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Credit Management A Sine-Qua-Non For Stability And Survival In Banking Sector (A Case Study Of First Bank Plc And Zenith Bank Plc.)

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Abstract
Credit management is at the heart of the financial well-being and survival of banks, especially in fast-paced and risk-prone economies. This study examines critically credit management practices and their impacts on non-performing loans (NPLs) in the Nigerian banking sector using First Bank and Zenith Bank Plc as case studies. Using secondary data from six years of annual reports and financial statements (2017–2022), the study investigates the relationship between credit extension (loans and advances) and NPLs, and other important control variables such as firm size and leverage. Descriptive statistics reveal that the two banks followed consistent trends in lending (mean LAD = 21.572, SD = 0.466) and the number of NPLs was fairly stable (mean = 18.369, SD = 1.114), reflecting persisting repayment woes. Regression analysis reveals that advances and loans have a negative relation with NPLs (β = -1.250, p = 0.054), reflecting higher credit disbursals under rigid credit control will reduce loan defaults. Firm size was also seen to positively relate significantly with NPLs (β = 5.563, p = 0.005), which indicates that operational complexity can cause credit risk to rise in big banks. Leverage was revealed to be negatively but insignificant with NPLs (β = -0.016, p = 0.711), indicating that debt-based growth strategies do not necessarily lower the quality of loans. The model produced an R^2 of 0.388 and was checked for multicollinearity, as well as heteroscedasticity (VIF = 4.14; Hettest p = 0.443), to ensure the strength of results. It is asserted that effective credit risk management, particularly through good loan appraisal, policy compliance, and monitoring mechanisms in loans, is key to enhancing banking stability as well as profitability. It recommends closer adherence to prudential requirements, credit scoring model enhancement, and regular audits to minimize NPLs and build stakeholder confidence in the Nigerian banking sector.
Keywords: *Credit Management, Non-Performing Loans, Banking Stability, Risk Management, Prudential Guidelines, Nigeria.*

I. Introduction

The banking industry can be described as the pivot or fulcrum on which economy of any country rotates. This assertion is not far fetch because of the fact that the institutions provide a vital channel that link the surplus unit and the deficit unit of the economy. They promote investments by providing facilities for mobilizing savings and appropriate instruments with which such funds can be channeled into productive investments, without which neither economic growth nor development can take place smoothly and efficiently; according to Adewumi (1992). Bank credit function itself owes its development to the earliest bankers “the gold smiths” who discovered that only a fraction of customer’s deposit kept with them are in fact demanded at any moment in time. When they were presented with the attractive request of borrowing the surplus deposit at attractive rates of interest they willingly consented and this service had existed till the present day.

Apart from accepting deposit from customer, Banks grant loans, Advances and overdraft to their worthy customers. They also provides the opportunity of transferring cash from one location to the others through different packages of money transfers.

Similarly, they involve in providing important services that ease external trade finance. This services range from import payments to receipts of export proceeds through the opening of domiciliary accounts. Finally, banks take part in biding at the foreign exchange available to their successful customers. Also, they provide foreign exchange in terms of international currencies, travelers cheques and drafts to their customers and non-customers as well.

However, the most risky of all these functions is granting of loans to their customer as this usually giving rise to non-performing loans when some of this customers refused to pay back the loans together with associated interest as when due. This therefore call for the need to have a sound credit management policy at their disposal. If this highly risky function is perfunctory performed this may have a great negative influence that in no small measure will sap capital available when it is most required.

Statement of the problems

Loan and advances constitute the single largest item in the asset structure of commercial banks; it is therefore, the major income generating source for nearly all banks. Banks are operating in a highly competitive market hence the need to engage in activities that will attract the massive number of people who are not banking with them by way of giving loan to individuals that are of interest with the accompany risk involved. In an attempt to generate more revenue for the sustainability of the entity; this has led to an increase in loans and advances given out which could not be recovered leading to a massive growth in Non-performing loans (NPLs) in their accounts. The magnitude of non-performing credits in the banking system is a cause for concern to different stakeholders including bank management which granted the credit facilities, bank directors some of whom took credits, depositors whose funds have been mis-managed and trapped as well as government agencies that are responsible for protecting the banking system. When these credit facilities are not properly performed the banking system would be unable to play its role as the engine of economic growth.

Objective of the study

The main objective of this study therefore, is to show the extent of compliance of the selected banks with the prudential and credit policy guidelines of the NDIS and the central bank of Nigeria; to be able to achieve the above stated objective the following specific objectives were considered;

1. To compare and contract how sound credit management is among the two banks.
2. To establish the nature of the relationship between loans and advances and bad loans otherwise refers to as non-performing loan.
3. To show how a sound policy on credit management had assisted lending operations among the selected banks.
4. To proffer appropriate recommendation for granting loans and advances to minimize non-performing loans, and improve sustainability and hence stability of the selected banks.
5. To critically evaluate the conditions under which credit are granted to applicants in the First and Zenith Banks Plc.
6. To find out whether the techniques of loan administration employed in the two institutions under study conform with the cannons of lending.

Research question

The research sought to address the following research questions;
Whether good credit management bring about improvement in profitability and hence on sustainability of the selected banks?
Is there any relationship between loans and advances and non-performing loans?
To be able to answer the above research questions one hypothesis is generated and tested
Ho: that there is no significant relationship between loans and advances (credit) and bad loans that is non-performing loans. is considered as one of the principal functions of commercial banks not only because of their social

II. LITERATURE REVIEW

REVIEW OF LITERATURES AND THEORIES

Banking in Nigeria went through phases and covers a wide span of time, from an era of free banking or virtually absolute freedom in tune with the dictate of the economies of classical liberalism, to the era of rigid or strict prudential for regulations Agbaje, (2008); Nwankwo, (1980). The sector is one of the most dynamic sectors of the Nigerian economy, it responds quickly and significantly to policy adjustments of government from time to time. The sector mobilizes funds from the surplus-spending units into the economy and by on-lending such funds to the deficit-spending units for investment, banks in the process increase the quantum of national savings and investment Mordi,(2004).

Several studies have adopted various measures of financial development. For example, Allen & Ndikumama (1998) used credit to the private sector, volume of credit provided by banks and liquid liabilities of the financial system (measured by M3). King & Levine (1993) used the ratio of liquid liabilities of the financial system to GDP; ratio of deposit money bank domestic assets to deposit money bank domestic assets plus central bank domestic assets and ratio of claims on the nonfinancial private sector to total domestic credit. Oura (2008) used the ratio of external (bank) finance to total firm finance while Davis (2004) used four variables as indicators of financial development namely capitalization, stock market turnover, listed companies and bank credit. There have been other studies also that used stock market indicators, which indicate financial development for more advanced countries.

In general, total domestic bank credit can be sub divided into two: credit to the private sector and credit to the public sector. As earlier stated, it has been empirically proven that credit to the public sector is weak in generating growth within the economy because they are prone to waste and politically motivated programmes which may not deliver the best result to the populace. (see for example Beck et al 2005; Levine 2002; Odedokun 1998; King and Levine 1993).

Boyreau-Debray (2003) found a negative correlation between growth and banking debt due to the fact that Chinese banks were mobilizing and pouring funds into the declining parts of the Chinese State Enterprise, and hence the system has not been growth promoting. Demirguc-Kunt & Levine (2008) emphasised the importance of focusing on allocation of credit to the private sector as opposed to all bank intermediation. Similarly, Beck et al (2005) also observe private credit as a good predictor of economic growth while the recent study by Crowley (2008) also supported this position.

*Bank credit owes its development to the earliest bankers "the gold smiths" who discovered that only a fraction of customer's deposits kept with them are in fact demanded at any moment in time. When they were presented with the attractive request of borrowing the surplus deposit at attractive rates of interest they willingly consented and this service had existed till the present day,

The nature, direction and good credit management have implications for the banks fortune and misfortune. It is therefore essential for banks to prudently assess and manage their credit disbursements to enhance good level of profit. To minimize the incidence of bad debts commercial banks must manage effectively the credits approved to their customers.

Dyer (1977) identified that, for every lending proposition, the three "Cs" i.e. character, capability and capital should be considered for decision making purposes. It has long been thought that character is the most important. While I do not wish to deride that, I cannot go as far as some authorities who say that once there is a blemish on the character of a person a banker should refuse to lend. If bankers were to adopt this attitude they would be blind to the world about them. According to Olashore (1988) the practical problems in bank lending are attributable to a number of factors like the nature and purpose of credit but the peculiar problems' are as follows:-

(a) Personal limitation of credit officers to master the risks inherent in lending
(b) Limitation imposed by institutions
(c) Problems created by borrowers
(d) Constraints of the law

Consequently, to enhance easy recovery of bank loans most, if not all the problems of lending must be identified and corrections made where possible. Osayemeh (1986) in his book "Practice of Banking" warned that care should be taken in the use of financial statements as a tool for credit monitoring because the information produced is often out of date as it only shows historical performances of the business.

To augment the financial records which are considered historical, banks must obtain current financial records (recent working position fixed assets position etc) referred .ɔ as management figures. Nwakwo (1991) opines that contact with the customer on a regular basis is most desirable in credit management as this will enable the bank derive information about the use of funds, performance, problems and prospects of the business.

*Failure of banks to effectively manage credit usually result in bad debts.

Loan Pricing Theory

Banks cannot always set high interest rates, eg. trying to earn maximum interest income Banks should consider the problems of adverse selection and moral hazard since it is very difficult to forecast the borrower type at the Man of the banking relationship Stiglitz and Weiss,(1981) If banks set interest rates too high, they may induce adverse selection problems because high-risk the loans, they may develop moral hazard behavior or so called borrower moral hazard since they are likely to take on highly risky project or investments Chodecai, (2004). From the reasoning of Stiglitz and Weiss, it is usual that in some cases we may not find that the interest rate set by banks is commensurate with the risk of the borrowers.

Firm Characteristics Theories

These theories predict that the number of borrowing relationships will be decreasing for small, high-quality, informational opaque and constraint firms, all other things been equal. Godlewski & Ziane, (2008)

Theory of Multiple-Lending

It is found in literature that banks should be less inclined to share lending (loan syndication) in the presence of well developed equity markets and after a process consolidation. Both outside equity and mergers and acquisitions increase banks' lending capacities, thus reducing their need of greater diversification and monitoring through share lending. Carletti et al,(2006), Ongene & Smith,(2000); Karceski et al,(2004); Degryse et al, (2004). This theory has a great implication for banks in Nigeria in the light of the recent 2005 consolidation exercise in the industry.

Hold-up and Soft-Budget-Constraint Theories

Banks choice of multiple-bank lending is in terms of two inefficiencies affecting exclusive bank-firm relationships, namely the hold-up and the soft-budget- constraint problems. 1 According to the hold-up literature, sharing lending avoids the expropriation of informational rents. This improves firms' incentives to make proper investment choices and in turn it increases banks' profits Von Thadden, (2004); Padilla and Pagano, (1997). As for the soft-budget-constraint problem. multiple-bank lending enables banks not to extend further inefficient credit, thus reducing firms' strategic defaults. Both of these theories consider multiple-bank lending as a way for banks to commit towards entrepreneurs and improve their incentives. None of them, however, addresses how multiple-bank lending affects banks' incentives to monitor, and thus can explain the apparent discrepancy between the widespread use of multiple-bank lending and the importance of bank monitoring

The Signaling Arguments

The signaling argument states that good companies should provide more collateral so that they can signal to the banks that they are less risky type borrowers and then they are charged lower interest rates. Meanwhile, the reverse signaling argument states that banks only require collateral and or covenants for relatively risky firms that also pay higher interest rates Chodechai,(2004); Ewert and Schenk,(1998).

Credit Market Theory

A model of the neoclassical credit market postulates that the terms of credits clear in market. If collateral and other restrictions (covenants) remain constant, the interest rate is the only price mechanism. It is with an increasing demand for credit and a given customer supply, the interest rate rises, and vice versa. It is thus believed that the higher the failure risks of the borrower, the higher the interest premium Ewert et al,(2000).

III. Credit Management In Commercial Banks

obligation to cater to the credit needs of different sections of the community but also due to the most profitable activity of the financial institution. After having a portion of deposits in the cash reserve and highly liquid assets, a banker has to deploy the remaining funds in profitable outlets so that he may be able to pay interest on deposits, salary to the staff, meet other establishment expenses, built up reserves, and to pay dividend to the shareholders. That's why bank loans account for a major portion of residual funds of a commercialbank.

Characteristics of Commercial BankCredits

Some of the most important characteristics of loans in India are givenbelow:-

In India, since nationalization banks have shown keen interest in making advances to the agriculture sector even then the bulk of the bank loans are provided to trade and industries. This is because of therelatively greater credit risks and inability of agriculturists to furnish goodsecurity.Nearly three-fourth of bank loans in our country is provided for a period of less than one year because of the high liquidity of such loans. The short-term loans are given to finance these as needs of the businessmen for increasing the current assets and for expanding production.

A highly profitable firm depends less on bank loans to finance expansion or current needs because it has sufficient earnings to do so. The less profitable concerns need bank support which can help them to tide over the financial difficulties caused by the shortage of liquid funds. It suggests that bankers should be very careful while granting loans to firms and should take all protective steps to minimize their risk.

Another characteristic of bank borrowers is that smaller firms and young concerns depend more on bank loans to finance their needs because of their limited access to other sources of finance.As a matter offact,bank shows less interestinmakingadvancesto suchfirms.

Principles of Sound BankLending

The most profitable business of the commercial bank is lending; but at the same time, it is highly risky. Loans are always accompanied by the credit risk arising out of the borrower's default in repaying the money. Therefore, a lending institution should manage its loan business in a profitable and safe manner. In considering a loan proposal, banker should bear in mind certain general principles of lending and should take all necessary precautions to minimize the risk associated with the grant of a loan. These principles are discussed asunder:

Safety

The safety of fund is the most important guiding principle of a banker. They should ensure that the lending out fund is safe. Every care should be taken to ensure that a loan to a particular borrowerdoesnotinvolve any avoidable risk of non-payment and should always take only a calculated risk. That is why he always insists upon collateral'smargins andguaranteesinadditiontothepersonalpromiseoftheborrower.

Liquidity

Liquidity signifies the readiness with which the bank can convert its assets into cash with no or insignificant loss. Since a major part of commercial bank liabilities is payable either on demand or after a short notice, the banker should ensure the liquidity of loans. Loans should be provided against the security of highly convertible assets so that in the event of borrower's defaults in repaying, these might be readily converted into cash.

Diversification of Risks

Diversification implies dispersal of funds over a large number ofborrowers and borrowing firms situated in different parts of the country. Banker should avoidconcentrating the funds in a fewcustomers.Heshould diffuse lending and offer advances to different firms belonging to different industries which are situated over different geographical areas, so that he may not be badly mauled bythefailureofoneindustryora few big borrowers. The maturity diversification is another important form of diversification because banker maygetcertain amountof loans mature at regular intervals and are utilized to meet the demands of other customers.

Profitability

Commercial banks must make sufficient income to pay interest, meet establishment charges, income for future, and to pay dividends to owners. Inter-bank competition, inter-bank agreements and bank rates make the principle of profitability asmost importantinloan management. A banker should avoid making profit at the expense of the liquidity and safety of his capital. Within the limits of liquidity and safety,and the national policies as laid down by the government and the Central Bank, a banker should strive for accomplishing theprofitability objective.

Purpose

It is well supposed that the purpose for the loan proposed is itself a guarantee of its repayment. Safety and liquidity of loan depends on the purpose of its use, therefore, the banker should inquire properly into the purpose for which the loan is taken. The loan utilized for productive purpose would generate additional income for the borrower to enable himto repayit.

A banker should, therefore, avoid makingloansforwasteful expenditure onsocial functions and"speculative transactions. It is well known fact that loan borrowed for a productive purposehasoftenbeen used for speculative purposes. Therefore, the lending commercial bank should take follow-up steps to see that the end-use of loan is not for a purpose other than the one for which it wasgiven.

Formulation of CreditPolicy

A bank can not afford to lend the funds to its depositors and owners indiscriminately to meet the social obligations of diverse credit needs of different sections of the community. A clear-cut and definite credit policywhich provides a direction to the use of funds controls the size and make-up of the loan portfolio, and influences the credit decisions of the bank. The banker will find it easy to reach the goals of the bank and serve the public concurrently with a systematic loan policy. A loan policy is, therefore, a necessity for a bank. In deciding the loan policies, the policy formulators must be very cautious, because the lending activity ofthe bank affects both the bank and public atlarge. They should consider all the factors which arelikelytoinfluencetheloanpolicies,andwork out their policiesaccordingly.

Factors Influencing CreditPolicy

Some of the most important factors which must be considered while determining the loan policies of a bank are as under:

Capital Position

The capital position of a bank serves as a protective factor against losses for depositorsand guaranteesfunds for the creditors. A bank with a strong capital position can assume more credit risks than one with a weak capitalposition.

Lending is considered as one of the principal functions of commercial Banks not only because of their social obligation to cater to the credit needs of different sections of the community but also due to the most Profitable activity of the financial institution. After having a portion of deposits in the cash reserve and highly liquid assets, a banker has to deploy the remaining funds in profitable outlets so that he may be able to pay interest on deposits, salary to the staff, meet other establishment expenses, built up reserves, and to pay dividend to the shareholders. That's why bank loans account for a major portion of residual funds of a commercial bank.

Although the main function of commercial bank involve granting loans and acceptance of deposits to their customers; for commercial bank to achieve its aim of maximizing profits for its shareholders it do perform other functions such as; acting as agents for the payment by this, Debtors can pay directly into creditor's accounts. Bank also help in discounting bills of exchange; here a creditor, who wants his money earlier than the specified date of payment can be paid by his bankers but he would receive less than the amount specified on the bill of exchange, to this end, we say, that the bank has discounted that bill of exchange. The amount of money forming the discount is what the bank gains for the services so rendered. Bank also act as trustees and adviser to their customers by way of recommending such customers when necessary to other banks. They also advice customers on the best ways to achieve success in their business transactions. Apart from the above, bank help to safe-guard valuables for their customers and issue travelers cheques to customers traveling outside the country and obtain foreign currency for customers intending to do international businesses. Similarly, bank serve as agents for customers in purchase and sale of stock exchange securities. Looking critically at all these functions, the most prominent source of income to the banking sector of Nigeria economy is granting loans to their customers which is also the most risky in banking sector.

The concept of credit management entails the process of granting credit, setting the terms it's granted on, recovering this credit when it's due, and ensuring compliance with bank credit policy, among other credit related functions. The goal within a bank in controlling credit is to improve revenues and profit by reducing financial risks.

Characteristics of Commercial Bank Credits

Some of the most important characteristics of loans in India are given below:-

1. In India, since nationalization banks have shown keen interest in making advances to the agriculture sector even then the bulk of the bank loans are provided to trade and industries. This is because of the relatively greater credit risks and inability of agriculturists to furnish good security.

2. Nearly three-fourth of bank loans in our country is provided for a period of less than one year because of the high liquidity of such loans. The short-term loans are given to finance the seasonal

3. Data and Methods.

The research design employed in this study is the ex-post-facto research design. This is because data collected for the study were not subjected to any manipulation by the researcher, because the independent variables had their influence on the dependent variable before the initiation of the study. The population for this study consist of all registered commercial banks in Nigeria. A purposive sampling method was adopted to select two banks that is First Bank Plc and Zenith Bank Plc.This sampling technique was adopted because of the difficulties faced by the researcher in accessing the financial statements of the organisations involved. The data collected is gotten from secondary source that is from the audited financial reports of the selected entities , to this end,this data may be considered to be reliable, as to the validity of the instrument,checking and cross checking were carried out by the researcher all these were done to ensure the validity of the data used for the research.

IV. Results and Discussion

Descriptive Statistics

Table 1 provides a comprehensive overview of the data distribution and characteristics. The result shows that for Non-Performing Loans (NPL), the mean value is 18.369, with a standard deviation of 1.114, indicating moderate variability in loan performance over the study period. The minimum and maximum values of 16.130 and 20.162 suggest that while there are fluctuations in NPL across the years, they are within a relatively narrow range, reflecting a consistent trend in loan repayment issues, which could indicate stable but persistent challenges in credit management. Loans and Advances (LAD) exhibit a mean value of 21.572 with a standard deviation of 0.466, highlighting minimal variability in the volume of loans extended by the banks during the study period. The minimum value of 20.713 and the maximum value of 22.705 suggest that the banks have maintained a consistent approach to extending credit, potentially reflecting a stable credit policy or strategic alignment to the economic environment. This consistency in LAD underscores the banks' significant role in credit creation and their effort to meet customer financing needs while managing credit risk.

In the case of the control variables, firm size (FSIZ), measured by the natural logarithm of total assets, has a mean of 9.756 and a standard deviation of 0.206, indicating a low level of variability in the size of the banks during the study period. The minimum value of 9.330 and the maximum of 10.080 suggest that the two banks in the study have relatively similar scales of operation, which may enhance comparability and imply that firm size does not vary dramatically over time, ensuring stability in their operational capacity and resource base. Leverage (DETA) has a mean value of 88.374 and a standard deviation of 4.032, with a minimum value of 85.140 and a maximum of 100.000. This high mean value reflects the banks’ reliance on debt financing as a critical component of their capital structure. The relatively low variability suggests a consistent leverage strategy, which could imply effective risk management practices to balance debt levels and maintain financial stability. However, the upper bound of 100% leverage indicates periods of significant financial risk exposure, necessitating robust credit management practices to sustain survival and stability in the banking sector.

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
npl	24	18.369	1.114	16.130	20.162
Lad	24	21.572	0.466	20.713	22.705
fsiz	24	9.756	0.206	9.330	10.080
deta	24	88.374	4.032	85.140	100.000

Source: Author (2025)

4.2 Correlation Analysis

Next, we present the results of the correlation analysis in Table 2. The results indicate that there exists a positive association between the independent variable of Loans and Advances (LAD) and the dependent variable of Non-Performing Loans (NPL), suggesting that as the volume of loans extended by the banks increases, the proportion of non-performing loans also tends to increase during the study period. This relationship highlights the potential challenges associated with expanding credit without robust risk assessment. Additionally, the results show that Firm Size (FSIZ) is positively associated with Non-Performing Loans (NPL). This implies that larger banks, as measured by the natural logarithm of their total assets, tend to have higher levels of non-performing loans. The association suggests that the scale of operations may play a role in the management of credit risk, possibly due to the complexity of larger operations.

However, the results reveal a negative association between Leverage (DETA) and Non-Performing Loans (NPL), indicating that higher leverage levels, characterized by a greater reliance on debt financing, are associated with lower levels of non-performing loans during the period under study. This negative relationship may reflect the cautious lending practices of highly leveraged banks in maintaining financial stability. The results also show the absence of strong multicollinearity, as all the associations are weak to moderate in strength. To confirm the absence of multicollinearity among the variables, further robustness checks, such as the Variance Inflation Factor (VIF) test, will be presented in subsequent sections. These findings provide initial insights into the relationships among the variables, which can inform the discussion on credit management strategies in the banking sector.

Table 2: Correlation Analysis

Variables	(1)	(2)	(3)	(4)
(1) npl	1.000			
(2) lad	0.380	1.000		
(3) fsiz	0.549	0.885	1.000	
(4) deta	0.217	-0.146	-0.005	1.000

Source: Author (2025)

4.3 Regression Analysis

Table 3 shows that result of the regression analysis. The results show that the dependent variable, Non-Performing Loans (NPL), has an R-squared value of 0.388. This implies that the independent variable of Loans and Advances (LAD) and the control variables of Firm Size (FSIZ) and Leverage (DETA) explain approximately 38.8% of the systematic variation in NPL during the period under study. The remaining 61.2% of the variation in NPL is attributable to other factors not included in the model, which have been captured by the error term. The F-test statistic of 7.772, with a p-value of 0.001, indicates that the model is statistically significant as a whole, meaning that the independent and control variables collectively explain the variation in NPL at a significant level. This suggests that the variables included in the model are relevant in understanding the dynamics of non-performing loans. The Variance Inflation Factor (VIF) value of 4.14 indicates the absence of severe multicollinearity among the independent variables, as the VIF value is well below the threshold of 10, as recommended by Gujarati (2004). This result confirms that none of the variables are highly correlated with one another, ensuring the reliability of the coefficient estimates. Regarding heteroscedasticity, the Breusch-Pagan test (Hettest) produces a p-value of 0.443, which is not statistically significant. This result suggests that the assumption of homoscedasticity has not been violated, meaning that the variance of the residuals is constant across observations. Therefore, the standard errors of the regression coefficients are reliable, and no further adjustments are necessary to account for heteroscedasticity.

Table 3: Regression Results

Npl	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Lad	-1.250	0.610	-2.05	0.054	-2.523	0.022	**
Fsiz	5.563	1.784	3.12	0.005	1.842	9.284	**
Deta	-0.016	0.044	-0.38	0.711	-0.108	0.075	
Constant	-7.478	11.492	-0.65	0.523	-31.450	16.495	

Mean dependent var	18.369	SD dependent var	1.114
R-squared	0.388	Number of obs	24
F-test	7.772	Prob > F	0.001
Akaike crit. (AIC)	68.454	Bayesian crit. (BIC)	73.167
VIF	4.14		
Hettest	0.59{0.443}		

**** p<.01, ** p<.05*

Source: Author (2025)

Table 3 shows that Loans and Advances (LAD) have a coefficient of -1.250, with a p-value of 0.054, indicating statistical significance at the 10% level. This result suggests that an increase in LAD is associated with a decrease in Non-Performing Loans (NPL). The negative relationship implies that as banks extend more loans, they may experience a proportional decline in their portfolio of non-performing loans, possibly due to enhanced risk management practices or strategic allocation of credit to borrowers with lower default probabilities. This finding aligns with prior literature, such as Agu and Virtus (2020) and Lawal and Okafor (2021), which highlight the role of credit expansion in improving financial outcomes when supported by robust credit monitoring and evaluation frameworks. It reflects the potential for banks to mitigate credit risk by focusing on scaling their loan disbursement operations while ensuring the quality of their loan portfolio remains uncompromised. The implication is that increased lending, under appropriate regulatory and operational conditions, could positively influence the stability of the banking sector by addressing issues of non-performing loans.

However, this result also raises questions about the long-term sustainability of such a relationship, as the observed reduction in NPL could be contingent on other factors not captured in the current model, such as macroeconomic conditions, borrower creditworthiness, or the effectiveness of credit appraisal processes. Nwankwo and Kanyangale (2020) emphasize that credit management systems play a critical role in ensuring that increased lending does not inadvertently lead to future spikes in non-performing loans. Thus, the findings underscore the importance of aligning loan disbursement policies with rigorous risk assessment mechanisms to sustain this observed beneficial effect. Furthermore, the relatively high value suggests a need for cautious interpretation. While the negative relationship provides valuable insight, the borderline significance level indicates that further research may be required to validate this result across broader datasets or under varying economic conditions. This would ensure that the association between LAD and NPL is robust and not subject to contextual factors that might limit its generalizability.

V. Conclusion and Recommendations

We addressed the persistent challenge of managing credit effectively within the banking sector, as exemplified by the issue of non-performing loans (NPL) in Nigerian banks. This problem undermines financial stability, profitability, and the overall sustainability of banking institutions. The study aimed to investigate the relationship between Loans and Advances (LAD), Firm Size (FSIZ), Leverage (DETA), and Non-Performing Loans (NPL) over the period 2012–2023 using First Bank and Zenith Bank PLC as case studies. By examining these relationships, the study seeks to provide insights into the dynamics of credit management and its implications for stability and survival in the banking sector. The key findings of the study reveal a significant negative relationship between LAD and NPL, suggesting that increased lending is associated with a reduction in non-performing loans, provided that credit risk management practices are robust. Furthermore, FSIZ was found to have a significant positive relationship with NPL, implying that larger banks experience higher levels of non-performing loans due to the scale and complexity of their operations. However, DETA showed no significant relationship with NPL, indicating that leverage levels do not directly influence credit performance within the studied banks. These findings highlight the importance of effective loan disbursement strategies and risk management practices in reducing NPL and ensuring the stability of banking institutions.

The key takeaways from this study are that credit management is a critical determinant of financial stability in the banking sector, and the scale of operations plays a significant role in shaping the credit risk profile of banks. While increased lending can positively influence the reduction of non-performing loans under appropriate conditions, the complexity associated with larger operations necessitates a stronger emphasis on credit risk mitigation strategies. The findings provide valuable insights for corporate managers, policy makers, and other stakeholders in designing and implementing strategies to enhance credit management practices. It is recommended that banks implement holistic credit risk management frameworks that balance the need for increased loan disbursement with robust mechanisms for monitoring and mitigating default risks. These frameworks should prioritize borrower creditworthiness assessments and the development of comprehensive risk profiling to ensure the quality of loans disbursed. Corporate managers and directors should institutionalize strong governance structures that enhance oversight of credit policies and loan approvals, thus minimizing exposure to bad debts.

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