduling of syndicated international credits." It is therefore obvious that banks fail for very many reasons including:

- Macroeconomic problems leading to enterprise failures,
- Sudden changes in market conditions such as devaluation, natural disaster or stock market crash,
- Internal management disputes or labour problems,
- Error in judgment or market strategy by bank management,
- In-experienced staff operating in new fields; violation of regulations,
- Connected lending to shareholders, managers or other bank staff,
- Poor internal accounting records,
- Poor bank supervision, and
- Perfunctory external audit exercises.

The term risk management denotes a situation in which an individual or firm makes decisions to alter the risk/return profile of future cash flows. In other words, if managers are attempting to reduce risk through their actions, they are said to be hedging; if managers are trying to increase the banks risk exposure because they believe that such a strategy will yield abnormal profits, they are said to be speculating. Therefore, the risk-return trade-off paradigm is critical to credit risk management (Markowitz, 1952; 1959). The characteristics and quality of a bank's loan portfolio are also assessed through the credit risk management process. A loan portfolio reflects a bank's market position and demand, its business and risk strategy, and its credit extension capabilities. A good and detailed credit portfolio management should involve these areas, so as to provide proper classifications:

- All loans to borrowers with aggregate exposure longer than 5 percent of the bank's capital
- All loans for which the interest or repayment terms have been rescheduled or otherwise altered since disbursal
- All loans to shareholders and connected parties

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- All loans for which cash payment of interest and/or principal is more than 30 days in past due, including those for which interest has been capitalized or rolled over
- All loans classified as substandard, doubtful, or lost (James, 2017). Sound credit risk management is important in making a bank a good financial supermarket.

Table 1: Details of failed banks in Nigeria in 2012

S/N	Name of Failed Bank	Name of Bridged Bank	Failed Bank Taken Over By	Estimated Loss
1	Oceanic Bank		Eco Bank	
2	Intercontinental Bank		Access Bank	
3	Fin Bank		First City Monumental Bank	
4	Spring Bank	Enterprise Bank		
5	Bank PHB	Keystone Bank		
6	Afribank	Mainstreet Bank		
				700 billion

Source: *Field Work, 2012.*

Table 1 shows that the bridge banks were created by CBN to assume the assets and liabilities of three of the six failed banks while the remaining three were taken over by three other existing banks. All the failed banks had exceeded their credit ceilings through unauthorized lending and other micro-financial credit risk abuses that were estimated to be in excess of N700 billion.

The bridge banks serve as undertakers specifically set up to attempt to manage the assets and liabilities of the failed banks with little or no compensation to shareholders of the failed banks. They will be expected to meet all the obligations and commitments of the failed banks. However, there may be uncertainty about the viability, profitability and marketability of the failed banks because of the poor public perception (Sheppard, 2019). As soon as the licenses of the affected banks were withdrawn by the Central Bank of Nigeria, the Asset Management Corporation of Nigeria (AMCON) injected N679 billion into the banks to enable them to meet their obligations to depositors. Recently AMCON confirmed that a total sum of N1.3 trillion was spent on the bailout exercise (Chiejina, 2012).

In Nigeria, a whole lot of fraudulent loan workouts and fraudulent waivers have contributed to bank failures. Despite the Federal Government's seemingly desperate measures to stem the incidence of bank collapse, so many unpleasant facts are still coming up regarding the reasons for the most recent bank failures of 2011. For example, the Economic and Financial Crimes Commission (EFCC) is now investigating how a key man using various subsidiaries as fronts obtained credit facilities in excess of N9 billion, from the collapsed Intercontinental Bank Plc. The huge credit became bad and the bank was distressed as the Managing Director and Chief Executive Officer who was apparently hired by the Central Bank of Nigeria to resuscitate the ailing bank instead fraudulently "wrote-off" the bad loan of about N9.7 billion by way of "Waivers." It is believed that credit risk management and corporate governance abuses in the banking sub sector are a deadly problem. The Financial Malpractice Investigation Unit (FMIU) of the Nigerian Police is also probing the N7 billion unpaid loan in 103 microfinance banks (MfBs) in the country. These unbecoming situations have forced the Central Bank of Nigeria, the Nigeria Deposit Insurance composition, (NDIC), and the Financial Institutions Training

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Center (FITC) to mount a compulsory training programme for all banks' directors because they have abandoned their primary function which is the proper protection of banks against losses and/or failures (Nweze, 2012a; 2012b; Austin, 2019; Hempel, Coleman, & Simonson, 2019). The purpose of the study is managing problem loans and working out the pinnacle of bank failure in Nigeria.

Statement of Problem

The widespread financial crises in recent banking history has been a source of major concern for both bank regulators and owners due to its severe consequences, such as bank failures. The experience of many countries, including Nigeria shows that poor loan management, internal and external supervision requirements impede the stability and profitability of banks. One single most important symptom of bank failures in Nigeria characterised by poor loan management is problem loans.

The theme of loans management has attracted more attention in recent decades. Several studies examined bank failures and found that asset quality is an indicator of insolvency. Banks still have a high level of impaired loans before the bankruptcy. Therefore, the large amount of bad loans in the banking system generally results in a bank failure. The problem loans are among the main causes of the problems of economic stagnation. Each impaired loan in the financial sector increases the possibility of leading a company to difficulty and unprofitability.

It is evident that the global financial crisis has left a scar on the global economy of which Nigeria's economy was not an exception. This calls for the protection of investors and shareholders possible through the regulation of the financial market, and to ensure strict adherence to effective risk management by the issuers of securities. The financial sector has been one of the hardest hit sectors in the economic downturn caused by unforeseen slump in global oil prices. In the report released by Nigeria Stock Exchange (NSE), all the indexes at the NSE declined seriously in 2015. It is reported that the banking industry had been hit by low quality loan assets as a result of poor economic and financial conditions in the country following the great financial recession of 2008. This led to low debt recovery which hindered banks from extending further credit into the economy and this adversely affected performance. As at January 2006, when the banking licenses of fourteen banks were revoked, due to their failure to meet the minimum re-capitalization directive of the CBN, some of the banks had ratios of problem loans that were up to 80% of loan portfolios. As a result, the Asset Management Corporation of Nigeria (AMCON) was then established in 2010 as a monetary policy response to solve the aching problem of non-performing loans troubling the commercial banks, of which they succeeded in buying off about 95% of the problem loans with a caveat not to buy new problem loans.

Unfortunately, problem loans are becoming cyclical in Nigeria as commercial banks recorded a N56.31 billion increase in problem loans from August 2013 to August 2014. However, in spite of the alarming credit risk exposures, the performance of the Nigerian banks seems not be adversely affected because some banks with high level of problem loans (PL), which was occasioned by poor credit risk policies, declared positive performances as reflected by good profit margin on the profit and loss account and balance sheet. In the light of the seemingly contradiction, it is therefore necessary to study the relationship between problem loan management and bank failure, using ratio of problem loans to total loans (PLTL), total loans

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to total deposits (TLTD) and capital adequacy (CA) as proxies for credit risk and return on equity (ROE) and return on asset (ROA) as proxies for failure.

Objective of the Study

The objective of the study is to analyse the relationship between managing problem loans and workout the pinnacle of bank failure in Nigeria. In specific sense, the study seeks to ascertain:

1. If there is a significant relationship between ratio of problem loan to total loan and failure of commercial banks;
2. If there is a significant relationship between total loan to total deposit percentage and failure of commercial banks;
3. If there is a significant relationship between capital adequacy and failure of commercial banks.

Hypotheses

The following hypotheses are relevant to the stated objective above and shall be tested in this study:

HO_1: There is no significant relationship between ratio of problem loan to total loan and failure of commercial banks.

HO_2: There is no significant relationship between total loans to total deposit percentage and failure of commercial banks.

HO_3: There is no significant relationship between capital adequacy and failure of commercial banks.

LITERATURE REVIEW

Theoretical Review

The incidence, historically of banking sector failure, resulting from insolvency, has often been associated with massive accumulation of problem loans (Fofack, 2015). Over the years, the Nigerian banking system has transformed in ownership structure, size and operational coverage. Prior to 2005 banking system consolidation in Nigeria, eighty-nine (89) banks existed under a universal banking system (UBS)—a framework that placed no restrictions on banks' share capital investments in other financial service sectors. The UBS led to the proliferation of other financial institutions having banks as minority or majority shareholders and created supervisory bottlenecks for the regulating institution, due to subsidiaries' interconnectedness. Despite these investments, and considering the population of Nigeria, the huge capital market and the overall economic activities, the banking system was rated very marginally, relative to its potential (CBN, 2019); hence, the banking system consolidation in 2005. The effect of the consolidation exercise was felt almost immediately, as there was a huge decline in problem loans, from 21.6 per cent in 2005 to 9.3 per cent in 2006. Similarly, return

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on assets declined from 2.1 per cent in 2005 to 1.8 per cent in 2006, although it rose moderately to 3.0 per cent in 2007.

The advent of the 2007/2008 Global Financial Crisis (GFC) gave rise to the decline in oil price, with significantly dampened returns on investment in the oil sector. The attendant capital outflow exposed the banking system to a high credit risk position. The asset quality of Nigerian banks decreased significantly, as non-performing loans skyrocketed with adverse economic consequences. The lingering effect of the GFC worsened the situation, raising the non-performing loan (NPL) ratio of the banks to an all-time high of 37.3 percent in 2009. The banks were choked with toxic assets and faced serious liquidity challenges that impaired their ability to extend credit to the real sector. Many of the banks had to downsize and tighten expenditure to scale through the challenges.

According to Richard (2021), failure to effectively reduce the levels of problem loans may lead to bank failure. In a bid to address these challenges, the Asset Management Corporation of Nigeria (AMCON) was introduced in 2010 to absorb PLs of banks. In relation to liquidity, the juxtaposition of the industry's pre-2010 and post-2010 liquidity positions underscore the role of securitization on the failure of Nigerian Banks. In 2009, the average liquidity ratio was 44.45 per cent, while it was 68.01 per cent at December 31, 2012 (NDIC Annual Report, 2009; 2012). This showed that AMCON operations impacted positively on the liquidity of Nigerian banks. The picture is similar to the impact of securitisation on asset quality of banks in Nigeria. While the ratio of problem loans to total loans was 37.3 percent in 2009, it fell to 3.71 percent as at December 31, 2012. Likewise, return on asset (ROA) increased from about 2.52 per cent in 2009 to 3.0 per cent in 2012.

The purchase of the problem loans of the then commercial banks by AMCON, and the enhanced loan risk management by commercial banks, were responsible for the improvement in asset quality of banks. The oil price hike in 2013 impacted hugely on the reduction of PLs in the banking system, as the ratio declined to 3.39 per cent in 2013 followed by a further reduction to an all-time low of 2.96 in 2014. This was also accompanied by a marginal increase in ROA from 2.04 per cent in 2013 to 2.09 per cent in 2014. Notwithstanding, the 2016/2017 economic recession caused PLs to rise sharply to 12.8, 14.8 and 16.8 per cent in 2016, 2017 and 2018, respectively. This was due to the heavy oil dependence nature and exposure of the economy. It can be observed from this investigation that an inverse relationship mostly exists between non-performing loans and return on assets of banks in Nigeria.

Empirical Review

Achou and Tenguh (2018) conducted a study to find the answer to the question about how credit risk is managed by the banks. They analyzed the five years financial data of the Qatar Central Bank. The results of the regression model exposed that credit risk management and bank performance have a significant relationship. Moreover, findings revealed that the ratio of Problem Loans/Total Loans has a significant negative association with profitability which was measured by return on assets (ROA) and return on equity (ROE).

Ogunlade and Oseni (2018) examined the influence of credit management practices on financial performance and bank failure of Nigerian banks with specific reference to First Bank Plc. Data was collected from thirty (30) respondents with the aid of a questionnaire. Descriptive and inferential statistics such as frequency, percentage, weighted mean score, and multiple

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regressions were adopted in analyzing the data. The result from the analysis revealed that credit management practices have a significant positive influence on the financial performance of First Bank. The study concluded that client appraisal, credit risk control, and collection policy are major predictors of financial performance of First Bank. The study then recommended that management of other banks should learn from First Bank by enhancing their client appraisal techniques, credit risk control and adopting a more stringent policy to improve their financial performance and reduce bank failure.

Taiwo, Ucheaga, Achugamonu, Adetiloye, Okoye and Agwu (2017) empirically investigated the quantitative effect of credit risk management on the performance and failure of Nigeria's Deposit Money Banks (DMBs) and bank lending growth over the period of 17 years (1998–2014). Secondary data were used for the empirical analysis. The study made use of multiple linear regressions to analyze the data. The result of the analysis showed that sound credit management strategies can boost investors' and depositors' confidence in banks and also lead to a growth in funds for loans and advances, which ultimately leads to increased bank profitability. Findings from the study showed that credit risk management has an insignificant impact on the growth of total loans and advances by Nigerian deposit money banks. The study therefore recommended that DMBs in Nigeria should strictly adhere to their credit appraisal policies which ensure that only creditworthy borrowers have access to loanable funds, and that banks are to ensure that funds are allocated to borrowers with decent to high credit ratings.

Nwanna and Oguezue (2017) examined the nexus between credit management and profitability (ROA) of Deposit Money Banks (DMBs) in the Nigerian context for the period of 2006 to 2015. Secondary data used were sourced from the Central Bank of Nigeria Statistical Bulletins and the Annual Reports of all the existing DMBs studied. The multiple regression technique was used in analyzing the data. The study found that loans and advances and loan loss provision have a positive and insignificant effect on profitability, while non-performing loans have a negative and insignificant effect on profitability. The overall estimates of the two regressions have good fit and are adequate statistically. The R-squared which measures the overall goodness of fit of the entire regression shows the value of 84% and 79% in Models One and Two respectively, while the Durbin Waston statistic with value of 2.808450 and 2.499545 shows that there was no autocorrelation among the considered variables and the overall regression was statistically significant. Thus, the study concluded that sound credit management heightens profitability and holds the financial strength of the DMBs.

Kagoyire and Shukla (2016) studied the effect of credit management on the financial performance of commercial banks in Rwanda. The study adopted a descriptive survey design. The target population of study consisted of 57 employees of Equity Bank in the credit department. Entire population was used as the sample, giving a sample size of 57 employees. Purposive sampling technique was used in sampling where the entire population was included in the study. Primary data was collected using questionnaires which were administered to the respondents by the researcher. Descriptive and inferential statistics were the research methodology used. The study found that client appraisal, credit risk control and collection policy had an effect on the financial performance of Equity Bank. The study established that there was a strong relationship between the financial performance of Equity Bank and client appraisal, credit risk control and collection policy. The study recommended that Equity Bank should enhance their collection policy by adapting a more stringent policy to a lenient policy for effective debt recovery.

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Kayode, Obamuyi, Owoputi and Adeyefa (2015) investigated the impact of credit risk on banks' performance in Nigeria. A panel estimation was carried out on the six selected banks using the random effect model framework. The findings from the study showed that credit risk is negatively and significantly related to bank performance, measured by return on assets (ROA) which means that an increased exposure to credit risk will reduce bank profitability. The study also found that total loans have a positive and significant impact on bank performance. Therefore, they suggested that in order to stem the cyclical nature of problem loans and increase their profits, the banks should adopt an aggressive deposit mobilization to increase credit availability and also develop a strongly reliable credit risk management strategy with adequate penalty for loan payment defaults.

Kolapo, Ayeni and Oke (2012) carried out an empirical investigation into the quantitative effect of credit risk on the performance of commercial banks in Nigeria over the period of 11 years (2000–2010) in five commercial banks. The traditional profit theory was employed to formulate profit, measured by Return on Asset (ROA), as a function of the ratio of problem loan and loan advances (PL/LA), the ratio of loan advances to total deposit (LA/TD) and the ratio of loan loss provision to classified loans (LLP/CL) as measures of credit risk. Panel analysis was employed. The results from the analysis showed that the effect of credit risk on bank performance measured by the Return on Assets of banks was cross-sectionally invariant. That is the effect is similar across banks in Nigeria, though the degree to which individual banks were affected was not captured by the method of analysis employed in the study. Based on the findings, it is recommended that banks in Nigeria should enhance their capacity in credit analysis and loan administration while the regulatory authority should pay more attention to banks' compliance to relevant provisions of the bank and other Financial Institutions Act and prudential guidelines.

METHODOLOGY

The population of this study was made up of the sixteen (16) commercial banks currently listed on the Nigeria Stock Exchange. Judgmental sampling technique was used to select Fidelity Bank Nigeria PLC as the sample for the study. The data used for this study were secondary data derived from the audited financial statements and annual reports of the bank for the period of 2011–2016 (post financial crisis period). The Pearson Product Coefficient of correlation (r) was used in analyzing and interpreting data connected with the main variables of the hypothesis.

Data Presentation

Table 1:

Year	PL/TL	TL/TD	Capital Adequacy	ROE	ROA
2011	6.48	68.41	18.97	1.01	0.20
2012	3.02	62.64	17.54	13.12	2.23
2013	3.62	54.80	14.11	5.42	0.73

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2014	4.34	67.17	14.48	8.86	1.21
2015	4.51	76.73	14.80	7.54	1.31
2016	6.63	92.61	14.27	5.94	0.84

Test of Hypotheses

HO1: There is no significant relationship between ratio of problem loan to total loan and failure of commercial banks.

Figure 1: Correlation to hypothesis one

		PLTL	ROE	ROA
PLTL	Pearson Correlation	1	-.242	.200
	Sig (2-tailed)		.601	.667
	N	6	6	6
ROE	Pearson Correlation	-.242	1	.882**
	Sig (2-tailed)	.601		.007
	N	6	6	6
ROA	Pearson Correlation	.200	.882**	1
	Sig (2-tailed)	.667	.008	
	N	6	6	6

**. Correlation is significant at the 0.01 level (2-tailed).

From the correlation result, the percentage of problem loans to total loans has a weak negative correlation of -.242 with return on equity, and a positive weak correlation of .200 with return on asset. This implies that an increase in percentage of problem loans to total loans will lead to a less than proportionate decrease in return on equity and less than proportionate increase in return on asset.

DECISION: Since the computed correlation coefficients r -.242 and .200 are less than the critical r value .765 for 2-tailed test at 0.01 level of significance, we therefore accept the null hypothesis and reject the alternate hypothesis, meaning that, there is no significant relationship between percentage of problem loans to total loans and bank failure.

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HO2: There is no significant relationship between total loans to total deposit percentage and failure of commercial banks.

Figure 2: Correlation to hypothesis two

		TLTD	ROE	ROA
TLTD	Pearson Correlation	1	-.095	-.295
	Sig (2-tailed)		.840	.575
	N	6	6	6
ROE	Pearson Correlation	-.095	1	.882**
	Sig (2-tailed)	.840		.007
	N	6	6	6
ROA	Pearson Correlation	-.295	.882**	1
	Sig (2-tailed)	.575	.008	
	N	6	6	6

**. Correlation is significant at the 0.01 level (2-tailed).

From the correlation result, total loan to total deposit has a weak negative correlation of -.095 & -.259 with return on equity, and return on asset respectively. This implies that an increase in total loans to total deposit will lead to a less than proportionate decrease in return on equity and return on asset.

DECISION: Since the computed correlation coefficients r -.095 and -.259 are less than the critical r value .765 for 2-tailed test at 0.01 level of significance, we therefore accept the null hypothesis and reject the alternate hypothesis, meaning that, there is no significant relationship between total loans to total deposit and bank failure.

HO3: There is no significant relationship between capital adequacy and failure of commercial banks.

Figure 3: Correlation to hypothesis three

		CA	ROE	ROA
CA	Pearson Correlation	1	-.243	-.234
	Sig (2-tailed)		.600	.614
	N	6	6	6
ROE	Pearson Correlation	-.243	1	.882**

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	Sig (2-tailed)	.600		.007
	N	6	6	6
ROA	Pearson Correlation	-.243	.882**	1
	Sig (2-tailed)	.614	.008	
	N	6	6	6

**. Correlation is significant at the 0.01 level (2-tailed).

From the correlation result, capital adequacy has a weak negative correlation of -.243 with return on equity, and a positive weak correlation of .234 with return on asset. This implies that an increase in capital adequacy will lead to a less than proportionate decrease in return on equity and less than proportionate increase in return on asset.

DECISION: Since the computed correlation coefficients r -.243 and .234 are less than the critical r value .765 for two-tailed test at 0.01 level of significance, we therefore accept the null hypothesis and reject the alternate hypothesis, meaning that, there is no significant relationship between capital adequacy and bank failure.

CONCLUSION

Even with the volume of empirical work, there is no consensus on the impact of credit risk management on bank failure. Consequently, this lack of consensus has produced a variety of ideas on how credit risk management influences failure of commercial banks. The study showed that credit risk management variables such as percentage of problem loans to total loans, total loans to deposits and capital adequacy have no significant relationship with failure of commercial banks.

RECOMMENDATIONS

Based on the findings, the following recommendations were made:

i. Commercial banks should establish a sound and competent loan risk management unit which should be run by best practices in risk management with strict adherence to clear loan policy, underwriting authority and loan limits.

ii. Staff of loan units such as project and advance managers, credit/loan officers and field officers should perform a range of functions from project appraisals through credit disbursement, loan monitoring to loans collection.

iii. The banks should engage in proper loan risk assessment before giving out loans and promote a reliable loan recovery process with an adequate penalty for loan payment defaulters.

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