

**THE EFFECT OF RISK AND CREDIT MANAGEMENT ON BANK  
PERFORMANCE**

**(A CASE STUDY OF ZENITH BANK)**

**BY**

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**HND/23/BFN/FT/019**

**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF BANKING  
AND FINANCE, INSTITUTE OF FINANCE AND MANAGEMENT STUDIES,  
KWARA STATE POLYTECHNIC, ILORIN.**

**IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF  
HIGHER NATIONAL DIPLOMA (HND) IN BANKING AND FINANCE**

**MAY, 2025**

## **CERTIFICATION**

The project has been read and approved as meeting the requirements for the award of Higher National Diploma (HND), Banking and Finance Department, Institute of Finance and Management Studies, Kwara State Polytechnic, Ilorin, Kwara State.

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## **DEDICATION**

This project is dedicated to Almighty God who made it possible for me to successfully complete my Higher National Diploma through all odds. The most Beneficent and the most merciful for His endless mercy and grace in carrying out this research successfully. This project is also dedicated to my loving and beloved parents Mr. and Mrs. ADENIYI for their support morally, financially and words of encouragement.

## **ACKNOWLEDGEMENT**

If God did not build the house, the builder are working in vain. Firstly, I give Glory to almighty God in his infinite mercy. The beginning of all things who has giving me the strength and ability to complete my course.

My special gratitude goes to my ever supportive and encouraging Parents Mr. and Mrs. Adeniyi for their parental care, support and the word of advice. May Almighty God in His infinite mercy grant them long life to eat the fruit of her labour and assist me to take care of them in Jesus name.

My special gratitude and appreciation goes to my supervisor in person of Dr. Olowoniyi A. O. whose encouragement, suggestions, understanding and constructive criticism led to successful completion of this project indeed. I am also in debt to project coordinator in person of Mrs. Otayokhe E. Y. for her advice and lectures, and to my Head of Department, Mr. Ajiboye W. T. thank you for your relentless over my academic session.

My special appreciation goes to my mentor Mr. Awoyemi Isaac for his advice and encouragement, also to brothers Adeniyi Matthew, Adeniyi Juwon, Taiwo Gideon for their support and encouragement, my sisters Adeniyi Itunu, Precious, and Comfort, you are the best. My adviser Mr. Olateju Olawuyi, you are the best. Thank you for overseeing me. It wouldn't have been this easy without you. My appreciation goes likewise to my personal person Adeniyi Samuel, words cannot comprehend all you have done. Thank you so much. My appreciation goes to my school father Mr. Oyerinde Olalekan for his

support in all ways, and to my friend Ekundayo Esther thank you for giving me full support, courage and assistance toward this program. May Almighty God in his infinite mercy assist you all.

God be with you all.

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## ABSTRACT

*In today's dynamic business environment, risk management and improvement of cash flows are very challenging. Effective risk and credit management are critical for banks to ensure sustainability and profitability. The study examined the The Effect of Risk and Credit Management on Bank Performance (A Case Study Of Zenith Bank) for the period of 2015-2024. Secondary data were sourced from annual reports and financial statement of Zenith Bank Nigeria Plc. The study employed ordinary least square regression technique in analyzing the data extracted with the aid of E-View Econometric tool. The R-squared which measures the overall goodness of fit of the regression shows the value of 84.5%, while the Durbin Weston statistic with value of 2.808450 shows that there is relative v auto correlation among the considered variables and the overall regression is statistically significant. The result shows that risk control and risk diversification have significant positive effects on financial performance, while risk appraisal has a negative and insignificant effect on financial performance of Zenith bank Plc. It was recommended that management of bank should ensure that credit officers adhere strictly to guidelines when issuing the banks credit facilities. The researcher concludes that credit risk management has a significant positive effect on the financial performance of Zenith Bank Nigeria Plc.*

**Keywords:** Credit, Risk, Control, Appraisal, Diversification, Financial Performance

## **CHAPTER ONE**

### **1.0 INTRODUCTION**

In today's dynamic business environment, Commercial Banks are one of the largest thriving institutions with branches and subsidiaries all over the world.

According to Singh (2013), so many differentiations exists between these commercial banks which rests in the products and services that these banks offer. Catherine (2020) opined that commercial banks are the major financial intermediaries in any economy that operate payment mechanism and also the major providers of credits to the households and corporate sectors. These institutions deal with both retail and corporate customers, have well diversified deposit and lending book and generally offer a full range of financial services. Credit risk management is the process of managing the capital assets of banks and loan reserves. Credit risk itself means that payment may be delayed or ultimately not paid at all, which can in turn cause cash flow problems and affect banks liquidity. Credit risk management on both internal and external supervision requirements hinders the stability and performance of banks. The traditional activity of banks no doubt includes borrowing and lending money to allow business to operate and collect such fund back with interest (Poudel, 2012).

Accordingly, the main aim of credit risk management is to minimize bank's risk adjusted rate of return by maintaining credit risk exposure within acceptable boundary. A poor performing economy leaves people heavily caught up in debt and defaulting leading to

bank failure, since credit is an immense component of the financial soundness of banks. Therefore, effective oversight of non-performing loans is imperative to boost bank performance and offer guidance on economic efficiency (Haneef et al, 2012). Credit management is crucial, as failure to have quality loans and credit-worthy customers' leads to an increase in default risk, which will strongly affect financial performance, growth and survival of banks (Kaplan, 2014).

One of the notable financial crises is credit risk, which has to be cautiously monitored and supervised so as to reduce default rate (Noomenand, 2018 in Catherine, 2020). General lack of a monitoring process on credit records, which includes not following up after banks give credit, and instability of governance are contributors of increased credit risk in banks. It is essential for any bank as a lender to continuously monitor the borrower's ability to repay the debt. The level to which a bank extends credit to the public for productive activities accelerates the pace of a nation's economic growth and its long-term sustainability and hence its profitability (Kaaya, 2013). However, credit risk management alleviates the effect of non-performing loans to circumvent collapse of banks, which could lead to lower economic growth and higher unemployment, which was approximately at 29% in Africa due to poor risk control and appraisal (Sujeewa, 2015). A well-structured banking system leads to a sound financial system which then results in an improved economy for the country. However, credit risk will continue to create problem in the Nigeria banking system, if credit risk is not

controlled, effectively managed and monitored very well (Makriand, 2013 in Taofeek and Adeniyi, 2020).

Despite the stringent regulations put in place by the Central Bank of Nigeria and other regulatory bodies, the banking industry is still overwhelmed with high credit risk in the form of non-performing loans. The rate of non-performing loans had its peak of 37.3% in 2009 and had a low rate of 3.0% in 2014 and it has continued to increase to the rate of 11.4% in 2018 because banks inefficient risk control, appraisal and diversification (CBN, 2019). Though, strong credit appraisal puts the milestones for an effective management of credit risk and gives the firms a competitive advantage in the market place, credit management has often been a challenge to many Deposit Moneys Banks in Nigeria. Despite best practices measures in credit risk management put in place by the management of banks, customers still have strong tendencies to delay or completely stop repayment of their loan, which often lead to problem of poor financial performance.

## **1.2 STATEMENT OF RESEARCH PROBLEMS**

Inadequate risk and credit management practices have often resulted in financial instability and non-performing loans within the banking sector. For Zenith Bank, addressing these challenges is paramount to maintaining its position as a leading financial institution. The dynamic business environment in today's financial sector poses significant challenges to risk management and the improvement of cash flows. Effective

risk and credit management are critical for banks to ensure sustainability and profitability.

This study investigates the impact of risk and credit management on the performance of Zenith Bank Nigeria over the period 2015-2024, utilizing secondary data from annual reports and financial statements.

### **1.3 RESEARCH QUESTIONS**

- i. How does risk control affect the financial performance of Zenith Bank?
- ii. What is the impact of risk diversification on Zenith Bank's profitability?
- iii. How does risk appraisal influence the bank's financial outcomes?
- iv. What strategies can improve risk and credit management at Zenith Bank?

### **1.4 AIMS AND OBJECTIVES OF THE STUDY**

The Aim of this study is to examine the effect of credit risk management on the financial performance of Zenith bank Nigeria plc.

The objectives of this study are:

- i. To evaluate the effects of risk control on the financial performance of Zenith Bank Nigeria Plc.
- ii. To assess the impact of risk diversification on the bank's profitability.
- iii. To determine the influence of risk appraisal on the financial performance of the bank.

- iv. To provide actionable recommendations for enhancing risk and credit management practices.

## **1.5 RESEARCH HYPONTHESIS**

### **Hypothesis One**

**H<sub>01</sub>** Risk control has significant effect on the financial performance of Zenith bank Nigeria plc.

**H<sub>02</sub>** Risk control has no significant effect on the financial performance of Zenith bank Nigeria plc.

### **Hypothesis Two**

**H<sub>01</sub>** Risk appraisal has significant effect on the financial performance of Zenith bank Nigeria plc.

**H<sub>02</sub>** Risk appraisal has no significant effect on the financial performance of Zenith bank Nigeria plc.

### **Hypothesis Three**

**H<sub>01</sub>** Risk diversification has significant effect on the financial performance of Zenith bank Nigeria plc.

**H<sub>02</sub>** Risk diversification has no significant effect on the financial performance of Zenith bank Nigeria plc.



## **1.6 SIGNIFICANCE OF THE STUDY**

This research provides valuable insights into the effectiveness of risk and credit management in enhancing bank performance. The findings will benefit financial institutions aiming to strengthen their risk management frameworks, policymakers in designing regulations to improve credit management, and it helps academics and researchers as a reference for further studies.

## **1.7 SCOPE AND LIMITATION OF THE STUDY**

This study focuses on examining the effect of risk and credit management on the financial performance of Zenith Bank Nigeria Plc, using data from the period 2015 to 2024. The study primarily utilizes secondary data obtained from the annual reports and financial statements of the bank. The variables analyzed include risk control, risk diversification, and risk appraisal, and how each influences financial performance indicators such as profitability, return on assets, and liquidity. The research is limited to Zenith Bank as a case study; hence, the findings may not be generalizable to all banks in Nigeria. Other limitations include the availability and reliability of data, potential bias in financial reporting, and time constraints in conducting a more extensive longitudinal or cross-sectional study across multiple financial institutions.

## **1.8 DEFINATION OF TERMS**

**Risk Management:** The identification, assessment, and prioritization of risks followed by coordinated efforts to minimize, monitor, and control the probability or impact of unfortunate events.

**Credit Risk:** The possibility that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

**Risk Control:** Measures put in place to minimize the adverse effects of risk by managing exposure and limiting losses.

**Risk Diversification:** A strategy used to reduce the impact of any single financial loss by spreading exposure across various credit portfolios or asset classes.

**Risk Appraisal:** The process of evaluating the likelihood and potential impact of a risk occurring, particularly before approving loans or credit facilities.

**Financial Performance:** A measure of how well a bank can use its assets to generate income and profits, often assessed using indicators like return on assets (ROA), return on equity (ROE), and net interest margin (NIM).

**Non-Performing Loans (NPLs):** Loans on which the borrower is not making interest payments or repaying any principal.

**Profitability:** The ability of a bank to generate earnings as compared to its expenses and other costs.

## 1.9 ORGAANIZATION OF THE STUDY

This study is structured as follows:

- i. **Chapter One:** Contains the introduction, which includes the background of the study, statement of the problem, research questions, objectives of the study, research hypotheses, definition of terms, and organization of the study.
- ii. **Chapter Two:** Concentrates on literature review, which provides an overview of existing research on the effect of risk and credit management on bank performance.
- iii. **Chapter Three:** Focuses on research methodology, outlining the research design, data collection methods, and analytical techniques used in the study.
- iv. **Chapter Four:** Contains the data presentation and analysis, presenting the findings of the study and their interpretation.
- v. **Chapter Five:** Concentrate on summary, conclusion, and recommendations, summarizing the study's findings and providing practical recommendations for policymakers and financial institutions.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 CONCEPTUAL REVIEW**

##### **2.1.1 CREDIT RISK MANAGEMENT**

Credit risk management in financial institutions has become crucial for the survival and growth of these institutions. It is a structured approach of uncertainty management through risk assessment, development of strategies to manage it and mitigation of risk using managerial resources (Krahn, 2013). Credit management policies include the establishment of formal, legitimate and legal procedures that maintain that the proper authorities are responsible for the award of credit and to ensure that the credit awarded goes to the right person and that the granted amount is used for the intended purposes with the aim of investing in productive ventures or for business which are economically or technically viable (Singh, 2013). Also, the policies include ensuring that the right amount of credit is granted, the credit granted is recoverable and ensuring that there is an adequate flow of information within and across the organization to credibly monitor the credit awarded (Ogboi, 2013).

The primary purpose of credit risk management is to maximize the risk-adjusted return rate of a bank by keeping an exposure of credit risk within acceptable parameters that leads to improvements in economic performance (CBN, 2019). Banks, therefore, need to manage the credit risk inherent in the entire portfolio as well as the uncertainty in

individual credits or transactions. Financial institutions should also consider the relationships between credit risk and other risks as well as their impact on financial performance. Effective credit risk management is a key aspect of an integrated risk management strategy, which is crucial to a banking organization's long-term achievement as well as its economic results (Catherine, 2020).

Singh (2013) postulated that Banks like other financial institutions face a number of risks and hazards including credit risks, liquidity risks, operational risks, exchange rate risks, interest rate risks, political risks, and all other internal and external risks. However, credit risk is considered as the most common and dangerous risk especially for the banks that can put them into deep trouble and even, they may face bankruptcy. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions.

Extant literature reveals that credit risk management have tremendous effect on profitability particularly the work carried out by Gadzo et al (2019) ; Nwanna and Oguezie, (2017); Li and Zou (2014); and Dasah (2012) which all emphasized that credit risk management have significant relationship with profitability of deposit money banks.

Many previous researchers have focused on many of the Deposit Money Banks in Nigeria. This work focuses on just one commercial bank to fill an existing gap by studying a period of global economic recession from 2011-2020, the Covid-19 pandemic and unpleasant credit risk management consequences periods for banks, hence the need for this study.

### **2.1.2 RISK CONTROL TECHNIQUES AND FINANCIAL PERFORMANCE**

Credit control is the system used by businesses to make sure that it gives credit only to customers who are able to pay, and that customers pay on time. Credit control is part of the financial controls that are employed by businesses particularly in manufacturing to ensure that once sales are made, they are realized as cash or liquid resources.

The institutional priorities, traditions and philosophies' surrounding lending or credit decisions play a more important role than ever in lending institutions (Dasah, 2012). Taking into consideration the complex and extensive nature of the banking business, it is essential to note that credit control embraces all the factors related to credit quality, credit extension, and recurrent cyclical patterns and sequences. Moreover, a disciplined and strong credit control represents the foundation of credit risk management since it guides all the credit and ending decisions (Catherine, 2020).

### **2.1.3 RISK APPRAISAL AND FINANCIAL PERFORMANCE**

Credit risk appraisal according to Oduro et al (2019) is the process by which the lender assesses the credit worthiness of the borrower. Procedures of credit appraisal revolves around character, collateral capability and capacity. It takes into account various factors like income of the applicants, number of dependents, monthly expenditure, repayment capacity, employment history, number of years of service and other factors which affect credit rating of the borrower.

The assessment of the various risks that can impact on the repayment of loan is credit appraisal. Depending on the purpose of loan and the quantum, the appraisal process may be simple or elaborate. For small personal loans, credit scoring based on income, lifestyle and existing liabilities may suffice. But for project financing, the process comprises technical, commercial, marketing, financial, managerial appraisals as also implementation schedule and ability. The credit risk appraisal involves measures employed by banks to avoid or minimize the adverse effect of credit risk (Catherine, 2020).

#### **2.1.4 RISK DIVERSIFICATION AND FINANCIAL PERFORMANCE**

This involves spreading investments into a broader range of financial services or loans such as business, personal, credit cards, mortgage, auto and educational loans. Diversification reduces both upside and down side potential and allows for more consistent performance under a wide range of economic conditions. Diversification can be performed across products, industries and countries (Kaplan, 2014). Diversification strategy probably takes place, when accompany or business organizations introduce a new product in the market. In early 1960's and 1970's there is rapid growth in diversification of businesses. But with the passage of time it became difficult to manage much diversified activities of business organization. Even in recent years, it is quite hard for any business organization to operate in diversification mode because there are a lot of different requirements that must be taken into account by the business organization. Loan

portfolio risk can be reduced with an effective credit review of applicants and selective asset backing.

### **2.1.5 FINANCIAL PERFORMANCE**

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance is crucial for a commercial bank to attain its going concern issue, banks being at the center of financial sector can disrupt the entire economy if their inherent challenge and credit management is not handled properly (Dimitrios et al, 2016).

Financial performance refers to the measure of how well a bank can use assets from its primary mode of business and generate revenues. It is necessary to assess the economic health of a bank over some time to compare or compare comparable companies in the same sector or sectors in aggregation. In risk management, the financial performance of a firm is assessed by evaluating its profitability, liquidity, and capital adequacy (Kaaya, 2013). Singh (2013) defines performance in financial sector as the ability to operate efficiently, profitably, survive, grow and react to the environmental opportunities and threats. In agreement with this, Gadzo et al (2019) assert that banks performance is measured by how efficient the enterprise is in use of resources in achieving its objectives.



## **2.2 THEORETICAL REVIEW**

### **2.2.1 THE CREDIT RISK THEORY**

The credit risk theory was postulated by an American economist and a Noble Prize laureate, Robert C. Merton in 1974. Merton proposed a model for assessing the credit risk of a company by modeling equity as a call option on its assets. The risk is primarily that of the lender and includes lost principal and interest, disrupt loss may be complete or partial and can arise in a number of circumstances, such as an insolvent bank unable to return funds to a depositor.

The credit risk theory which emphasis that risk is primarily that of the lender and includes lost principal and interest, disrupt loss may be complete or partial and can arise in a number of circumstances, such as an insolvent bank unable to return funds to a depositor. To reduce the lenders risk, the lender may perform a credit check on the prospective borrower, may require the borrower to take appropriate insurance, such as mortgage insurance or seek security or guarantees of third parties. In general, the higher the risk, the higher will be the interest rate that the debtors will be asked to pay on the debt.

### **2.2.3 Portfolio Management Theory**

Portfolio theory was propounded by Paul Bennett in 1999 with emphasis on how a lender can profitably add value using the comparative advantages to be gained from understanding its customers without becoming overly exposed to specific categories of credit risk. Portfolio

management theory points to a strategy for successfully balancing the goals of creating valuable loan assets and avoiding excessive risk concentration.

The Portfolio theory however, emphasizes that a bank's owners already can diversify their own risks to a large extent by spreading purchases over a large number of investments. Portfolio theory does not imply that a bank can neglect diversification, rather, it suggests that a bank should diversify strategically. Owners and investors will place a high value on the bank that exploits its comparative skill advantages to make profitable loans. At the same time, the bank requires sufficient diversification to avoid the types of risk concentrations that would seriously weaken its organization, franchise, and deposit base. Banking institutions requires in addition to an ability to identify profitable lending opportunities, a sound approach to measuring the risk of a loan portfolio as well as an effective means of managing that risk.

## **2.3 EMPIRICAL REVIEW**

Gadzo et al. (2019) assessed the effect of credit and operational risk on the financial performance of universal banks in the context of the structural equation model (SEM). Data were collected from all the 24 universal banks in Ghana without missing variables and using the PLSSEM, the results showed that credit risk influences financial performance negatively contrary to the empirical study but in line with the information asymmetry tenant of the lemon theory.

Oduro et al. (2019) identified the factors that determine the level of bank credit risk and further estimate the effects of bank credit risk on corporate financial performance using financial data from banks on the Ghana Stock Exchange over a 15-year period from 2003 to 2017. Using the method of 2SLS, it was observed variables such as capital adequacy, operating efficiency, profitability, and net interest margin are inversely related to credit risk.

Taofoek and Adeniyi (2020) study was aimed at establishing the relationship between the credit management and financial performance in financial institutions in Nigeria. Correlation and Regression analyses were used to estimate the causal relationships between credit management and financial performance and other related variables. The results of the analyses revealed that when a company implements effective credit management systems, the firm's efficiency is enhanced.

Patrick (2020) examined Credit management, credit policy and financial performance of commercial banks In Uganda. The study used universal sampling techniques, where all banks licensed and operational in Uganda were selected, multiple regressions was used. The findings indicated a significant relationship ( $r=0.639$ ) between credit management credit policy and financial performance of commercial banks in Uganda.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 INTRODUCTION**

The research used secondary data obtained from the annual reports and audited financial accounts of Zenith Bank Nigeria Plc. from (2015-2024). Ordinary least square regression analysis was carried out on data collected. Also, descriptive statistics and correlation test were equally conducted to establish the effect of credit risk management on the financial performance of the bank under review.

#### **3.2 RESEARCH DESIGN**

The research design adopted for this study is an ex-post facto research design. This design is appropriate because the study relies on historical financial data rather than experimental manipulation. The ex-post facto approach allows for the examination of past events to determine their impact on the financial performance of Zenith Bank Nigeria Plc.

#### **3.3 POPULATION OF THE STUDY**

The population of this study comprised all deposit money banks operating in Nigeria. However, due to the scope and focus of the research, a purposive sampling technique was adopted, selecting Zenith Bank Nigeria Plc. as the case study. The choice of Zenith Bank was based on its significant market share, financial stability, and availability of comprehensive financial records over the study period (2015-2024).

### **3.4 SAMPLING TECHNIQUE**

The study employed a purposive sampling technique in selecting Zenith Bank Nigeria Plc. This technique was used because it allows the researcher to focus on a specific entity that provides the most relevant and reliable financial data for analyzing the impact of credit risk management on bank performance.

### **3.5 SAMPLE SIZE**

The sample size for this study consisted of annual financial reports of Zenith Bank Nigeria Plc. covering the period from 2015 to 2024. This ten-year period was chosen to capture trends and variations in credit risk management practices and their impact on financial performance over time.

### **3.6 METHOD OF DATA COLLECTION**

#### **Model specification**

The independent variable is credit risk management proxy with risk control, risk appraisal and risk diversification. While the dependent variable was financial performance proxy with return on assets.

**Table 3.6: Model Specification**

<b>Variable</b>	<b>Measurement</b>
Risk Control	Obtain from credit control+ financial statements
Risk Appraisal	Collaterals + repayments
Risk Diversification	Profit before tax + investment/net charge-offs
Return on Assets	Profit after Tax/Total assets X by 100

### **Model Specification**

$$\text{ROA} = \alpha_0 + \alpha_1 \text{RKS}_{cn} + \alpha_2 \text{RKS}_{app} + \alpha_3 \text{RKS}_{dv} + \varepsilon$$

**Where:** ROA: Return on Assets  $\alpha_0$ : Constant

LA: Risk Control

NPL: Risk Appraisal LLP: Risk Diversification

$\varepsilon$ : Error Term.

### **3.7 SOURCES AND METHOD OF DATA COLLECTION**

Secondary data for this study were sourced from Zenith Bank's annual reports, financial statements, and other relevant publications. The data were analyzed using statistical tools such as E-View Econometric software to ensure accurate and reliable findings.

### **3.8 METHOD OF DATA ANALYSIS**

The study employed the Ordinary Least Squares (OLS) regression technique to analyze the relationship between credit risk management and financial performance. The following statistical tools were utilized:

**Descriptive Statistics:** Used to summarize and describe the key characteristics of the dataset.

**Correlation Analysis:** Measures the strength and direction of relationships between variables.

**Ordinary Least Squares (OLS) Regression:** Determines the impact of credit risk management variables on the financial performance of Zenith Bank Nigeria Plc.

## **CHAPTER FOUR**

### **ANALYSIS AND DISCUSSION**

#### **4.1 PREAMBLE**

This chapter presents the analysis and discussion of findings on the effect of risk and credit management on bank performance, with specific reference to Zenith Bank Nigeria Plc. The analysis focuses on the effect of risk control, risk appraisal, and risk diversification on the financial performance of the bank, using return on assets (ROA) as a measure.

#### **4.2 RESPONDENTS' CHARACTERISTIC AND CLASSIFICATION**

Given that this study is based on secondary data extracted from Zenith Bank's annual reports from 2015 to 2024, there were no individual survey respondents. Therefore, this section is not applicable in the traditional sense. However, the data represent corporate-level financial and credit management practices that characterise the institutional behaviour of Zenith Bank Nigeria Plc.

#### **4.3 PRESENTATION AND ANALYSIS OF DATA ACCORDING TO RESEARCH QUESTIONS**

##### **4.3.1 DESCRIPTIVE STATISTICS**

The descriptive statistics presented in Table 1 show the distribution of the independent and dependent variables used in the study.



**Table 4.3.1: Descriptive Statistics**

<b>Statistic</b>	<b>ROA</b>	<b>RSKcn</b>	<b>RSKapp</b>	<b>RSKdv</b>
Mean	1.123	8192.19	494.408	513.963
Median	2.000	7974.70	180.525	277.950
Maximum	4.290	13222.70	2922.80	1977.50
Minimum	-9.280	2524.30	123.560	160.900
Std. Dev.	3.849	3065.89	860.616	557.304
Skewness	-2.191	-0.213	2.585	2.082
Kurtosis	6.684	2.698	7.845	5.957
Jarque-Bera	13.659	0.114	20.917	10.869
Probability	0.0011	0.9446	0.0000	0.0044
Observations	10	10	10	10

**Source:** E-view Output (2024)

The mean value for ROA is 1.123, suggesting low average profitability. Risk control and risk diversification variables showed higher standard deviations, reflecting fluctuations in implementation. The skewness and kurtosis values also suggest departures from normal distribution, especially for ROA and risk appraisal.

### 4.3.2 REGRESSION RESULTS AND DISCUSSION

**Table 4.3.2: Regression Output Summary**

Variable	Coefficient	Std. Error	t-Statistic	P-Value
Constant	-0.312652	1.783331	-0.175319	0.8666
RSKcn (Control)	0.000495	0.000213	2.319712	0.0595
RSKapp (Appraisal)	-0.014518	0.002706	-5.365131	0.0017
RSKdv (Diversification)	0.009800	0.001731	5.662811	0.0013

**Other Statistics:**

- R-squared = 0.845179
- Adjusted R-squared = 0.767769
- F-statistic = 10.91818
- Prob(F-statistic) = 0.007631
- Durbin-Watson = 2.808450

**Source: E-view Output (2024)**

The regression analysis shows that 84.5% of the variation in ROA can be explained by the three predictors. The Durbin-Watson statistic indicates mild positive autocorrelation.

- **Risk control** has a coefficient of 0.000495 and is significant at the 10% level. This indicates that effective control positively impacts financial performance, supporting Singh (2013).
- **Risk appraisal** has a negative coefficient of -0.014518, significant at the 1% level. This implies that current appraisal methods are ineffective and may reduce profitability, consistent with Aduda (2011).
- **Risk diversification** has a positive coefficient of 0.009800, significant at the 1% level. This shows that spreading credit risk enhances financial outcomes, in line with Catherine (2020), though it contradicts Poudel (2012).

#### **4.4 ANALYSIS OF OTHER DATA**

Further review of residuals and statistical criteria (Akaike, et al) confirms model validity.

The strong F-statistic and low p-value reinforce the overall significance of the regression.

## 4.5 TEST OF HYPOTHESES

**Table 4.4: Test of Hypothesis**

Variables	Coefficients	P-value	Decision Rule	Conclusion
Risk Control	0.000495	0.0595	$P\text{-value} \leq 0.10$	Significant
Risk Appraisal	-0.014518	0.0017	$P\text{-value} < 0.05$	Significant
Risk Diversification	0.009800	0.0013	$P\text{-value} < 0.05$	Significant

## 4.6 SUMMARY OF FINDINGS

Based on analysis and interpretation carried out, this study notes the following finding:

- i. Risk Control (RSKcn) has a significant positive effect on Return on Asset (ROA), indicating that stringent credit control practices enhance profitability.
- ii. Risk Appraisal (RSKapp) has a significant negative effect on ROA, suggesting inefficiencies in the bank's current appraisal system.
- iii. Risk Diversification (RSKdv) has a significant positive effect on ROA, demonstrating the benefits of spreading credit exposure across various sectors.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION, AND RECOMMENDATIONS**

#### **5.1 SUMMARY OF THE STUDY**

The study assessed the effect of risk and credit management on the financial performance of Zenith Bank Nigeria Plc. between 2015 and 2024. Secondary data were employed, and the Ordinary Least Squares regression technique was used to analyse the relationship between the dependent variable (Return on Assets) and independent variables (Risk Control, Risk Appraisal, Risk Diversification).

The findings revealed that risk control and risk diversification have significant positive effects on financial performance, whereas risk appraisal has a significant negative effect. The study concludes that although the bank employs structured risk management approaches, there is a need for improvement, particularly in the area of credit risk appraisal.

#### **5.2 CONCLUSION**

Credit risk management remains a cornerstone of banking stability and profitability. This study has demonstrated that proper risk control and diversification strategies enhance financial performance, while inefficiencies in risk appraisal can undermine profitability. Zenith Bank must continue to evolve its risk management frameworks, particularly in aligning risk appraisal strategies with current market realities and technological advancements.

### **5.3 RECOMMENDATION**

Based on the findings, the following recommendations are made:

- i. Improve Appraisal Processes: Zenith Bank should integrate modern appraisal techniques, such as artificial intelligence and predictive analytics, to better assess borrower creditworthiness.
- ii. The bank should enhance its monitoring mechanisms, including automated tracking of repayment schedules and early-warning systems for delinquent accounts.
- iii. Zenith Bank should explore broader credit segments and geographic expansion to reduce systemic risk exposure.
- iv. Regular training and capacity development programmes in credit risk analysis should be implemented for credit officers.
- v. Digital risk assessment platforms and mobile-based lending apps should be adopted to streamline and secure credit transactions.

### **5.4 FRONTIERS FOR FURTHER RESEARCH**

Future researchers are encouraged to explore the following areas:

- i. A comparative analysis of credit risk management practices across multiple banks.
- ii. The role of regulatory compliance in shaping credit risk policies in Nigerian banks.

- iii. A panel data analysis of risk management trends and their effects on bank stability.
- iv. The impact of fintech innovations on credit risk reduction in emerging economies.

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## QUESTIONNAIRE



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14<sup>th</sup> April, 2025.

Dear Respondents,

**REQUEST FOR FILLING OF QUESTIONNAIRE ON THE PROJECT TOPIC  
THE EFFECT OF RISK AND CREDIT MANAGEMENT ON BANK  
PERFORMANCE (A CASE STUDY OF ZENITH BANK NIGERIA PLC)**

I am a final year student of the above named department undertaking a research project on “The Effect of Risk and Credit Management on Bank Performance (A Case Study Of Zenith Bank Nigeria Plc) in partial fulfillment of the award of Higher National Diploma in Banking and Finance. However, the purpose of this questionnaire is to obtain data for the assessment of this research topic.

Be assured that your responses will be treated with strict confidentiality and used solely for academic purposes. Kindly answer the questions honestly and completely.

Thank you for your maximum cooperation.

Yours faithfully,

Adeniyi Ifeoluwa Ibukunoluwa

HND/23/BFN/FT/0019

## **SECTION A: PERSONAL DATA**

1. Gender:

☐ Male      ☐ Female

2. Age:

☐ 18 – 25    ☐ 26 – 35    ☐ 36 – 45    ☐ 46 and above

3. Educational Qualification:

☐ ND    ☐ HND    ☐ B.Sc.    ☐ M.Sc.    ☐ Others (specify): \_\_\_\_\_

4. Job Title/Department:

☐ Credit Officer    ☐ Risk Manager    ☐ Finance    ☐ Operations    ☐ Others  
\_\_\_\_\_

5. Years of Working Experience:

☐ Less than 2 years    ☐ 2–5 years    ☐ 6–10 years    ☐ Above 10 years

## **SECTION B: RISK AND CREDIT MANAGEMENT PRACTICES**

6. Does your organization have a formal credit risk management policy?

☐ Yes    ☐ No    ☐ Not Sure

7. How often is credit risk policies reviewed?

☐ Quarterly    ☐ Annually    ☐ Not Regularly    ☐ Never

8. How do you rate the following in your bank?

(1 = Very Poor, 5 = Excellent)

9. What methods are used in appraising loan applications? (You can tick more than one)
- ☐ Financial History   ☐ Collateral   ☐ Employment Record   ☐ Credit Score  
☐ Guarantor
10. What type of loans are most commonly issued in your bank?
- ☐ Business Loan   ☐ Personal Loan   ☐ Mortgage   ☐ Overdrafts   ☐ Others

### **SECTION C: EFFECT ON FINANCIAL PERFORMANCE**

11. Has risk control improved the bank's profitability?
- ☐ Yes   ☐ No   ☐ Not Sure
12. In your opinion, which of the following contributes most to financial performance?
- ☐ Risk Control   ☐ Risk Appraisal   ☐ Risk Diversification   ☐ Staff Expertise
13. Has poor credit risk management led to loan defaults?
- ☐ Yes   ☐ No   ☐ Not Sure
14. On a scale of 1–5, how do you rate the effect of credit risk management on:
- (1 = No Effect, 5 = High Effect)

### **SECTION D: CHALLENGES AND SUGGESTIONS**

15. What are the main challenges in managing credit risks?

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16. Suggest two (2) ways Zenith Bank can improve risk and credit management:

i. \_\_\_\_\_

ii. \_\_\_\_\_

Thank you for your time and cooperation.