International Journal of Accounting Research and Financial Insights | ISSN 3087-4394
Published by BIRPUB https://birpub.org/ijarfi
Imp. Factor: 8.436

Credit Risk Management Practices and Performance of Deposit Money Banks in Nigeria

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Abstract

The study examined Credit Risk Management Practices and Performance of Deposit Money Banks in Nigeria. The specific objectives were to: examine the effect of loan appraisal procedures on the loan recovery rate and assess the effect of credit monitoring systems on the loan growth rate of deposit money banks in Nigeria. The area of the study was Enugu State. The study used the descriptive survey design approach. The primary source of data was the administration of questionnaires. A total population of 322 staff was used. 251 staff returned the questionnaires and accurately filled them. Data was presented and analyzed using mean score and standard deviation. The hypotheses were analyzed using the Z-test statistical tool. The findings indicated that loan appraisal procedures had a significant positive effect on the loan recovery rate of deposit money banks in Nigeria, Z(9.168, P = 0.05), and credit monitoring systems had a significant positive effect on the loan growth rate of deposit money banks in Nigeria, Z(9.231, P = 0.05). The study concluded that loan appraisal procedures and credit monitoring systems had a significant positive effect on the loan recovery rate and loan growth rate of deposit money banks in Nigeria. The study recommended, among others, that deposit money banks should strengthen and standardize their loan appraisal procedures by adopting comprehensive borrower evaluation and risk assessment techniques to improve loan recovery rates and minimize default risks.

Keywords: *Credit Risk Management Practices, Loan Appraisal Procedures, Credit Monitoring Systems, Loan Recovery Rate, Loan Growth Rate.*

Cite*:* Ngwuegbu, K. O., Colman E. U. & Mbah P. C. (2026). Credit Risk Management Practices and Performance of Deposit Money Banks in Nigeria. *International Journal of Accounting Research and Financial Insights, 4*(5), 411-434. https://doi.org/10.5281/zenodo.21966434

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Introduction

The Nigerian banking sector serves as the cornerstone of the nation's financial system, facilitating economic growth through financial intermediation, credit creation, and payment system operations. Deposit money banks mobilize savings from surplus units and channel these resources to deficit units through lending activities, thereby supporting entrepreneurship, industrial development, and economic expansion (Sanusi, 2023). However, lending operations expose banks to credit risk, the possibility that borrowers may fail to meet their contractual obligations, which represents the most significant risk category confronting Nigerian banks and a primary driver of bank failures globally (Kolapo, Ayeni & Oke, 2022).

Credit risk management has emerged as a critical competency for deposit money banks in Nigeria, particularly following several episodes of banking sector distress linked to poor credit quality and inadequate risk management practices. The 2009 banking crisis, which necessitated substantial Central Bank of Nigeria (CBN) intervention, revealed that many banks had accumulated toxic assets through imprudent lending, weak credit appraisal procedures, and ineffective monitoring of borrower performance (Adeyinka, 2023). Subsequently, regulatory authorities have intensified focus on credit risk management, implementing comprehensive prudential guidelines, establishing loan classification standards, and mandating minimum provisioning requirements to ensure banking sector stability (Onyekwere & Ugwuanyi, 2024).

The relationship between credit risk management practices and bank performance has attracted considerable scholarly attention, with researchers investigating how various risk management mechanisms influence financial outcomes. Effective credit risk management enables bank to minimize loan losses, optimize capital allocation, enhance profitability, and maintain stakeholder confidence (Hosna, Manzura & Juanjuan, 2019). Conversely, deficient credit risk management results in accumulation of non-performing loans, erosion of capital, deteriorating profitability, and potential insolvency (Ademola, Sijuwade & Afolabi, 2023). Understanding the specific credit risk management practices that enhance bank performance is essential for promoting financial sector soundness and sustainable economic development.

Nigerian deposit money banks operate within a challenging environment characterized by information asymmetry, limited credit bureau coverage, weak collateral enforcement mechanisms, economic volatility, and borrower moral hazard problems that complicate credit risk assessment and management (Okafor & Ayunku, 2021). These environmental factors necessitate robust credit risk management frameworks encompassing comprehensive loan appraisal procedures to evaluate borrower creditworthiness accurately, and effective credit monitoring systems to detect early warning signals of deteriorating credit quality. The effectiveness of these practices directly influences key performance dimensions including loan recovery rates, which reflect the bank's ability to recoup funds from delinquent borrowers, and loan growth rates, which indicate the bank's capacity to expand lending activities while managing risk (Onyeagocha, Chidoziem, Sunday & Lydia, 2022).

Despite extensive research on credit risk management globally, the Nigerian context presents unique characteristics including substantial informal sector lending, relationship-based banking practices, political influence on credit decisions, and legal complexities in loan recovery that may moderate the effectiveness of risk management practices differently than in developed economies (Eze & Okoye, 2023). Furthermore, variations in credit risk management sophistication across Nigerian banks, ranging from basic procedures in smaller institutions to advanced analytical models in large banks, create opportunities for examining which practices most significantly enhance performance outcomes. This study therefore investigates the relationship between credit risk management practices and performance of deposit money banks in Nigeria, with specific focus on loan appraisal procedures and credit monitoring systems as key risk management practices, and loan recovery rate and loan growth rate as critical performance indicators.

Statement of the Problem

Credit risk management is a critical function in the operations of deposit money banks, as lending activities constitute a major source of income and a primary driver of financial intermediation in Nigeria. Effective credit risk management practices enable banks to minimize loan defaults, maintain asset quality, enhance profitability, and sustain public confidence in the banking system. In an economy like Nigeria's, where banks play a pivotal role in financing businesses, households, and government activities, the ability of deposit money banks to manage credit risk efficiently is essential for improved financial performance, stability of the banking sector, and overall economic growth.

Despite regulatory guidelines issued by the Central Bank of Nigeria and the adoption of various credit risk management tools such as credit appraisal, monitoring, and loan recovery mechanisms, deposit money banks in Nigeria continue to experience challenges related to rising non-performing loans, loan defaults, and weak credit administration. Factors such as inadequate credit appraisal techniques, poor borrower selection, weak monitoring of loan facilities, insider-related lending, and macroeconomic volatility have undermined the effectiveness of existing credit risk management practices. These challenges have raised concerns about the extent to which current credit risk management practices influence the performance of deposit money banks in Nigeria, particularly in terms of profitability, liquidity, and asset quality.

Failure to adequately address these credit risk management problems can have serious consequences for deposit money banks and the wider economy. Persistent high levels of non-performing loans can erode banks' earnings, weaken capital adequacy, and reduce their capacity to extend credit to productive sectors of the economy. In extreme cases, poor credit risk management may lead to bank distress or failure, loss of depositor confidence, and increased regulatory intervention. Consequently, unresolved credit risk management issues can threaten the stability of the Nigerian banking sector and hinder sustainable economic development, thereby underscoring the need for a systematic investigation into credit risk management practices and their effect on the performance of deposit money banks in Nigeria.

Objective of the study

The general objective of the study was to examine Credit Risk Management Practices and Performance of Deposit Money Banks in Nigeria. The specific objectives were to:

i. Examine the effect of loan appraisal procedures on the loan recovery rate of deposit money banks in Nigeria.

ii. Assess the effect of credit monitoring systems on the loan growth rate of deposit money banks in Nigeria.

Research Questions

The following research questions guide this study:

i. What is the effect of loan appraisal procedures on the loan recovery rate of deposit money banks in Nigeria?

ii. What is the effect of credit monitoring systems on the loan growth rate of deposit money banks in Nigeria?

Statement of Hypotheses

The following null hypotheses are formulated to guide the empirical investigation:

i. Loan appraisal procedures have no significant effect on the loan recovery rate of deposit money banks in Nigeria.

ii. Credit monitoring systems have no significant effect on the loan growth rate of deposit money banks in Nigeria.

Significance of the Study

This study is significant to various individuals and institutions because its findings will provide meaningful contributions to a wide range of stakeholders interested in credit risk management and the performance of deposit money banks in Nigeria. The study will be particularly useful to the following:

Management of Deposit Money Banks: The study will provide bank management with useful information on the effect of loan appraisal procedures and credit monitoring systems on loan recovery rate and loan growth rate. The findings will assist managers in identifying effective credit risk management practices, improving the quality of lending decisions, reducing loan defaults, strengthening loan recovery mechanisms, and promoting sustainable growth in their banks.

Central Bank of Nigeria (CBN): The study will be useful to the Central Bank of Nigeria in understanding the effectiveness of credit risk management practices adopted by deposit money banks. The findings may provide empirical evidence that can assist the CBN in reviewing existing regulatory guidelines, strengthening prudential requirements, improving supervision of banks, and developing policies that will promote sound credit management and financial stability in the Nigerian banking sector.

Shareholders: The study will benefit shareholders of deposit money banks by providing information on how effective credit risk management can influence bank performance. The findings will enable shareholders to better understand the importance of proper loan appraisal and credit monitoring in protecting the assets of their banks, reducing credit losses, improving loan recovery, and supporting sustainable returns on their investments.

Investors: The study will provide investors with useful information about the relationship between credit risk management practices and the performance of deposit money banks. This information may assist existing and potential investors in assessing the quality of a bank's credit management practices and making more informed investment decisions based on the bank's ability to manage lending-related risks effectively.

Bank Customers and Borrowers: The study will be beneficial to bank customers and borrowers by creating greater awareness of the importance of proper credit assessment, responsible borrowing, and effective loan monitoring. The findings may encourage borrowers to comply with loan conditions and repayment schedules while also helping customers understand why banks apply credit appraisal and monitoring procedures when granting and managing credit facilities.

Financial Analysts and Banking Professionals: The study will provide financial analysts and banking professionals with relevant information on the role of credit risk management in improving specific aspects of bank performance, particularly loan recovery and loan growth. The findings may assist professionals in evaluating credit management strategies, identifying potential weaknesses in lending operations, and recommending appropriate measures for improving credit quality and institutional performance.

Researchers and Students: The study will serve as a useful source of academic and empirical information for researchers and students in banking and finance, accounting, economics, business administration, and related disciplines. It will contribute to the existing body of knowledge on credit risk management and bank performance and may also provide a basis for further studies on loan appraisal, credit monitoring, loan recovery, loan growth, and other related banking issues.

Government and Economic Policy Makers: The study will be useful to government institutions and economic policy makers because a sound banking system is important to the stability and development of the Nigerian economy. The findings may provide useful evidence for formulating policies that encourage responsible lending, strengthen financial sector stability, and improve the ability of deposit money banks to provide credit to productive sectors of the economy.

Nigerian Deposit Money Banking Sector: The study will contribute to the overall development of the deposit money banking sector by highlighting the importance of effective credit risk management practices. The findings may encourage banks to improve their loan appraisal procedures and credit monitoring systems, thereby reducing the incidence of non-performing loans, improving loan recovery, supporting responsible loan expansion, and strengthening the overall soundness of the banking sector.

Nigerian Economy: The study will also be significant to the Nigerian economy because effective credit risk management can contribute to a healthier and more stable banking system. When deposit money banks are able to properly assess borrowers, monitor credit facilities, recover loans, and expand lending responsibly, they are better positioned to finance businesses and productive economic activities. This can contribute to investment, employment generation, business development, and sustainable economic growth in Nigeria.

Review of Related Literature

Conceptual Review

Credit

Credit represents an arrangement wherein a lender provides resources—typically money, goods, or services, to a borrower under an agreement that the borrower will repay the value received, usually with additional compensation in the form of interest, at a specified future date (Mishkin, 2022). In banking contexts, credit predominantly takes the form of loans and advances extended to individuals, businesses, and governments for various purposes including working capital financing, asset acquisition, project development, and consumption (Brealey, Myers & Allen, 2023). The etymology of credit derives from the Latin "credere," meaning "to believe" or "to trust," reflecting the fundamental trust relationship underlying credit transactions wherein lenders believe borrowers will honor repayment obligations (Greenbaum, Thakor & Boot, 2019).

Risk

Risk represents the potential for negative deviation from expected outcomes, encompassing the probability that actual results will differ from anticipated results, with particular emphasis on adverse variations that create losses or diminish value (Knight, 2021). In financial contexts, risk specifically refers to the uncertainty regarding future cash flows, investment returns, or financial positions that may result in losses or failure to achieve objectives (Jorion, 2020). The concept of risk distinguishes from uncertainty through its measurability—risk involves situations where probability distributions of outcomes can be estimated based on historical data or analytical models, whereas uncertainty characterizes situations lacking sufficient information for probability assessment (McNeil, Frey & Embrechts, 2022).

Management

Management refers to the process of planning, organizing, leading, and controlling organizational resources to achieve specified objectives efficiently and effectively (Robbins & Coulter, 2021). In organizational contexts, management encompasses activities including setting strategic direction, allocating resources, coordinating activities, motivating personnel, monitoring performance, and making decisions that collectively determine organizational success (Daft, 2023). Management distinguishes from mere administration through its proactive, strategic orientation focused on achieving goals rather than simply maintaining existing operations (Koontz & Weihrich, 2019).

Practices

Practices refer to established procedures, methods, or customary ways of performing activities within organizations or professions (Brown & Duguid, 2018). In organizational contexts, practices encompass the actual behaviors, routines, and processes employed by organizational members in conducting work, distinguishing from formal policies or procedures that prescribe how work should be done (Feldman & Pentland, 2021). Practices emerge through repeated enactment, gradually becoming institutionalized as accepted ways of accomplishing tasks, though they retain potential for modification through learning and innovation (Jarzabkowski, Balogun & Seidl, 2022).

Credit Risk Management Practices

Credit risk management practices encompass the systematic processes, procedures, policies, and techniques that banks employ to identify, assess, measure, monitor, and control credit risk exposures arising from lending activities (Bessis, 2021). These practices operationalize credit risk management frameworks, translating strategic risk appetite and regulatory requirements into concrete actions taken by credit officers, risk managers, and bank officials in evaluating borrowers, structuring facilities, disbursing funds, monitoring performance, and resolving problem loans (Caouette, Altman & Narayanan, 2019). Effective credit risk management practices enable banks to balance the dual objectives of maximizing lending profitability while minimizing credit losses, thereby supporting sustainable business growth and financial stability (Crouhy, Galai & Mark, 2018).

Components of Credit Risk Management Practices

These components include credit policy and strategy formulation establishing the bank's risk appetite, target markets, lending criteria, and strategic direction for credit activities (Golin & Delhaise, 2019). (Benton & Pugliese, 2020), (Onyiriuba, 2021), (Andersen & Terp, 2020), (Greuning & Bratanovic, 2020), (Kimball, 2018), (Altman & Saunders, 2021), (Ong, 2019). (Caouette, Altman & Narayanan, 2019). (Jackson & Perraudin, 2018), (Vasiljeva & Lukanova, 2019).

Components of Credit Risk Management Practices that Formed Part of the Objectives of the Study

Loan Appraisal Procedures

Loan appraisal procedures refer to the systematic processes and methodologies employed by banks to evaluate credit applications, assess borrower creditworthiness, analyze project viability, and determine whether to approve or decline loan requests (Onyiriuba, 2021). These procedures constitute the first line of defense against credit risk, as decisions made during the appraisal phase fundamentally determine the quality of assets added to the lending portfolio (Golin & Delhaise, 2019). Effective loan appraisal procedures enable banks to distinguish creditworthy borrowers from high-risk applicants, structure appropriate loan terms and conditions, price facilities commensurate with risk, and ultimately build high-quality portfolios that generate sustainable returns while maintaining manageable risk exposures (Bessis, 2021).

Credit Monitoring Systems

Credit monitoring systems encompass the ongoing processes, procedures, and technologies employed by banks to track borrower performance after loan disbursement, detect early warning signals of credit deterioration, ensure covenant compliance, and enable timely intervention to prevent or minimize losses (Van Greuning & Bratanovic, 2019). While loan appraisal procedures address ex-ante credit risk assessment before lending decisions, credit monitoring systems provide ex-post surveillance ensuring that credit quality assumptions underlying approval decisions remain valid and identifying changes requiring remedial action (Bessis, 2021). Effective monitoring systems serve as crucial risk management tools enabling banks to identify problem loans early when intervention options are most numerous and potential losses remain manageable (Crouhy, Galai & Mark, 2018).

Performance

Performance represents the degree to which organizations achieve their objectives, create value for stakeholders, and fulfill their missions (Kaplan & Norton, 2020). In business contexts, performance encompasses financial outcomes including profitability, growth, and returns to shareholders; operational effectiveness including productivity, quality, and efficiency; strategic achievements including market share gains, innovation, and competitive positioning; and stakeholder satisfaction including customer retention, employee engagement, and regulatory compliance (Neely, 2019). Performance measurement provides feedback enabling organizations to assess progress toward goals, identify problems requiring corrective action, and make informed decisions regarding resource allocation and strategy adjustment (Bititci, Garengo, Dörfler & Nudurupati, 2021).

Components of Performance

Profitability metrics, Asset quality indicators, Operational efficiency, Growth indicators, Capital adequacy, adequate capital. (Koch & MacDonald, 2022), (Brigham & Ehrhardt, 2020), (Saunders & Cornett, 2023), (Goddard, Molyneux & Wilson, 2020). (Demirgüç-Kunt & Huizinga, 2019), (Laeven & Levine, 2021), (Saunders & Cornett, 2023). (Koch & MacDonald, 2022), (Rose & Hudgins, 2019). (Diamond & Dybvig, 2018).

Components of Performance that Formed Part of the Objectives of the Study

Loan Recovery Rate

Loan recovery rate represents the proportion of non-performing loans that are subsequently recovered through various resolution mechanisms, calculated as the ratio of amounts recovered from defaulted loans to total non-performing loan balances over specified periods (Altman & Saunders, 2021). This metric indicates the bank's effectiveness in minimizing ultimate credit losses after defaults occur, reflecting the quality of initial loan structuring (particularly collateral and documentation), the effectiveness of recovery strategies and execution, the legal and institutional environment affecting enforcement, and management skill in negotiating settlements or liquidating security (Djankov, Hart, McLiesh & Shleifer, 2020). Higher loan recovery rates indicate superior loss minimization capability, as banks that recover larger proportions of defaulted amounts preserve capital and maintain profitability despite experiencing credit events (Gregory, 2020).

Loan Growth Rate

Loan growth rate measures the percentage increase in total lending portfolio over specified periods, calculated as the change in gross loans divided by beginning loan balances, typically expressed as quarterly or annual percentage changes (Koch & MacDonald, 2022). This metric indicates the bank's capacity and willingness to expand lending activities, reflecting credit demand strength, competitive success in attracting borrowers, credit risk appetite, and confidence in risk management capabilities (Rose & Hudgins, 2019). Sustainable loan growth supports profitability through increased interest income, enhances franchise value through expanded customer relationships, and demonstrates market relevance in serving credit needs (Brigham & Ehrhardt, 2020).

Theoretical Review

Modern Portfolio Theory (MPT)

Proponent: Harry Markowitz (1952)

Theory: Modern Portfolio Theory posits that organizations can minimize risk and maximize returns by diversifying their investment and loan portfolios. In banking, effective credit risk management involves spreading credit facilities across different sectors and borrowers to reduce the likelihood of losses arising from loan defaults.

Information Asymmetry Theory

Proponents: George Akerlof (1970), Michael Spence (1973), and Joseph Stiglitz (1981)

Theory: Information Asymmetry Theory states that one party in a transaction often possesses more information than the other. In banking, borrowers usually have more information about their ability and willingness to repay loans than lenders. Effective credit risk management practices such as credit appraisal, monitoring, and screening help banks reduce information gaps and improve performance.

The study was anchored on **Information Asymmetry Theory** because it directly explains the need for credit risk management practices in Deposit Money Banks. The theory emphasizes that proper borrower assessment, credit monitoring, and risk evaluation reduce loan default risks, improve asset quality, and enhance the overall performance of banks in Nigeria.

Empirical Review

Loan appraisal procedures on the loan recovery rate

Kareem and Bashir (2023) conducted a study on credit appraisal procedures and loan recovery performance of deposit money banks in Nigeria. The research covered 18 commercial banks over a six-year period (2017-2022), utilizing secondary data from published annual reports, Central Bank of Nigeria supervisory returns, and Nigeria Deposit Insurance Corporation reports. Using panel data regression analysis with fixed effects model, the study measured loan recovery rate as the proportion of non-performing loans recovered through various resolution mechanisms including restructuring, collateral liquidation, and legal enforcement. The findings revealed that comprehensive loan appraisal procedures had a significant positive effect on loan recovery rate ($\beta = 0.524$, $t = 6.842$, $p < 0.001$).

Onyeagocha, Chidoziem, Sunday and Lydia (2022) conducted a study on relationship between credit risk management practices and loan recovery performance of deposit money banks in Nigeria. The study adopted a descriptive survey design complemented by secondary data analysis, covering 15 banks from 2015 to 2021. Primary data were collected through structured questionnaires administered to 225 credit officers and risk managers, while financial data on loan recovery rates were extracted from annual reports. Using multiple regression analysis and Pearson correlation coefficient, the results demonstrated that loan appraisal procedures had a strong positive and statistically significant effect on loan recovery rate ($r = 0.718$, $p < 0.01$; $\beta = 0.612$, $t = 7.234$, $p < 0.001$). The coefficient of determination ($R^2 = 0.623$) showed that appraisal procedures accounted for 62.3% of variations in recovery rates.

Modebe and Ugwuegbe (2021) conducted a study on the impact of credit appraisal mechanisms on loan default and recovery rates in Nigerian commercial banks. The study covered 20 deposit money banks from 2014 to 2020, employing both quantitative and qualitative research methodologies. Secondary data were obtained from audited financial statements and CBN statistical bulletins, while interviews were conducted with 36 credit executives to gain deeper insights into appraisal practices. Panel regression analysis with ran

Okere and Odunlami (2023) conducted a study on credit risk management strategies and loan recovery outcomes in Nigerian deposit money banks. The study employed a longitudinal design covering 22 banks from 2016 to 2022, analyzing both loan-level data and aggregate bank performance metrics. Using survival analysis techniques including Cox proportional hazards models and Kaplan-Meier estimation, the research examined time-to-recovery for defaulted loans based on appraisal procedure quality. The findings demonstrated that comprehensive loan appraisal procedures significantly accelerated recovery processes and increased ultimate recovery amounts. Banks with robust appraisal frameworks achieved median recovery time of 18 months compared to 34 months for banks with weak appraisal practices (log-rank test: $\chi^2 = 42.67$, $p < 0.001$). Cox regression analysis revealed that comprehensive appraisal reduced recovery time hazard ratio by 68% (HR = 0.32, 95% CI: 0.24-0.42, $p < 0.001$), indicating substantially faster recovery. Ultimate recovery rates for well-appraised loans averaged 71.2% of outstanding balances compared to 44.6% for poorly-appraised loans, representing 60% higher recovery.

Ezirim, Nwosu and Eke (2020) conducted a study on credit appraisal practices and loan performance in Nigerian banking sector. The study covered 19 deposit money banks from 2013 to 2019, focusing on the relationship between appraisal procedure characteristics and various loan performance indicators including recovery rates, non-performing loan ratios, and provisioning requirements. Using stochastic frontier analysis (SFA) to compute appraisal efficiency scores and subsequent regression analysis to examine performance effects, the research found that appraisal efficiency significantly enhanced loan recovery rates ($\beta = 0.547$, $t = 6.428$, $p < 0.001$). Banks operating at the appraisal efficiency frontier (efficiency score ≥ 0.90) achieved average recovery rates of 69.3% compared to 43.7% for inefficient appraisers (efficiency score < 0.60).

Credit monitoring systems on the loan growth rate

Nwakanma and Mba (2022) conducted a study on credit monitoring systems and portfolio growth in Nigerian deposit money banks. The research covered 17 commercial banks over a seven-year period (2015-2021), examining the relationship between monitoring system effectiveness and loan portfolio expansion rates. Using panel data regression with fixed effects model and controlling for bank-specific variables (size, capital adequacy, branch network) and macroeconomic factors (GDP growth, inflation, interest rates), the study found that comprehensive credit monitoring systems significantly enhanced sustainable loan growth rates ($\beta = 0.468$, $t = 5.923$, $p < 0.001$). The adjusted R^2 of 0.542 indicated strong model explanatory power. Banks with automated monitoring systems tracking borrower performance through real-time financial data feeds, covenant compliance alerts, and risk rating updates achieved average annual loan growth rates of 18.7% compared to 9.3% for banks with manual, periodic monitoring processes.

Sanusi and Akintoye (2023) conducted a study on the impact of post-disbursement credit monitoring on lending capacity of Nigerian banks. The study adopted a mixed-methods approach covering 20 deposit money banks from 2016 to 2022, combining quantitative analysis of financial data with qualitative insights from 45 credit managers. Panel regression analysis with random effects specification revealed that credit monitoring system sophistication significantly enhanced loan growth rates (coefficient = 0.412, z = 4.876, $p < 0.001$). Banks employing comprehensive monitoring frameworks including quarterly financial reviews, semi-annual site visits, monthly account conduct analysis, and real-time covenant tracking achieved average loan growth of 17.3% compared to 8.6% for banks with minimal monitoring. The Hausman test ($\chi^2 = 7.234$, p = 0.512) supported random effects specification.

Uwalomwa, Uwuigbe and Oyewo (2022) conducted a study on credit monitoring practices and lending growth in Nigerian deposit money banks. The study covered 18 banks from 2014 to 2020, examining how various monitoring mechanisms affected portfolio expansion capability while maintaining asset quality. Using generalized method of moments (GMM) estimation to address endogeneity concerns, the research found that monitoring system effectiveness significantly and positively influenced loan growth rates (coefficient = 0.523, z = 6.142, $p < 0.001$). The Hansen J-test (p = 0.346) confirmed instrument validity, while Arellano-Bond test indicated no second-order autocorrelation (p = 0.187).

Agu, Eze and Eze (2021) conducted research on credit risk monitoring mechanisms and loan portfolio performance in Nigerian banking sector. The study employed a longitudinal design covering 21 deposit money banks from 2015 to 2020, examining both monitoring system characteristics and their effects on portfolio growth and quality. Using structural equation modeling (SEM) to analyze complex relationships among monitoring practices, risk management outcomes, and growth performance, the findings revealed that credit monitoring systems exerted significant positive effects on sustainable loan growth (path coefficient = 0.487, critical ratio = 6.234, $p < 0.001$). The model fit indices demonstrated excellent fit (CFI = 0.952, TLI = 0.945, RMSEA = 0.048), validating the theoretical framework.

Summary of Empirical Review

Empirical studies on **Credit Risk Management Practices and Performance of Deposit Money Banks in Nigeria** generally reveal that effective credit risk management practices, such as credit appraisal, credit monitoring, loan portfolio diversification, and credit risk assessment, significantly improve bank performance. The studies found that proper management of credit risk reduces non-performing loans, enhances profitability, improves asset quality, and strengthens the financial stability of deposit money banks. Overall, the empirical evidence indicates that sound credit risk management is essential for achieving sustainable performance in the Nigerian banking sector.

Methodology

The area of the study was Enugu state. The study used the descriptive survey design approach. The primary source of data was the administration of questionnaire. A total population of 322 staff was used. 251 staff returned the questionnaire and accurately filled. The validity of the instrument was tested using content analysis and the result was good. The reliability was tested using the Pearson correlation coefficient (r). It gave a reliability co-efficient of 0.76 which was also good. Data was presented and analyzed by mean score (3.0 and above agreed while below 3.0 disagreed) and standard deviation using Sprint Likert Scale. The hypotheses were analyzed using Z - test statistics tool.

Data Presentation

The effect of loan appraisal procedures on the loan recovery rate of deposit money banks in Nigeria.

Table 4.2.1.1: Responses on the effect of loan appraisal procedures on the loan recovery rate of deposit money banks in Nigeria.

		5 SA	4 A	3 N	2 DA	1 SD	∑FX	- X	SD	Decision
1	Effective loan appraisal procedures improve credit quality, leading to higher loan recovery rates.	465 93 37.1	460 115 45.8	39 13 5.2	28 14 5.6	16 16 6.4	1008 251 100%	4.02	1.106	Agree
2	Proper appraisal helps banks identify credible borrowers, enhancing successful loan repayments.	445 89 38.5	456 114 45.4	39 13 5.2	62 31 12.4	4 4 1.6	1006 251 100%	4.01	1.024	Agree
3	Thorough loan appraisal reduces default risk, positively impacting loan recovery performance.	500 100 39.8	388 97 38.6	39 13 5.2	34 17 6.8	24 24 9.6	985 251 100%	3.92	1.258	Agree
4	Strong appraisal procedures support better monitoring, resulting in improved recovery rates.	460 92 36.7	464 116 46.2	39 13 5.2	52 26 10.4	4 4 1.6	1019 251 100%	4.06	.988	Agree
5	Consistent loan appraisal practices strengthen financial discipline and boost loan recovery outcomes	480 96 38.2	444 112 44.6	39 13 5.2	52 26 10.4	4 4 1.6	1019 251 100%	4.08	.995	Agree
	Total Grand mean and standard deviation							**4.018**	**1.0742**	

Source: Field Survey, 2026

Table 4.2.1.1, 208 respondents out of 251 representing 82.9 percent agreed Effective loan appraisal procedures improve credit quality, leading to higher loan recovery rates with mean score 4.02 and standard deviation of 1.106. Proper appraisal helps banks identify credible borrowers, enhancing successful loan repayments 203 respondents representing 83.9 percent agreed with mean score of 4.01 and standard deviation of 1.024. Thorough loan appraisal reduces default risk, positively impacting loan recovery performance 197 respondents representing 78.4 percent agreed with mean score of 3.92 and standard deviation of 1.258. Strong appraisal procedures support better monitoring, resulting in improved recovery rates 208 respondents representing 82.9 percent agreed with mean score of 4.06 and standard deviation of .988. Consistent loan appraisal practices strengthen financial discipline and boost loan recovery outcomes 208 respondents representing 82.8 percent agreed with a mean score of 4.08 and standard deviation .995.

The effect of credit monitoring systems on the loan growth rate of deposit money banks in Nigeria.

Table 4.2.2.1: Responses on the effect of credit monitoring systems on the loan growth rate of deposit money banks in Nigeria.

		5 SA	4 A	3 N	2 DA	1 SD	∑FX	- X	SD	Decision
1	Effective credit monitoring systems enhance loan performance, supporting sustainable loan growth.	495 99 39.4	400 100 43.8	39 13 5.2	40 20 8.0	9 9 3.6	983 251 100%	4.08	1.042	Agree
2	Continuous credit monitoring reduces default risk, encouraging banks to expand lending.	465 93 37.1	428 107 42.6	60 20 8.0	40 20 8.0	11 11 4.4	1004 251 100%	4.00	1.081	Agree
3	Strong monitoring systems improve asset quality, positively influencing loan growth rates.	480 96 38.2	428 107 42.6	51 17 6.8	40 20 8.0	11 11 4.4	1010 251 100%	4.02	1.080	Agree
4	Credit monitoring enables early detection of problem loans, stabilizing and promoting loan growth.	480 96 38.2	432 108 48.0	48 16 6.4	40 20 8.0	11 11 4.4	1011 251 100%	4.03	1.079	Agree
5	Efficient credit monitoring builds confidence in lending operations, driving steady loan growth.	450 90 35.9	328 82 32.7	135 45 17.9	20 10 4.0	24 24 9.6	957 251 100%	3.81	1.236	Agree
	Total Grand mean and standard deviation							**3.988**	**1.1036**	

Source: Field Survey, 2026

Table 4.2.2.1, 199 respondents out of 251 representing 63.8 percent agreed that Effective credit monitoring systems enhance loan performance, supporting sustainable loan growth with mean score 4.08 and standard deviation of 1.042. Continuous credit monitoring reduces default risk, encouraging banks to expand lending 200 respondents representing 79.7 percent agreed with mean score of 4.00 and standard deviation of 1.081 Strong monitoring systems improve asset quality, positively influencing loan growth rates 203 respondents representing 80.8 percent agreed with mean score of 4.02 and standard deviation of 1.080. Credit monitoring enables early detection of problem loans, stabilizing and promoting loan growth 204 respondents representing 86.2 percent agreed with mean score of 4.03 and 1.079. Efficient credit monitoring builds confidence in lending operations, driving steady loan growth 172 respondents representing 68.6 percent agreed with a mean score of 3.81 and standard deviation 1.236.

Test of Hypotheses

Hypothesis one: Loan appraisal procedures have no significant effect on the loan recovery rate of deposit money banks in Nigeria.

One-Sample Kolmogorov-Smirnov Test

		Effective loan appraisal procedures improve credit quality, leading to higher loan recovery rates.	Proper appraisal helps banks identify credible borrowers, enhancing successful loan repayments.	Thorough loan appraisal reduces default risk, positively impacting loan recovery performance.	Strong appraisal procedures support better monitoring, resulting in improved recovery rates.	Consistent loan appraisal practices strengthen financial discipline and boost loan recovery outcomes
N		251	251	251	251	251
Uniform Parameters[a,b]	Minimum	1	1	1	1	1
	Maximum	5	5	5	5	5
Most Extreme Differences	Absolute	.579	.559	.535	.579	.579
	Positive	.064	.016	.096	.016	.016
	Negative	-.579	-.559	-.535	-.579	-.579
Kolmogorov-Smirnov Z		9.168	8.853	8.474	9.168	9.168
Asymp. Sig. (2-tailed)		.000	.000	.000	.000	.000

a. Test distribution is Uniform.

b. Calculated from data.

Decision Rule

If the calculated Z-value is greater than the critical Z-value (i.e Z_{cal} > Zcritical), reject the null hypothesis and accept the alternative hypothesis accordingly.

Result

With Kolmogorov-Smirnon Z – value ranges from 8.474 < 9.168 and on Asymp. Significance of 0.000, the responses from the respondents as display in the table is normally distributed. This affirms the assertion of the most of the respondents that Loan appraisal procedures had significant positive effect on the loan recovery rate of deposit money banks in Nigeria.

Decision

Furthermore, comparing the calculated Z- value ranges from 8.474 < 9.168 against the critical Z- value of .000(2-tailed test at 95percent level of confidence) the null hypothesis were rejected. Thus the alternative hypothesis was accepted which states that Loan appraisal procedures had significant positive effect on the loan recovery rate of deposit money banks in Nigeria.

4.3.2 Hypothesis two: Credit monitoring systems have no significant effect on the loan growth rate of deposit money banks in Nigeria.

One-Sample Kolmogorov-Smirnov Test

		Effective credit monitoring systems enhance loan performance, supporting sustainable loan growth.	Continuous credit monitoring reduces default risk, encouraging banks to expand lending.	Strong monitoring systems improve asset quality, positively influencing loan growth rates.	Credit monitoring enables early detection of problem loans, stabilizing and promoting loan growth.	Efficient credit monitoring builds confidence in lending operations, driving steady loan growth.
N		251	251	251	251	251
Uniform Parameters[a,b]	Minimum	1	1	1	1	1
	Maximum	5	5	5	5	5
Most Extreme Differences	Absolute	.583	.547	.559	.563	.435
	Positive	.036	.044	.044	.044	.096
	Negative	-.583	-.547	-.559	-.563	-.435
Kolmogorov-Smirnov Z		9.231	8.663	8.853	8.916	6.896
Asymp. Sig. (2-tailed)		.000	.000	.000	.000	.000

a. Test distribution is Uniform.

b. Calculated from data.

Decision Rule

If the calculated Z-value is greater than the critical Z-value (i.e Z_{cal} > Zcritical), reject the null hypothesis and accept the alternative hypothesis accordingly.

Result

With Kolmogorov-Smirnon Z – value ranges from 6.896 < 9.231 and on Asymp. Significance of 0.000, the responses from the respondents as display in the table is normally distributed. This affirms the assertion of the most of the respondents that Credit monitoring systems had significant positive effect on the loan growth rate of deposit money banks in Nigeria.

Decision

Furthermore, comparing the calculated Z- value ranges from 6.896 < 9.231 against the critical Z- value of .000(2-tailed test at 95percent level of confidence) the null hypothesis were rejected. Thus the alternative hypothesis was accepted which states that Credit monitoring systems had significant positive effect on the loan growth rate of deposit money banks in Nigeria.

Discussion of Findings

Loan appraisal procedures had significant positive effect on the loan recovery rate of deposit money banks in Nigeria.

From the result of hypothesis one, the calculated Z- value ranges from 8.474 < 9.168 against the critical Z- value of .000 which implies that Loan appraisal procedures had significant positive effect on the loan recovery rate of deposit money banks in Nigeria. In the support of the result in literature review, Kareem and Bashir (2023) conducted a study on credit appraisal procedures and loan recovery performance of deposit money banks in Nigeria. The findings revealed that comprehensive loan appraisal procedures had a significant positive effect on loan recovery rate (β = 0.524, t = 6.842, $p < 0.001$). Ezirim, Nwosu and Eke (2020) conducted a study on credit appraisal practices and loan performance in Nigerian banking sector. Geographic comparison revealed that appraisal efficiency and consequent recovery rates were highest in commercial centers (Lagos, Port Harcourt, and Abuja) and lowest in rural areas, reflecting expertise and infrastructure disparities. The research utilized bootstrap methods to generate confidence intervals for efficiency scores and recovery rate predictions, confirming robustness of findings. Quantile regression analysis showed that appraisal efficiency impact on recovery rates was strongest at the lower recovery quantiles (25th percentile), suggesting that improved appraisal particularly benefits struggling recovery efforts.

Credit monitoring systems had significant positive effect on the loan growth rate of deposit money banks in Nigeria.

From the result of hypothesis two, the calculated Z- value ranges from 6.896 < 9.231 against the critical Z- value of .000 which implies that Credit monitoring systems had significant positive effect on the loan growth rate of deposit money banks in Nigeria. In the support of the result in literature review, Agu, Eze and Eze (2021) conducted research on credit risk monitoring mechanisms and loan portfolio performance in Nigerian banking sector. The findings revealed that credit monitoring systems exerted significant positive effects on sustainable loan growth (path coefficient = 0.487, critical ratio = 6.234, $p < 0.001$). Okere and Odunlami (2023) conducted a study on credit monitoring frameworks and lending expansion in Nigerian deposit money banks. The research revealed that monitoring effectiveness particularly enabled growth in previously underserved or risky segments, with banks reporting that superior monitoring gave them confidence to enter new markets or customer segments. Specifically, banks with strong monitoring expanded SME lending by 34%, agricultural lending by 29%, and consumer lending by 26%, compared to 12%, 8%, and 14% respectively for banks with weak monitoring.

Summary of Findings, Conclusion and Recommendations

Summary of Findings

i. Loan appraisal procedures had significant positive effect on the loan recovery rate of deposit money banks in Nigeria. Z(9.168, P = 0.05). It **indicates** that thorough borrower evaluation and effective risk assessment enhance timely loan repayment and reduce default levels.

ii. Credit monitoring systems had significant positive effect on the loan growth rate of deposit money banks in Nigeria. Z(9.231, , P = 0.05). It **indicates** that effective tracking and supervision of loans promote portfolio expansion and sustainable loan growth.

Conclusion

The study concluded that Loan appraisal procedures and Credit monitoring systems had significant positive effect on the loan recovery rate and loan growth rate of deposit money banks in Nigeria. Effective credit risk management practices are critical to the performance and sustainability of deposit money banks in Nigeria. Sound credit appraisal, monitoring, and control mechanisms significantly enhance banks' profitability, asset quality, and overall financial stability by reducing the incidence of non-performing loans. The findings indicate that weaknesses in credit risk management expose banks to increased default risk, erosion of earnings, and loss of stakeholder confidence. Therefore, strengthening credit risk management frameworks remains essential for improving operational efficiency and ensuring the long-term resilience of deposit money banks within Nigeria's dynamic financial environment.

Recommendations

The proffered recommendations guided the study

i. Deposit money banks should strengthen and standardize their loan appraisal procedures by adopting comprehensive borrower evaluation and risk assessment techniques to improve loan recovery rates and minimize default risks.

ii. Deposit money banks should enhance their credit monitoring systems through the use of timely reviews, early warning mechanisms, and technology-driven tracking tools to support sustainable loan growth and maintain portfolio quality.

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