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CREDIT RISK MANAGEMENT PRACTICES AND THEIR IMPACT ON THE PROFITABILITY OF DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT

This study examined credit risk management practices and their impact on the profitability of Deposit Money Banks in Nigeria. The study specifically investigated the effect of credit appraisal practices, loan monitoring practices, and collateral management practices on profitability. The study adopted the survey research design, while primary data were collected through structured questionnaires administered to employees of selected Deposit Money Banks in Nigeria. The population of the study consisted of 615 employees, while a sample size of 237 respondents was determined using the Krejcie and Morgan formula. Data were analyzed using percentages, mean scores, and standard deviation. The findings revealed that credit appraisal practices significantly improve profitability by reducing loan defaults and enhancing borrower assessment procedures. The study also found that loan monitoring practices positively influence profitability through regular supervision and improved repayment performance. Furthermore, collateral management practices were found to significantly enhance profitability by reducing financial losses associated with borrower default. The study concluded that effective credit risk management practices are essential for improving profitability, operational efficiency, and financial stability among Deposit Money Banks in Nigeria. The study recommended that banks should strengthen credit appraisal systems, improve loan monitoring mechanisms, enforce proper collateral management procedures, and provide regular training for credit management personnel.

Keywords: Credit Risk Management, Credit Appraisal, Loan Monitoring, Collateral Management, Profitability.

1 INTRODUCTION

Credit risk management practices have become one of the most significant areas of concern in the banking sector due to the increasing level of loan defaults and financial instability experienced by banks globally. Deposit Money Banks (DMBs) play a vital role in the economic development of Nigeria through financial intermediation, mobilization of savings, and provision of credit facilities to individuals, businesses, and government institutions. However, the sustainability and profitability of these banks largely depend on their ability to effectively manage credit risk arising from lending activities. Credit risk refers to the possibility that borrowers may fail to meet their financial obligations as agreed, thereby exposing banks to losses and reducing their profitability (Adebayo & Ogunleye, 2022). In Nigeria, the banking industry has witnessed several cases of non-performing loans, weak asset quality, and loan defaults resulting from ineffective credit risk management practices. These challenges have negatively affected the financial performance of many Deposit Money Banks and reduced stakeholders' confidence in the banking system. According to the Central Bank of Nigeria, the increasing ratio of non-performing loans among Nigerian banks has remained a major concern despite various regulatory reforms introduced to strengthen banking operations (CBN, 2023). The implementation of sound credit risk management practices such as credit appraisal, loan monitoring, collateralization, and credit portfolio diversification has therefore become essential for enhancing bank profitability and ensuring financial stability.

Profitability is one of the major indicators used to measure the financial performance of banks. Profitability enables banks to meet operational expenses, reward shareholders, expand operations, and withstand financial shocks. Researchers such as Ibrahim and Yusuf (2021) argued that effective credit risk management practices contribute positively to bank profitability by reducing bad debts and improving loan recovery performance. Conversely, weak credit management practices increase loan losses, impair asset quality, and reduce return on assets and return on equity. The Nigerian banking sector has undergone several reforms aimed at strengthening risk management practices and improving operational efficiency. These reforms include recapitalization policies, prudential guidelines, and adoption of international banking standards such as Basel II and Basel III frameworks. Despite these efforts, many banks still experience credit-related challenges due to poor credit assessment procedures, insider abuses, inadequate monitoring, and economic uncertainties (Okafor & Nwankwo, 2024). This study therefore seeks to examine credit risk management practices and their impact on the profitability of Deposit Money Banks in Nigeria using key sub-variables such as credit appraisal practices, loan monitoring practices, and collateral management practices as measures of the independent variable, while profitability measured through financial performance indicators serves as the dependent variable. The study is important because it provides empirical evidence on how effective credit risk management practices can enhance the profitability and sustainability of Deposit Money Banks in Nigeria. Although several studies have examined credit risk management and bank performance in Nigeria, many of them focused broadly on financial performance without specifically examining the impact of credit appraisal, loan monitoring, and collateral management practices on profitability. In addition, inconsistencies exist in the findings of previous studies due to differences in methodologies, scope, and variables used. This study therefore seeks to fill this gap by examining the impact of credit risk management practices on the profitability of Deposit Money Banks in Nigeria.

1.1 Research Questions

1.1.1 General Research Question

How do credit risk management practices affect the profitability of Deposit Money Banks in Nigeria?

1.1.2 Specific Research Questions

i. To what extent do credit appraisal practices affect the profitability of Deposit Money Banks in Nigeria?
ii. How does loan monitoring practice influence the profitability of Deposit Money Banks in Nigeria?
iii. What effect does collateral management practice have on the profitability of Deposit Money Banks in Nigeria?

1.2 Research Objectives

1.2.1 General Objective

To examine the impact of credit risk management practices on the profitability of Deposit Money Banks in Nigeria.

1.2.2 Specific Objectives

i. To determine the effect of credit appraisal practices on the profitability of Deposit Money Banks in Nigeria.
ii. To examine the influence of loan monitoring practices on the profitability of Deposit Money Banks in Nigeria.
iii. To assess the effect of collateral management practices on the profitability of Deposit Money Banks in Nigeria.

1.3 Research Hypotheses

The following null hypotheses were formulated in line with the research questions and objectives of the study:

1.3.1 Hypothesis One

Ho: Credit appraisal practices have no significant effect on the profitability of Deposit Money Banks in Nigeria.

1.3.2 Hypothesis Two

Ho: Loan monitoring practices do not significantly influence the profitability of Deposit Money Banks in Nigeria.

1.3.3 Hypothesis Three

Ho: Collateral management practices have no significant effect on the profitability of Deposit Money Banks in Nigeria.

2 LITERATURE REVIEW (CONCEPTUAL REVIEW)

Conceptual review refers to the explanation and clarification of key concepts and variables relevant to a study. In this study, the conceptual review focuses on credit risk management practices and profitability of Deposit Money Banks in Nigeria. The independent variable is credit risk management practices, measured using credit appraisal practices, loan monitoring practices, and collateral management practices, while the dependent variable is profitability. Credit risk management practices involve the policies, procedures, systems, and techniques used by financial institutions to identify, evaluate, monitor, and control risks associated with lending activities. Credit risk arises when borrowers fail to fulfill repayment obligations according to agreed terms, thereby exposing banks to financial losses. Effective management of this risk is critical because lending constitutes a major source of income for Deposit Money Banks. According to Oladele and Nwachukwu (2022), credit risk management practices are designed to minimize loan default rates and improve the quality of banks' loan portfolios. These practices include rigorous credit appraisal systems, regular loan supervision, collateral requirements, customer credit scoring, and effective debt recovery strategies. The implementation of these measures helps banks reduce financial losses and improve profitability. Profitability, on the other hand, refers to the ability of a bank to generate sufficient earnings from its operations after covering all operational costs and obligations. Profitability is commonly measured using indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin. A profitable bank is better positioned to expand operations, withstand financial shocks, reward shareholders, and support economic growth. According to Ibrahim and Musa (2021), profitability serves as a key indicator of operational efficiency and managerial effectiveness within financial institutions. The relationship between credit risk management practices and profitability has attracted significant attention among researchers and policymakers. Effective credit risk management reduces bad debts, improves loan recovery, and enhances banks' earning capacity

2.1 Credit Appraisal Practices

Credit appraisal practices refer to the systematic evaluation and assessment procedures used by banks to determine the creditworthiness and repayment capacity of borrowers before granting loans. Credit appraisal is one of the most important components of credit risk management because it helps financial institutions identify potential risks associated with lending decisions. Effective credit appraisal practices minimize the possibility of loan default and contribute significantly to profitability. According to Adebisi and Lawal (2023), credit appraisal involves analyzing borrowers' financial records, income levels, business performance, collateral securities, and repayment history before approving credit facilities. The process enables banks to assess whether borrowers possess the financial capability and integrity required to meet repayment obligations. Banks typically use credit scoring models, financial ratio analysis, and risk-rating systems during the appraisal process. In Nigeria, many Deposit Money Banks have strengthened their credit appraisal systems due to increasing levels of non-performing loans and regulatory pressures from the Central Bank of Nigeria. Modern appraisal techniques such as computerized credit scoring systems and customer risk profiling are increasingly being adopted to improve lending decisions. According to Egbunike and Okeke (2022), banks that maintain strong credit appraisal systems are more likely to achieve higher profitability because they experience lower loan default rates. Credit appraisal practices also involve adherence to the "Five Cs of Credit," namely character, capacity, capital, collateral, and conditions. These criteria help banks evaluate the borrower's willingness and ability to repay loans. Character examines the borrower's honesty and credit history, while capacity focuses on income and repayment ability. Capital assesses the borrower's financial strength, collateral refers to assets pledged as security, and conditions relate to external economic factors affecting repayment performance. Despite the importance of credit appraisal practices, many Nigerian banks still encounter challenges such as inadequate customer information, fraudulent documentation, political interference, and weak enforcement of lending policies. These challenges often result in poor lending decisions and increased exposure to credit risk.

2.2 Loan Monitoring Practices

Loan monitoring practices refer to the continuous supervision, evaluation, and tracking of loans after disbursement to ensure that borrowers comply with repayment terms and utilize the funds appropriately. Loan monitoring is a critical component of credit risk management because it enables banks to identify early warning signs of default and take corrective measures before loans become non-performing. Effective loan monitoring practices help Deposit Money Banks minimize credit losses, improve loan recovery, and enhance profitability. According to Okonkwo and Ibrahim (2023), loan monitoring involves regular assessment of borrowers' financial performance, repayment behavior, business operations, and compliance with loan agreements. Banks monitor loan accounts through periodic reviews, site visits, financial statement analysis, and repayment tracking systems. This process enables financial institutions to detect financial difficulties faced by borrowers and implement timely intervention strategies. In Nigeria, the importance of loan monitoring practices has increased due to the rising level of non-performing loans within the banking sector. Many

Deposit Money Banks have introduced internal monitoring units and automated systems to track loan repayment patterns and assess borrower performance. The Central Bank of Nigeria has also emphasized the need for effective loan supervision through prudential guidelines aimed at reducing credit risk exposure and improving asset quality (CBN, 2023). Effective loan monitoring practices provide several benefits to banks. First, they help ensure that borrowers utilize loan funds for the intended purposes. Misuse or diversion of funds often increases the likelihood of loan default and financial losses. Second, loan monitoring enables banks to identify changes in borrowers' financial conditions that may affect repayment ability. Third, regular supervision improves communication between banks and customers, thereby facilitating prompt resolution of financial difficulties. Scholars such as Yusuf and Adamu (2022) argued that inadequate loan monitoring contributes significantly to rising bad debts and declining profitability among Nigerian banks. Furthermore, technological advancements have transformed loan monitoring practices in modern banking operations. Many banks now utilize digital credit management systems, automated reminders, and data analytics tools to monitor borrower activities and repayment schedules.

2.3 Collateral Management Practices

Collateral management practices refer to the procedures and mechanisms used by banks to secure loans through assets pledged by borrowers as security against default. Collateral serves as a safeguard that allows banks to recover their funds if borrowers fail to fulfill repayment obligations. Effective collateral management practices therefore play a vital role in reducing credit risk and improving the profitability of Deposit Money Banks. According to Adewale and Nnamani (2022), collateral management involves the identification, valuation, documentation, monitoring, and enforcement of assets pledged as security for loans. Common forms of collateral used by Nigerian banks include landed property, vehicles, machinery, fixed deposits, shares, and other valuable assets. Before approving loans, banks evaluate the quality, ownership status, market value, and legal enforceability of the collateral provided by borrowers. Collateral management practices are particularly important in Nigeria due to the high level of uncertainty and default risk associated with lending activities. Many borrowers operate in unstable economic environments characterized by inflation, exchange rate volatility, unemployment, and fluctuating business conditions. As a result, banks rely heavily on collateral securities to minimize potential financial losses arising from loan defaults.

The Central Bank of Nigeria has consistently emphasized the need for proper collateral documentation and valuation to strengthen banking operations and improve loan recovery performance. According to CBN prudential guidelines, banks are required to maintain adequate records of collateral securities and ensure proper legal documentation before loan disbursement (CBN, 2023). Failure to comply with these requirements often exposes banks to legal disputes and difficulties in recovering defaulted loans. Effective collateral management practices improve profitability by reducing the probability of total loan loss. Banks that maintain strong collateral systems are more capable of recovering debts from defaulting customers, thereby protecting their financial resources and enhancing operational performance. Eze and Chukwu (2024) observed that efficient collateral management significantly reduces non-performing loans and increases the financial stability of banks.

However, several challenges affect collateral management practices in Nigeria. These include overvaluation of assets, fraudulent documentation, legal disputes over ownership, inadequate valuation procedures, and delays in asset liquidation processes. In some cases, the market value of collateral declines significantly before recovery actions are completed, thereby reducing the amount recoverable by banks. Additionally, some borrowers provide fake or disputed collateral documents, making debt recovery difficult during default situations. Weak legal systems and prolonged court processes also hinder effective enforcement of collateral agreements. Despite these challenges, collateral management remains a critical aspect of credit risk management practices among Deposit Money Banks in Nigeria. This study therefore examines how collateral management practices influence the profitability of Deposit Money Banks in Nigeria by assessing their role in minimizing credit losses and enhancing loan recovery performance.

2.4 Profitability

Profitability refers to the ability of an organization to generate sufficient financial returns from its operations after covering all expenses and obligations. In the banking sector, profitability represents the capacity of banks to maximize earnings from their financial intermediation activities, particularly lending and investment operations. Profitability is an essential indicator of financial performance because it determines the sustainability, growth, and competitiveness of banks within the financial system. According to Nwankwo and Afolayan (2022), profitability reflects the efficiency with which bank management utilizes available resources to generate income and maximize shareholder wealth. A profitable bank possesses the financial strength necessary to expand operations, absorb financial shocks, reward investors, and contribute to economic development. Profitability also enhances public confidence in the banking system and promotes financial stability. Deposit Money Banks in Nigeria commonly measure profitability using financial indicators such as Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Earnings Per Share (EPS). Return on Assets measures the ability of banks to generate profits from total assets, while Return on Equity assesses the returns earned on shareholders' investments. These indicators help evaluate managerial efficiency and operational effectiveness within banking institutions. The profitability of banks is influenced by several factors, including credit risk management practices, operational efficiency, capital adequacy, liquidity management, interest rates, economic conditions, and regulatory policies. Among these factors, credit risk management practices are considered particularly significant because lending activities constitute one of the primary sources of income generation for banks. Poor credit management exposes banks to non-performing loans and financial losses, thereby reducing profitability.

In Nigeria, many Deposit Money Banks have experienced fluctuations in profitability due to rising loan defaults and weak asset quality. According to the Central Bank of Nigeria, the increasing level of non-performing loans has negatively affected earnings and financial performance within the banking industry (CBN, 2023). Consequently, banks continuously seek effective strategies to strengthen credit administration and improve profitability. Scholars such as Ibrahim and Olatunde (2023) argued that effective credit risk management practices contribute positively to profitability by reducing bad debts, improving loan recovery, and enhancing asset quality. Conversely, weak credit control systems increase loan impairment expenses and reduce banks' earning capacity. Profitability therefore depends significantly on the ability of banks to manage credit-related risks effectively.

3 RELATIONSHIP BETWEEN CREDIT RISK MANAGEMENT PRACTICES AND PROFITABILITY

The relationship between credit risk management practices and profitability has remained a major concern among scholars, financial analysts, and banking regulators because of the critical role lending activities play in the operations of Deposit Money Banks. Credit risk management practices are designed to reduce the likelihood of loan defaults, improve loan recovery, and enhance the quality of banks' loan portfolios. Profitability, on the other hand, reflects the ability of banks to generate financial returns from their operations. The effectiveness of credit risk management practices therefore significantly determines the profitability and sustainability of banking institutions. Credit risk management practices such as credit appraisal, loan monitoring, and collateral management influence profitability by reducing bad debts and minimizing financial losses associated with non-performing loans. According to Akinyemi and Yusuf (2022), banks that maintain effective credit management systems experience lower loan default rates and higher profitability compared to banks with weak credit administration structures. Effective credit appraisal practices ensure that loans are granted only to creditworthy customers capable of meeting repayment obligations. This reduces the incidence of non-performing loans and enhances interest income generation. Loan monitoring practices also contribute positively to profitability by enabling banks to supervise borrowers and identify early signs of repayment difficulties. Continuous supervision allows banks to implement corrective measures such as loan restructuring, repayment rescheduling, or debt recovery actions before loans become irrecoverable. According to Okafor and Nwosu (2023), proper loan monitoring significantly improves asset quality and reduces credit losses among Nigerian Deposit Money Banks. Collateral management practices further strengthen profitability by providing security against loan default. When borrowers fail to repay loans, banks can recover their funds through the liquidation of pledged assets. Effective collateral valuation, documentation, and enforcement therefore reduce the probability of total financial loss. Scholars such as Ezeani and Adediran (2024) argued that banks with strong collateral management systems achieve better financial performance because they experience lower impairment charges and improved loan recovery rates.

However, ineffective credit risk management practices negatively affect profitability. Poor credit appraisal procedures, weak loan monitoring systems, and inadequate collateral management expose banks to high levels of non-performing loans and bad debts. These challenges increase provisioning expenses, reduce interest income, and weaken financial performance. In Nigeria, several Deposit Money Banks have experienced declining profitability due to rising loan defaults associated with poor credit administration practices (CBN, 2023). Economic conditions also influence the relationship between credit risk management practices and profitability. Factors such as inflation, exchange rate instability, unemployment, and economic recession may increase borrower default rates and reduce the effectiveness of credit management systems. Consequently, banks must continuously strengthen their risk management frameworks to withstand economic uncertainties and maintain profitability.

Overall, the relationship between credit risk management practices and profitability is largely positive. Effective credit appraisal, proper loan monitoring, and efficient collateral management contribute significantly to reducing credit losses and enhancing financial performance. This study therefore examines how these dimensions of credit risk management practices influence the profitability of Deposit Money Banks in Nigeria.

3.1 Theoretical Framework

This study is anchored on the Commercial Loan Theory, propounded by Adam Smith in 1776. The Commercial Loan Theory, also known as the Real Bills Doctrine, states that banks should grant only short-term self-liquidating productive loans that can easily be repaid from the proceeds generated by the borrower's business activities. The theory emphasizes prudent lending practices, effective credit evaluation, and proper management of credit facilities to ensure liquidity, profitability, and financial stability within banking institutions. The Commercial Loan Theory argues that banks achieve stability and profitability when they provide loans for productive commercial purposes rather than speculative or long-term risky ventures. According to the theory, credit facilities should be granted only to borrowers with strong repayment capacity and verifiable business activities capable of generating sufficient cash flows for repayment. This principle highlights the importance of effective credit appraisal practices in minimizing loan defaults and enhancing profitability. One major relevance of the theory to this study lies in its emphasis on risk reduction through careful borrower assessment and loan supervision. The theory suggests that banks should continuously monitor borrowers and ensure that loan funds are utilized for productive purposes. This aligns with the concept of loan monitoring practices examined in this study. Effective supervision reduces the likelihood of fund diversion, repayment failure, and non-performing loans, thereby improving profitability. The Commercial Loan Theory also supports the importance of collateral management practices in banking operations. Since loans involve uncertainty and risk, banks require adequate security to protect their funds in the event of borrower default. Proper collateral documentation, valuation, and enforcement therefore become essential mechanisms for minimizing financial losses and sustaining profitability. Several scholars have applied the Commercial Loan Theory in explaining the relationship between credit management and bank performance. According to Ibrahim and Bello (2022), the theory provides a strong foundation for understanding how prudent lending decisions and effective risk management contribute to profitability within the banking sector. Similarly, Eze and Okonkwo (2023) argued that banks adopting sound credit administration principles consistent with the Commercial Loan Theory tend to experience lower default rates and stronger financial performance. Despite its relevance, the theory has been criticized for focusing mainly on short-term lending while modern banking operations involve long-term financing and diversified investment activities. Critics also argue that the theory may not adequately address the complexities of contemporary financial markets and economic uncertainties. Nevertheless, the theory remains highly relevant because it emphasizes prudent lending, borrower evaluation, and risk management practices essential for maintaining profitability. The theory is therefore suitable for this study because it explains how effective credit risk management practices such as credit appraisal, loan monitoring, and collateral management influence the profitability of Deposit Money Banks in Nigeria.

3.2 Empirical Review

Several empirical studies have been conducted on credit risk management practices and bank profitability both within and outside Nigeria. These studies provide evidence regarding the relationship between credit management practices and financial performance in the banking sector.

Adebayo and Ogunleye (2022) examined the effect of credit risk management on the profitability of Deposit Money Banks in Nigeria using panel data obtained from ten commercial banks between 2015 and 2020. The study employed regression analysis and found that effective credit appraisal and loan monitoring practices significantly improved Return on Assets and reduced non-performing loan ratios. The study concluded that strong credit management systems contribute positively to bank profitability. Okonkwo and Ibrahim (2023) investigated the relationship between loan monitoring practices and financial performance among Nigerian commercial banks. Using survey research design and data collected from bank employees, the study revealed that regular loan supervision and repayment tracking significantly reduced loan defaults and enhanced profitability. The researchers recommended improved monitoring technologies and staff training for better credit administration. Ezeani and Adediran (2024) conducted a study on collateral management practices and bank performance in Nigeria. The study adopted an ex-post facto research design and analyzed secondary data obtained from annual reports of selected banks. Findings showed that proper collateral valuation and documentation positively influenced loan recovery and profitability. However, the study identified legal delays and fraudulent collateral documentation as major challenges affecting effective collateral management. Outside Nigeria, Ahmed and Rahman (2022) examined credit risk management and profitability among commercial banks in Bangladesh. Using multiple regression analysis, the study found that effective borrower assessment and risk rating systems significantly improved financial performance and reduced credit losses. The study emphasized the importance of adopting modern credit scoring techniques to strengthen banking operations.

Similarly, Mwangi and Kibet (2023) studied the effect of credit risk management practices on bank profitability in Kenya. The researchers used descriptive and inferential statistics to analyze data collected from commercial banks. Findings indicated that credit appraisal practices, loan monitoring, and collateral management positively affected profitability. The study concluded that banks with strong risk management frameworks achieved higher financial stability and better operational performance. The reviewed studies generally established a positive relationship between credit risk management practices and profitability. However, gaps still exist in terms of methodology, scope, and variables used. Some studies focused mainly on financial ratios without examining specific dimensions of credit risk management practices such as credit appraisal, loan monitoring, and collateral management simultaneously. Others concentrated on secondary data without incorporating primary data from bank employees directly involved in credit administration. This study therefore seeks to bridge these gaps by examining the impact of credit appraisal practices, loan monitoring practices, and collateral management practices on the profitability of Deposit Money Banks in Nigeria using primary data and survey research design.

3.3 Gap in Knowledge

The literature reviewed in this study established that credit risk management practices play a crucial role in determining the profitability and sustainability of Deposit Money Banks. The conceptual review explained that effective credit appraisal, loan monitoring, and collateral management practices help reduce loan defaults, improve asset quality, and enhance profitability. The theoretical framework anchored on the Commercial Loan Theory emphasized prudent lending and effective credit administration as essential determinants of financial performance. Empirical studies reviewed revealed that effective credit risk management practices positively influence profitability in banking institutions. The study specifically examines how credit appraisal practices, loan monitoring practices, and collateral management practices influence profitability. By focusing on these dimensions, the study contributes to existing knowledge and provides practical recommendations for improving credit risk management practices within the Nigerian banking sector.

4 METHODOLOGY

This chapter explained the methodology adopted for examining credit risk management practices and their impact on the profitability of Deposit Money Banks in Nigeria. The study employed a quantitative survey research design because it enabled the collection of standardized data from respondents through structured questionnaires. The study area comprised selected Deposit Money Banks in Nigeria, while the target population consisted of 615 employees involved in credit administration, loan management, risk management, and financial operations. The sample size of 237 respondents was determined using the Krejcie and Morgan (1970) formula, while simple random sampling technique was adopted to ensure fairness and representativeness. Primary data were collected through questionnaires structured on a five-point Likert scale. The instrument was divided into demographic and study-variable sections covering credit appraisal, loan monitoring, collateral management, and profitability. Validity was ensured through expert review, while reliability was confirmed using Cronbach Alpha coefficients above 0.70. Data collection involved direct administration of questionnaires, with 228 valid responses retrieved. Data were analyzed using percentages, mean scores, and standard deviation through SPSS v23 to provide objective interpretation of respondents' opinions and findings.

4.1 Data Presentation and Analysis

This chapter presents the analysis and interpretation of data collected from respondents concerning credit risk management practices and their impact on the profitability of Deposit Money Banks in Nigeria. The analysis was based on the 228 questionnaires properly completed and returned by respondents, representing a response rate of 96.2%. The data presentation was organized according to the objectives and research questions of the study. Descriptive statistical tools such as percentages, mean scores, and standard deviation were used to analyze the responses obtained from respondents. The results are presented using tables for clarity and ease of interpretation.

4.2 Analysis of Research Questions

4.2.1 Research Question One

To what extent do credit appraisal practices affect the profitability of Deposit Money Banks in Nigeria?

Table 4: Credit Appraisal Practices and Profitability

S/N	Questionnaire Items	Mean	Std. Dev	Decision
1	Effective credit appraisal reduces loan default rates	4.31	0.71	Accepted
2	Proper borrower assessment improves profitability	4.22	0.82	Accepted
3	Credit scoring systems enhance lending decisions	4.18	0.77	Accepted
4	Inadequate credit appraisal increases non-performing loans	4.40	0.68	Accepted
5	Credit appraisal practices improve loan recovery performance	4.12	0.80	Accepted
Grand Mean		4.25	0.76	Accepted

Source: SPSS v23

The table above shows that all the items recorded mean scores above the criterion mean of 3.0, with a grand mean of 4.25. This indicates that respondents agreed that effective credit appraisal practices positively influence the profitability of Deposit Money Banks in Nigeria.

4.2.2 Research Question Two

How does loan monitoring practice influence the profitability of Deposit Money Banks in Nigeria?

Table 5: Loan Monitoring Practices and Profitability

S/N	Questionnaire Items	Mean	Std. Dev	Decision
1	Regular loan supervision reduces bad debts	4.27	0.73	Accepted
2	Loan monitoring improves repayment performance	4.20	0.79	Accepted
3	Monitoring systems help detect repayment problems early	4.35	0.70	Accepted
4	Poor loan monitoring increases financial losses	4.18	0.82	Accepted
5	Effective loan monitoring enhances profitability	4.29	0.75	Accepted
	Grand Mean	4.26	0.76	Accepted

Source: SPSS v23

The table indicates that respondents agreed that loan monitoring practices significantly improve profitability among Deposit Money Banks in Nigeria, as shown by the grand mean score of 4.26.

4.2.3 Research Question Three

What effect does collateral management practice have on the profitability of Deposit Money Banks in Nigeria?

Table 6: Collateral Management Practices and Profitability

S/N	Questionnaire Items	Mean	Std. Dev	Decision
1	Proper collateral documentation reduces loan losses	4.33	0.69	Accepted
2	Collateral valuation improves loan recovery	4.25	0.74	Accepted
3	Effective collateral management enhances profitability	4.30	0.71	Accepted
4	Weak collateral systems increase credit risk	4.16	0.83	Accepted
5	Collateral security protects banks against default	4.38	0.66	Accepted
	Grand Mean	4.28	0.73	Accepted

Source: SPSS v23

The results reveal that respondents agreed that collateral management practices positively influence profitability among Deposit Money Banks in Nigeria, as indicated by the grand mean score of 4.28.

4.3 Test of Hypotheses

The hypotheses formulated for this study were tested using the mean decision rule. The criterion mean of 3.0 served as the benchmark for accepting or rejecting the hypotheses. Any calculated grand mean above 3.0 indicates acceptance of the alternative hypothesis and rejection of the null hypothesis, while any mean below 3.0 results in acceptance of the null hypothesis.

4.3.1 Hypothesis One

Ho_1: Credit appraisal practices have no significant effect on the profitability of Deposit Money Banks in Nigeria.

Table 7: Test of Hypothesis One

Variables	Grand Mean	Decision
Credit Appraisal Practices	4.25	Reject Ho_1

Source: SPSS v23

The result in Table 4.7 shows a grand mean score of 4.25, which is above the criterion mean of 3.0. Therefore, the null hypothesis is rejected. This implies that credit appraisal practices have a significant positive effect on the profitability of Deposit Money Banks in Nigeria.

The finding indicates that effective borrower assessment, credit scoring systems, and financial evaluation procedures help reduce loan defaults and improve profitability. Proper credit appraisal ensures that loans are granted to customers with adequate repayment capacity, thereby minimizing credit losses and enhancing banks' earnings. The finding supports the views of Adebayo and Ogunleye (2022), who observed that strong credit appraisal systems improve financial performance and reduce non-performing loans within Nigerian banks.

4.3.2 Hypothesis Two

Ho_2: Loan monitoring practices do not significantly influence the profitability of Deposit Money Banks in Nigeria**.**

Table 8: Test of Hypothesis Two

Variables	**Grand Mean**	**Decision**
Loan Monitoring Practices	4.26	Reject Ho_2

Source: SPSS v23

The result in Table 4.8 reveals a grand mean score of 4.26, which exceeds the criterion mean of 3.0. Consequently, the null hypothesis is rejected. This means that loan monitoring practices significantly influence the profitability of Deposit Money Banks in Nigeria.

The finding demonstrates that regular loan supervision, repayment tracking, and continuous borrower evaluation improve loan recovery and reduce bad debts. Effective loan monitoring enables banks to identify repayment challenges early and implement corrective measures before loans become irrecoverable. This contributes positively to profitability and operational efficiency.

The result agrees with the study conducted by Okonkwo and Ibrahim (2023), which revealed that banks with effective loan monitoring systems experience lower loan default rates and higher profitability compared to banks with weak supervision mechanisms.

4.3.3 Hypothesis Three

$H0_3$: Collateral management practices have no significant effect on the profitability of Deposit Money Banks in Nigeria.

Table 9: Test of Hypothesis Three

Variables	**Grand Mean**	**Decision**
Collateral Management Practices	4.28	Reject Ho_3

Source: SPSS v23

The result in Table 4.9 shows a grand mean score of 4.28, which is higher than the criterion mean of 3.0. Therefore, the null hypothesis is rejected. This indicates that collateral management practices have a significant positive effect on the profitability of Deposit Money Banks in Nigeria.

The finding implies that proper collateral valuation, documentation, and enforcement procedures reduce loan losses and improve loan recovery performance. Effective collateral management protects banks against financial losses arising from borrower defaults and contributes to improved profitability. This finding supports the work of Ezeani and Adediran (2024), who found that strong collateral management systems significantly enhance financial performance and reduce credit risk exposure among commercial banks in Nigeria.

5 DISCUSSION OF FINDINGS

The findings of this study revealed that credit risk management practices significantly influence the profitability of Deposit Money Banks in Nigeria. Specifically, the study found that credit appraisal practices, loan monitoring practices, and collateral management practices positively affect profitability by reducing loan defaults, improving loan recovery, and enhancing operational efficiency. The study revealed that credit appraisal practices significantly improve profitability among Deposit Money Banks. Respondents agreed that effective borrower assessment, credit scoring systems, and proper evaluation procedures reduce non-performing loans and improve financial performance. This finding supports the Commercial Loan Theory, which emphasizes prudent lending and careful borrower assessment as essential factors for maintaining profitability and financial stability. The findings also indicated that loan monitoring practices positively influence profitability. Regular supervision of borrowers and continuous tracking of repayment schedules help banks identify potential repayment problems early and implement corrective actions. This reduces bad debts and improves loan recovery performance. The result aligns with previous empirical studies which established that effective loan supervision enhances asset quality and financial performance within the banking sector.

Summary of Findings

Based on the analysis conducted in the study, the following findings were made:

i. Credit appraisal practices have a significant positive effect on the profitability of Deposit Money Banks in Nigeria. Effective borrower assessment and credit evaluation reduce loan defaults and improve financial performance.
ii. Loan monitoring practices significantly influence profitability by improving repayment performance, reducing bad debts, and enhancing loan recovery.
iii. Collateral management practices have a significant positive effect on profitability through effective loan security, collateral valuation, and debt recovery mechanisms.
iv. Effective credit risk management practices generally contribute to improved profitability, operational efficiency, and financial stability among Deposit Money Banks in Nigeria.

6 CONCLUSION

This study examined credit risk management practices and their impact on the profitability of Deposit Money Banks in Nigeria. The study specifically focused on credit appraisal practices, loan monitoring practices, and collateral management practices as dimensions of credit risk management practices influencing profitability. The study therefore concludes that effective credit risk management practices are essential for improving the profitability and sustainability of Deposit Money Banks in Nigeria. Banks that maintain strong credit administration systems are more capable of minimizing financial losses, enhancing operational efficiency, and achieving long-term growth.

Recommendations

Based on the findings and conclusions of the study, the following recommendations are made:

- Deposit Money Banks should strengthen their credit appraisal systems by adopting advanced credit scoring models and conducting thorough borrower assessments before loan approval.
- Banks should improve loan monitoring practices through regular supervision, repayment tracking, and use of modern digital monitoring technologies to detect repayment problems early.
- Proper collateral valuation, documentation, and legal verification procedures should be enforced to improve loan recovery and reduce financial losses.

STATEMENTS ON COMPLIANCE WITH ETHICAL STANDARDS

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The author declares no conflicts of interest regarding this manuscript.

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