

# Effect of Non-Performing Loans on Bank Performance of Some Selected Commercial Bank in the Nigerian Banking Sector

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**Abstract**— All over the world financial institutions face massive risk on non-performing loans. As a result of the foregoing, financial institutions are obliged to review their lending policies. As noted by Sharon (2007), loans have a vital contribution towards development of economy. However, its nonpayment also leads to incidence of huge loss on banks in particular and country in general. Hence, this study was conducted to examine both bank specific variable (return on asset ) and macroeconomic factors (gross domestic product, unemployment rate and exchange rate) determinants of NPLs of commercial banks in Nigeria. This research is an explanatory research design that identifies the cause and effect relationships between the NPLs and its determinants. Two commercial banks in Nigeria were sampled judgmentally. This study used secondary sources of data, which is panel data in nature, over the period 2010-2015. These data were collected from annual statement of account and CBN statistical bulletins. The study found that GDP ratio had positive relationship with ROA, whereas exchange rate as well as unemployment rate had negative relationship with ROA. The study, therefore, recommended that the government should maintain political stability and combat corruption at all levels, banks should have a good track of their customers regarding loans repayment and lastly the banks should employ sustainable manpower.

**Index Terms**— Non-Performing Loans, Bank Performance.

## I. INTRODUCTION

The financial institutions generally serve as financial intermediaries. It is their function to mobilize funds savers by issuing to their own securities. This form of assets transformation is require to ensure that funds are moved from surplus economics units to deficits economics units within the economy. These institutions, like every other business organizations, have some risk to manage before they can successfully achieve their aims and objectives, which are always 98% profit oriented.

Banks are financial institution whose business involves the management of assets and liabilities. Unlike other business organizations such as the manufacturing firms that stock tangible goods as inventory, the stock of the banking industry is money; this means that banks trade on money. By its nature banks face number of challenges within internal and the external business environment, the nucleus of banks is known with risks which include credit risk, market risk, interest rate risk, default risk, operational risk, exchange rate risk (Aruwa& Musa, 2014). Basically, banks operate with three

basic objectives which are profitability, growth of assets and customer base. Asset quality is an aspect of bank management which entails the evaluation of firm assets in order to facilitate the measurement of the level and size of credit risk associated with its operation. Asset quality is micro prudential determinants commercial banks soundness and profitability. It relates to the left-hand side of a bank balance sheet and focused on the quality of loans which provides earnings for a bank (Abata, 2014).

Non-performing loans are those loan facilities which borrowers often have difficulties repaying. The issues of non-performing loans (NPLs) have gained increasing attention in the last two decades. In spite of the 1952 Banking Ordinance, the Nigerian banking sector has experienced a number of bank failures; with non- performing loans becoming the precursor to eventual bank failures in Nigeria. Many researchers explained NPLs as bad debts whose recovery is highly doubtful because they are not being serviced as required. In the banking system, the bad loan problems consist of a stock component (old debt) that is not performing and a flow component (new lending) that may become non-performing. Hence, Loans are not necessarily annual events but happen at different periods of the year and are often affected by seasonal performance of economy but importantly by short term inflation, lending rates, level of risk where the economy is not doing well. The health of a bank is not reflected by the size of its balance sheet (reading in billions and trillions) but rather by the return of its assets; thus earning power is an important indicator of bank performance. However, so many indicators can be used to measure bank performance on its financial statement if not manipulated. Several measures have been agreed and implemented in other to minimize the risk of Non- performing loans. Among these is seven out of twenty-five core principles of effective banking supervision by BASEL Committee on banking supervision in 1997 which part of it says sustaining sound assets quality involves careful granting of loans that must be examined and compliance to banking rules. As a micro determinant of profitability, poor assets quality affects the financial performance and the soundness of the banking system. In Nigeria, Banks and Other Financial Institution Act (BOFIA) 1990 as amended regulates banks operations and restrict bank lending to avoid the issue of non-performing loans and ensure assets quality, for instance section 18 prohibit any personal interest in any loans and advance of bank staff without declaration of the nature of interest while section 20 restrict loans and advance to the rate 20 percent of shareholders fund to a single obligor. This is complemented

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by the provisions of BASEL I, II and III. The challenges of Nigerian banks in the past have been the mismatch of assets and liabilities. Banking sector crisis over the years has been blamed on the poor quality of assets. Central Bank of Nigeria examination team in 2009 reveals that four years after the consolidation, Nigerian commercial banks has non-performing loans greater than the capital base of the banks, this led to the injection of N620 billion in the banking sector (Akani& Lucky, 2014) and the establishment of Assets Management Cooperation of Nigeria (AMCON). One of the major components of banks assets is loan and advances, and the effective management of such loan portfolio has been a problem. The failure of many banks is not because of their inability to mobilize adequate deposits from the surplus sectors to the deficit sector of the economy, but mainly because the lending portfolio had been managed. The sector is seen to have an important role of the economic development of the country. This mostly pronounced in the realm of the financial intermediation. However, previous studies on the sector showed that titled success was recorded in this regard. Some banks finds it difficult to meet the obligation to their customers and owners due to fault or weakness in managing their lending portfolio and the short comings which could render them either liquid or insolvent.

## A. PURPOSE/OBJECTIVES

The following objectives shall be addressed:

- i. To examine the extent to which non-performing loans affect the performance of banks in Nigeria;
- ii. To determine the relationship between GDP, Exchange rate, Unemployment rate and other banking sector variables such as return on assets.

## B. RESEARCH HYPOTHESIS

The following hypothesis shall be tested:

- i.  $H_0$ : Non-performing loan has no Significant relationship on return on assets
- ii.  $H_A$ : Non-performing loan has Significant relationship on return on assets

## II. LITERATURE REVIEW

Non-performing Loans have become contemporary issues in credit management and undoubtedly the new frontier in finance. The accumulation of Non-performing Loans (NPLs) is generally attributed to a number of factors, including economic downturns ad macro-economic volatility, terms of trade deterioration, high interest rate excessive reliance on overly high priced inter-bank borrowings, insider lending and moral hazard, (Goldstom& Turner, 1996). According to the IMF's Compilation Guide on Financial Soundness Indicators, NPLs is defined as:

A loan is non-performing when payments of interest and/or principal are past due by 90 days or more, or interest payments equal to 90 days or more have been capitalized, refinanced, or delayed by agreement, or payments are less

than 90 days overdue, but there are other good reasons such as a debtor filing for bankruptcy to doubt that payments will be made in full" (IMF, 2005). Generally, NPLs are loans that are outstanding both in its principal and interest for a long period of time contrary to the terms and conditions under the loan contract. Any loan facility that is not up to date in terms of payment of principal and interest contrary to the terms of the loan agreement is NPLs. Thus, the amount of nonperforming loan measures the quality of bank assets (Tseganesh, 2012).

## A. EFFECT OF NON-PERFORMING LOANS

The effect of non-payment of due debts on banks' profitability can be identified with a possible bank failure, barrier to further lending, reduction in profit level and negative economic growth in the society. Bank failure is now seen to be a common phenomenon in the society in Nigeria banking industry.

Stallion (2004) emphasized the effect of the Non-performing Loans as a major cost of bank failure and positively stated that, although poorly managed trading risk can quickly sink a bank, the oldest and biggest cause of bank failure is still loans that turn sour. The above statement conforms with the views of Nwankwo (1990) who holds that a high level of Non-performing Loans largely constitute to bank failures which would put a stop to further lending business relations by the affected banks, and adversely affect economic development. The effect of Non-performing Loans can be devastating to an economy if not check as a multiple of failure banks can erode the confidence of the banking public, this will have a negative implication on the whole banking industry.

From the foregoing views by the various authors, it is imperative that the prime skill of a banker is to analyze viable lending outlet and ensure that funds lent are repaid duly. However, human have not been skilled enough to completely prevent loan losses. The effect can be summarized as follows:

- i. There is high possibility of the banks affected to liquidate.
- ii. Slow business turnover as new lending cannot be made with payment of old loans and advances.
- iii. Reduction in revenue earnings by war of interest and commission on turnover.
- iv. A bank inability to serve her numerous customers efficiently is basis on limited fund.

## B. CAUSES OF NON-PERFORMING LOANS (NPLS)

It is the incaution of every lender or credit analyst to make only good loans but inevitably, occasional over sight occur. In some cases unexpected incident may happen that will disrupt the good plans already land-up. When a loan is to default there are often warning signals, which if perceived early should stimulate the lenders curiosity to take necessary action to safe guard the basic interest. These causes can be grouped into the following: Adverse economic condition or problem, Bank related problem, Customer related problem and Political condition/problems

### A. Adverse economic condition

According to Alo (1995) a major cause of Non-performing Loans (NPLs) “the great of a effect on the ability of the ability of the borrower to meet its obligation” for instance, in period of recession, the ability and willingness to pay are greatly reduced.

#### B. Bank related problems

Olashore (1985) believes that a large incident of Non-performing Loans to develop as a result of the ability of banks to develop conservative measure before grating facility. This means that banks should have a combination of administration of loans and definite loan policy.

#### C. Customer related problem

According to Nwankwo (1990), some customers disagreed their financial obligations to banks and more often than not regard bank loans are their legitimate share of the national cake and therefore have no intention to pay.

#### D. Political condition problem

Government interference is another factor identified to be one of cause of Non-performing Loans, they arise as follows: Sectional allocation of loan and advances as required by the central Bank Nigeria, which forces the banks to lend to sectors which do not generate tax and enough revenue to meet repayment. This eventually leads to loss, (Olashore 1985).

#### C. CONCEPT OF BANK PERFORMANCE

Profitability is a bank’s first line of defence against unexpected losses, as it strengthens its capital position and improves future profitability through the investment of retained earnings. An institution that persistently makes a loss will ultimately deplete its capital base, which in turn puts equity and debt holders at risk. Moreover, since the ultimate purpose of any profit-seeking organisation is to preserve and create wealth for its owners, the bank’s return on equity (RoE) needs to be greater than its cost of equity in order to create shareholder value. Although banking institutions have become increasingly complex, the key drivers of their performance remain earnings, efficiency, risk-taking and leverage. In detail: while it is clear that a bank must be able to generate “earnings”, it is also important to take account of the composition and volatility of those earnings. “Efficiency” refers to the bank’s ability to generate revenue from a given amount of assets and to make profit from a given source of income. “Risk-taking” is reflected in the necessary adjustments to earnings for the undertaken risks to generate them (e.g. credit-risk cost over the cycle). “Leverage” might improve results in the upswing – in the way it functions as a multiplier – but, conversely, it can also make it more likely for a bank to fail, due to rare, unexpected losses. There are a multitude of measures used to assess bank performance, with each group of stakeholders having its own focus of interest.

#### D. Indicators of banks Performance

Among the large set of performance measures for banks used by academics and practitioners alike, a distinction can be made between traditional, economic and market-based measures of bank performance.

#### A. Traditional measures of performance

Traditional performance measures are similar to those applied in other industries, with return on assets (RoA), return on equity (RoE) or cost-to-income ratio being the most widely used. In addition, given the importance of the

intermediation function for banks, net interest margin is typically monitored. The return on assets (RoA) is the net income for the year divided by total assets, usually the average value over the year.

$$\text{A. Return On Assets} = \text{Net Income} / \text{Average Total Assets}$$

RoE is an internal performance measure of shareholder value, and it is by far the most popular measure of performance, since:

- (i) it proposes a direct assessment of the financial return of a shareholder’s investment.
- (ii) it is easily available for analysts, only relying upon public information; and
- (iii) it allows for comparison between different companies or different sectors of the economy.

RoE is sometimes decomposed into separate drivers: this is called the “Dupont analysis”, where  $\text{RoE} = (\text{result/turnover}) * (\text{turnover/total assets}) * (\text{total assets/equity})$ . The first element is the net profit margin and the last corresponds to the financial leverage multiplier.

$$\text{i. Return On Equity} = \text{Net Income} / \text{Average Total Equity}$$

The cost-to-income ratios shows the ability of the institution to generate profits from a given revenue stream. Impairment charges are not included in the numerator.

$$\text{ii. Cost-To-Income Ratio} = \text{Operating Expenses} / \text{Operating Revenues}$$

Finally, the net interest margin is a proxy for the income generation capacity of the intermediation function of banks

$$\text{iii. Net Interest Margin} = \text{Net Interest Income} / \text{Assets (Or Interest-Bearing Assets)}$$

### III. METHODOLOGY

The aim of this study is to examine the determinants of NPLs of commercial banks in Nigeria. Accordingly, secondary data collected from guarantee trust bank and first bank Nigeria limited. Therefore, since this study examined the cause and effect relationships between nonperforming loans and its determinant, it is an explanatory research. Similar to the most noticeable previous research works conducted on the non-performing loans of financial sectors, this study used non-performing loans ratio as dependent variables whereas return on asset and return on equity, as explanatory variables. These variables were chosen since they are widely existent for the commercial banks in Nigeria. Accordingly, this study examined the determinants of NPLs of commercial banks in Nigeria by adopting a model that is existed in most literature. The regression model which is existed in most literature has the following general form;

$$Y_{it} = \beta_0 + \beta X_{it} + \epsilon_{it}$$

Where: -  $Y_{it}$  is the dependent variable ‘i’ is the cross-sectional observations in time series period ‘t’,  $\beta_0$  is the constant term,  $\beta$  is the coefficient of the independent variables of the study,  $X_{it}$  is the independent variable for firm ‘i’ in year ‘t’ and  $\epsilon_{it}$  the normal error term. Thus, this study is based on the conceptual model adopted from Fawad and Taqadus (2013).

Accordingly, the estimated models used in this study are modified and presented as follow;

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$$ROA_{it} = \beta_0 + \beta_1 GDP_{it} + \beta_2 (EXCHR)_{it} + \beta_3 (UNEMP)_{it} + \varepsilon_{it}$$

Where;

- i.  $\beta_0$  is an intercept
- ii.  $\beta_1$  and  $\beta_2$  represent estimated coefficient for specific bank  $i$  at time  $t$ ,
- iii. ROA represent return on asset
- iv.  $\varepsilon_{it}$  represents error terms for intentionally/unintentionally omitted or added variables.

### IV. DESCRIPTIVE STATISTICS OF THE VARIABLES IN THE MODEL

The sample descriptive statistics is presented in this section. This is where the minimum, maximum, mean, standard deviation and kurtosis of the data for the variables used in the study are described.

**Table 1:** Descriptive Statistics

	ROA	GDP	EXCHR	UNEMP
Mean	0.078240	40209825	167.6335	15.52833
Maximum	0.146000	48012090	198.2700	22.84000
Minimum	0.028000	29205783	150.1980	11.92000
Std. Dev.	0.050184	6398458.	15.42392	4.649811
Kurtosis	1.230663	2.322993	3.420039	1.677047
Probability	0.398973	0.703687	0.230096	0.364994
Observations	12	12	12	12

#### Source: E-views 7 computation

Table 1 reports the descriptive statistics for the explained and explanatory variables respectively (ROA = Return on Assets, GDP = Gross domestic product, EXCHR = Exchange rate and UNEMP = Unemployment rate). From the table, we saw that the mean for ROA, GDP, EXCHR and UNEMP are 0.078240, 40209825, 167.6335 and 15.52833 respectively. Most prominent of the result is the low standard deviation of UNEMP (4.649811) relative to the standard deviation of other independent variables included in the model of the study. The low standard deviation of unemployment rate indicates its highest contribution to the performance of commercial banks in Nigeria. However, their probability values show significance at 40% level of significance.

Finally, the kurtosis reveals that the data obtained for all the variables including dependent and independent variables are not abnormal. The value of kurtosis greater than one shows normality while less than one shows abnormality. Data sets with high kurtosis (EXCHR) tend to have a distinct peak near the mean, decline rather rapidly and have heavy tails. Data sets with low kurtosis (ROA, GDP and UNEMP) tend to have a flat top near the mean rather than a sharp peak. Hence, kurtosis is simply a measure of whether the data are peaked or flat relative to a normal distribution. This signifies the

**TABLE 2: Correlation matrix results**

	ROA	GDP	EXCHR	UNEMP
ROA	1.000000	0.201849 (0.5293)	-0.370641 (0.2356)	-0.275051 (0.3869)
GDP		1.000000	0.824561 (0.0010)	0.831265 (0.0008)
EXCHR			1.000000	0.818868 (0.0011)
UNEMP				1.000000

#### Source: E-views 7 computation

Looking at the first row which is the pattern of association between the explained and explanatory variables, we

normality of the data and substantiates the validity of the regression results.

#### A. Data Analysis

In analyzing the data, we first run the correlation matrix to determine the strength or degree of linear association between the explained variable and the explanatory variable. The cross-section weighted least square technique was also applied in the panel data regression analysis with the assumption of fixed effect cross-section to determine the relationship between non-performing loans and commercial bank's performance.

#### i. Correlation Matrix

Here, we present the correlation values between dependent and independent variables as well as between independent variables themselves. The values are obtained from Pearson correlation of 2-tailed significance. It shows the correlation matrix with the top values containing the Pearson correlation coefficient between all pairs of variables and the bottom values containing two-tail significance of these coefficients.



discovered that all the variables in the model were significant at 60% level. We saw a positive correlation between ROA and GDP. This shows that as GDP increases ROA included in the model will also increase. We also notice a negative correlation between ROA and EXCHR, UNEMP. This means that ROA decrease by 0.37% and 0.28% for an increase in exchange rate and unemployment rate respectively. However, from the foregoing analyses we notice that GDP is positively correlated with the commercial banks' performance. Only the variables exchange rate and unemployment rate is negatively correlated with banks' ROA.

**ii. The Regression Analysis**

According to Titus et al (2008), regression analysis is a basic statistical tool used in research both in management and social sciences. It is used to estimate a regression equation that expresses the explicit relationship between a dependent variable and an independent variable. It is also used to understand which among the independent variables are related to the dependent variable, and to explore the forms of these relationships. In this study, multiple regressions

involving panel procedure was employed to ascertain the proposed relationship between the independent variables (with respect to both cross-section and period) and the dependent variable. The equation is as follows:

$$ROA_{it} = \alpha_0 + \alpha_1GDP_{it} + \alpha_2EXCHR_{it} + \alpha_3UNEMP_{it} + \mu \dots$$

(1)

i = GTB, First bank  
t = 2010 – 2015

The fixed effect model was applied to difference the intercept among the banks in recognition of the fact that each bank may have some special characteristics of its own like managerial style, managerial philosophy etc. The weighted least square technique was also used to take care of the problem of heteroskedasticity in cross-section observations and the problem of auto-correlation in time-series observations.

TABLE 3 presents the regression result of the dependent variable (ROA) and the independent variables of the study (GDP, EXCHR AND UNEMP).

**TABLE 3: Dependent variable: ROA Fixed Effect, Least Square Dummy Variable Estimators**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.285743	0.119244	2.396294	0.0477
GDP	2.71	2.57	3.051207	0.0025
EXCHR	-0.001801	0.001034	-2.741163	0.0052
UNEMP	-0.000930	0.003492	-2.266401	0.0076
Effects Specification				
Cross-section fixed (dummy variables)				
Weighted Statistics				
R-squared =0.808038		F-statistic = 7.366407		
Adjusted R-squared = 0.698346		Prob(F-statistic) = 0.011864		
Durbin-Watson stat = 1.574462				
Unweighted Statistics				
R-squared = 0.810904		Durbin-Watson stat = 1.575507		

Source: E-views 7 computation

**B. Interpretation of Result**

The constant term is given as 0.285743 which indicate that if all the explanatory variables in the model are held constant, ROA will still increase on the average by 0.28%. This constant term is significant as its p-value is less than 0.05 (5% level of significance) which is 0.0477.

Gross domestic product (GDP) has a direct relationship with bank's performance and this agrees with the a priori expectations. This simply means that an increase in GDP is expected when a commercial bank's ROA increases. In our study, we discover that 1% increase in GDP is followed by an increase in ROA on average by 2.71%. This variable is also significant because its p-value is less than 0.05 which shows that economic growth cannot be ignored in policy options pertaining achieving an increased performing loans in a particular branch of bank.

Exchange rate (EXCHR) has an inverse relationship with commercial banks' ROA. This simply means that N1 increase in exchange rate will reduce banks ROA on average by about

N0.0018. On the other hand, a depreciation of Naira will help banks ROA to increase. The variable is also significant as the p-value is less than 0.05 (0.0052) at 5% level of significance.

Unemployment rate (UNEMP) is also negatively related to commercial bank's ROA. This is shown in the coefficient (-0.000930) and it agrees with the a priori expectations. This is related to increased rate of unemployment in Nigeria which have affected loan fulfillment provided by a commercial bank. It is negative and statistically significant. The finding indicates that an increase in rate of unemployment significantly influences bank performance. This is in accordance with the theory, Gorton and Winton (2005), the unemployed especially those who had worked before but have retired or have been laid off or fired are unable to pay back loans that they might have acquired since they do not have the salary or wages with which to settle their loans. One possible explanation for this is that any economy that is doing so bad or is in depression the unemployment levels surge as the loans defaults increase which affects bank performance.

**i. t-statistics**

This is the test for individual significance of variables and a variable is significant when the t- statistics is greater than the  $t_{0.05}$  critical value at 5% level of significance. Using 95% confidence interval and 8 degrees of freedom (12-4) will give you the value 1.860 from the statistical table. Since the t-statistics of gross domestic product (3.051207), exchange rate (-2.741163) and unemployment rate (-2.266401) are absolutely higher than the one from the table (1.984), it can be concluded that GDP, EXCHR and UNEMP are significant in describing variations in commercial banks' performance in Nigeria and cannot be ignored.

**ii. f-statistics**

This is the test for overall significance of variables and also a measure of goodness of fit of the model. Using 95% confidence interval and 3, 12 degree of freedom gives the figure 3.49 from the statistical table. Since the f-statistics from our result is 7.366407, which is higher than that from the table, we reject the null hypothesis and accept the alternative hypothesis, concluding that the joint influence of all included explanatory variables is significant and therefore cannot be ignored in explaining variations in banks' performance concerning non-performing loans in Nigeria.

**iii. R-squared**

This is the explanatory power of the variables modeled. The coefficient of determination ( $R^2$ ) from our result is 0.808038. This implies that 80.8% of the variations in commercial banks' performance in Nigeria are accounted for by the included macroeconomic variables of gross domestic product, exchange rate and unemployment rate.

**iv. Adjusted R-squared**

This is the explanatory power of the insensitive number of variables modeled. The adjusted coefficient of determination (Adjusted  $R^2$ ) is given as 0.698346. This means that precisely 69.8% of the variations in commercial banks' performance in Nigeria are accounted for by the included variables, after the coefficient of determination has been adjusted to make it insensitive to the number of included variables.

**v. Durbin-Watson statistics**

This is the correlation between members of series of observations ordered in time. The Durbin – Watson statistics is adopted to check for the presence of autocorrelation. The Durbin- Watson statistics from our result is 1.574462 and because 1.57 tends to 2. We conclude that there is no autocorrelation, which is in line with the assumption of OLS – Non autocorrelation of the error terms.

**C. Discussion of Findings**

The main objective of this work is to examine the effect of non-performing loans on the performance of banks in Nigeria as well as knowing the role of macroeconomic factors on the efficacy of banks' performance. The weighted least square and the correlation matrix were adopted to observe the direction and degree of relationship between the variables in the model. The study observes that non-performing loans has a significant relationship with banks' profitability and performance i.e. rejection of our null hypothesis.

The study also observes that there is significant role of macroeconomic factors in determination of commercial

banks' performance with respect to non-performing loans. GDP has a positive significant relationship with ROA, exchange rate has a negative significant relationship with ROA and unemployment rate has a negative significant relationship with ROA.

Among other findings was that we witnessed a positive correlation between ROA and GDP and a negative correlation between ROA and EXCHR, UNEMP. The low standard deviation of UNEMP relative to the standard deviation of other independent variables included in the model indicates its highest contribution to the performance of commercial banks with respect to non-performing loans.

The variables in the model accounts for approximately 81 percentage change in commercial banks' performance. The F-statistic jointly shows a significant of model estimated at p-value of (0.011864) \*\*; this entail that, variables employed in the research are jointly statistically significant in changes that occur in commercial banks' performance.

**V. CONCLUSION AND RECOMMENDATION**

The study concludes that non-performing loans has a significant relationship with banks' profitability and performance. This calls for the need to have an effective financial intermediation especially towards loan disbursement as private shareholding induces more non-performing loans (NPLs) to be manipulated by corrupt private owners. The study also shows that the ratio of return on assets in a bank will rise as the rate of NPLs will decrease. This calls for the caution of every lender or credit analyst to make only good loans. This can be achieved through giving utmost importance on the areas of poor management, lack of sound credit policy, inadequate credit analysis, error emphasis on profitability at the expense of loan quality, fraudulent practices and unhealthy competition.

The study also concludes that there is significant role of macroeconomic factors in determination of commercial banks' performance with respect to non-performing loans and this implies that all challenges against the realization of macroeconomic objectives to be tackled. The study also shows that the findings should be given utmost importance as the R-square of our study was 80.8% which is a good fit.

The foregoing analysis has culminated to show us that various challenges (bank-related, customer-related, politically-related and adverse) that militate against making optimum management of bank loans should be given utmost priority in policy options that pertains achieving banks' performance and sustainability.

In light of the above conclusions therefore, the study recommends that provision of financial support by the government to enable banks' to acquire the requisite human and material resources to cope with the inevitable loan defaults by individual in periods of recession. The commercial banks should strengthen its own capacity regarding making error emphasis on profitability at the expense of loan quality. The government should come up with policies that will eschew fraudulent practices and abnormal competition among commercial banks in Nigeria. The banks should employ sustainable manpower (square pegs

in square whole) that will make adequate analysis of allocation of credit at different times. Banks should have a good track record of their customers regarding loan repayment as most of them regard bank loans are their legitimate share of the national cake and lastly the government should provide enabling environment for easy flow of financial intermediation between savers and borrowers.

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