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Research Article

Effect of Lending Policies on the Financial Performance of Deposit Money Banks (DMBS) in Nigeria

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Abstract

This study investigates the effect of lending policies on the financial performance of Deposit Money Banks (DMBs) in Nigeria. The study explores the effects of central bank policies, deposit sizes, decision-making levels, guarantees, interest rates, and control mechanisms on DMBs' financial outcomes. Drawing from a conceptual framework that highlights the intricate relationship between lending policies, regulatory guidelines, economic factors, and risk management, the study employs a non-probabilistic Quota sampling technique to gather data from 130 Credit Officers across thirteen DMBs listed on the Nigerian Stock Exchange. Using both primary (questionnaires) and secondary data sources, the study employs statistical analyses, including multiple and simple linear regression, to evaluate the hypothesis-driven relationships. Findings reveal significant correlations among policy variables, with nuanced impacts on financial performance. While overall lending policies demonstrate a substantial influence, individual variables such as supervision, decision-making in loan granting, and deposit volume exhibit pronounced effects, leading to recommendations for DMBs to develop efficient lending policies, enhance decision-making processes, utilize technology for credit management, and establish robust control mechanisms.

Keywords: *lending policy, financial performance, Money Deposit Banks (MDBs).*

Introduction

Deposit Money Banks (DMBs) play a very crucial role of providing deposit and credit facilities for personal and corporate customers, making credit and liquidity available in adverse market conditions, and providing access to the nation's payments systems". It is also noted that commercial banks are also the channels used to transmit effective monetary policy of the central bank of the economy thus it is considered that they also share the responsibility of stabilizing economy of their country (Siddiqui and Shoaib, 2011). Hence, the soundness of the banking sector in a country is very critical to the health of the country's economy (Sufian and Chong, 2008).

DMBs are profit-making organizations performing as intermediaries connecting borrowers and lenders in bringing temporarily available resources from business and individual customers as well as providing loans for those in need of financial support (Uwuigbe, 2013; Driga, 2012). In other words, DMBs do grant loans and advances to individuals, business organizations as well as government in order to enable them embark on investment and development activities as a means of aiding their growth in particular or contributing toward the economic development of a country in general (Felicia, 2011). Lending serves as a critical mechanism for channeling funds from savers to borrowers, fostering economic growth, and supporting various sectors such as businesses, households, and government entities.

It is important to note that the soundness of the DMBs is largely dependent on their financial performance which is normally used to indicate the strengths and the weaknesses of such a commercial bank (Makkar and Singh, 2013). The financial performance of any business organization is normally evaluated by determining their profitability. Ongore and Kusa (2013) asserted, "Profit is the ultimate goal of commercial banks, thus all the strategies designed and activities performed are meant to realize this grand objective". The financial performance of a Deposit Money Bank (DMB) is

defined as the efficiency of a bank at generating earnings (Podder, 2012). Numerous researchers in the banking sector and academia have directed their focus towards assessing the performance of DMBs given the pivotal role the banking industry plays in the economic development of a country (Ayele, 2012). These investigations indicate that the performance of DMBs can be gauged using various metrics, including competition, productivity, profitability, efficiency, and concentration (Macit, 2011). DMBs demonstrating stronger financial performance are deemed to possess greater resilience against adverse external shocks, thereby contributing to the overall stability of a country's financial system (Athanasoglou et al., 2008).

Bank lending fuels global economic growth, but faces challenges such as unpredictable government and monetary policies. Uruakpa (2019) highlights poor credit creation as banks deviate from core lending functions for non-traditional activities. The current stage involves sector challenges from lending policies, management decisions, and competitiveness. To sustain and meet challenges, Deposit Money Banks (DMBs) must efficiently employ funds, maximize wealth, and adopt prudent risk management (Alshatti, 2015).

Bank's lending policy contains many elements designed to achieve profitability and reducing risks that DMBs may be exposed to while performing their tasks, especially providing loans to clients (Basu, Inklaar, & Wang, 2011). As bank's lending policies are placed according to the central bank rules and regulations, accordingly these policies play an important role in the profitability of commercial banks operating in Nigeria. In addition to the central bank regulations, there are many factors that affect the profitability of commercial banks, whether in relation to the bank's own lending policies, customer's needs, size of deposits, guarantees, interest rate, supervision, and follow-up (Djalilov & Piesse, 2016). The justifications identify the current problem of the study and aims to find out the impact of these factors on the profitability of commercial banks and eventually suggesting some ideas that may help the banking sector to develop effective and influential policies to improve profitability and sustainability of the business.

This study becomes imperative because deposit money banks in Nigeria need to understand how to manage these huge assets in terms of their loans and advances. For the banks to balance their main objectives of liquidity, profitability and solvency, lending must be handled effectively and the banks must behave in a way that their potential customers are attracted and retained.

This research aims to contribute to the existing literature by examining the intricate relationship between lending policies and the financial performance of DMBs. By analyzing historical data, branch-specific lending practices, and financial performance indicators, this study seeks to uncover the nuanced ways in which lending policies impact brank's risk exposure, profitability, and operational resilience. Ultimately, the findings could offer practical insights for DMBs and policymakers to refine lending policies, enhance financial performance, and drive sustainable economic growth in Nigeria.

Literature Review

The Concept of Bank's Lending Policy

The bank's lending policy is a well-thought-out action plan to guide decision-makers and achieve logical results, and it represents a set of standards and guidelines to be followed while granting loans, it also includes monitoring tasks, in addition to crisis management (Kuo, Wang, Lai, Yu, & Wu, 2010).

DMBs generally share similar lending policies, but each bank has unique requirements. These policies encompass recognizing and addressing credit losses promptly. Specifically, lending policies outline minimum information for mortgage evaluation, criteria for affordability, loan duration, collateral assessment, and regulations for unsecured personal loans, specifying the necessary documentation before loan approval (Ganopoulou & Giapoutzi, 2010; Kuo et al., 2010; Ong'era, 2016).

Strict lending processes drive customers away, reducing profits (Xiaojiang & Xiaoguang, 2009; Munyiri, 2010). DMBs' performance is gauged by metrics like market share, profitability, and loan quality (Vong & Chan, 2009; Ramadan et al., 2011). DMDs' lending policies, crucial for income, must attract profitable clients, balancing customer needs and minimizing risk (Vong & Chan, 2009; Ramadan et al., 2011; Basu et al., 2011; Gul et al., 2011).

The Concept of Financial Performance

Financial performance is considered a measure for determining the extent of the organization's success, and losing the required level of its performance increases risks, and threatens its existence (Delis & Kouretas, 2011; Alshatti, 2015; Kayode et al., 2015).

Financial performance gauges organizational success, with its decline increasing risks (Delis & Kouretas, 2011; Alshatti, 2015). The phrase is frequently expressed as a broad assessment of a company's total financial health over time. Return

on assets (ROA), return on equity (ROE), return on investment (ROI) return on capital employed (ROCE), and other indices are used in assessing financial performance in finance and financial accounting practice (Bagh et al., 2017; Shoukat& Nadeem, 2017). Financial reports and ratios aid in judging an entity's financial position, considering liquidity, activity, market, solvency, and performance ratios (Chea, 2011; Pradhan & Gautam, 2019; Musah, 2017). Internal factors like cost control impact financial performance but are however within the control of the banks, while external factors, often outside the control, may be in the form of scientific and technological changes that may occur in the binding financial or economic laws and policies of the state (Javaid et al., 2011; Khrawish, 2011). The size, diversity, ownership, and lending policies of banks affect their financial performance (Flamini et al., 2009; Munyiri, 2010; Abate & Mesfin, 2019).

Munyiri (2010) found out that a friendly lending policy that suits customer needs and fills its satisfaction, maximize demand, and increases financial performance. The goal of financial performance is therefore to diagnose the financial situations that occur and do its best to solve them (Musah, 2017).

Model and Hypothesis

Al-hawatmah & Shaban (2020) identifies the following as key determinants of lending when he asserts that the major surrogates that branch out from the lending policies adopted by commercial banks are; central bank policies, the size of deposits, levels of decision-making in granting loans, guarantees, interest rate, control and follow-up:

Central Bank Policies on Lending Practices and Financial Performance of DMBs

Central bank policies, including Prudential Guidelines (PG), regulate Deposit Money Banks (DMBs) to ensure strategic operations. PG enhances transparency and mandates DMBs to manage capital, liquidity, asset quality, credit risk, and operational efficiency. Despite the positive intent, a rule-based approach may limit banks' adaptability to dynamic conditions and impede their response to opportunities. Standardization could diminish banks' competitiveness, hindering innovation and customization. While the guidelines promote stability, there's a trade-off between adherence and flexibility, potentially impacting DMBs' ability to navigate market shifts and maintain a distinct market presence, affecting customer satisfaction and profitability (Sauda et al., 2017; Kiplagat and Kalui, 2020).

Premised upon the foregoing, the study hypothesize thus:

HO1: There is no significant statistical relationship between Central bank policies and financial performance of DMBs in Nigeria.

Deposit Size and Financial Performance of DMBs

In addition to the central bank regulations, a crucial factor that may affect the profitability of DMBs is its size of deposits (Djalilov & Piesse, 2016). The central bank defines the deposit as the amount of cash that a person delivers by any means of payment to another person, and who is obligated to return it upon request or according to the conditions agreed upon (Central Bank of Nigeria, 2019). It includes the number of funds available for borrowing (deposits/loans/capital) and the volume of deposits must not exceed a certain percentage according to the vision of the various departments and the announced financial policies in the country. Deposits also include the structuring of investment portfolios, the distribution of their profit ratios and their maturity dates, as well as the location of the investment activity and the sectors to which the economic activity belongs and what is the nature of the client’s activity benefiting from those deposits in their final form as loans (Javaid, Anwar, Zaman, & Ghafoor, 2011). Deposit size wield substantial influence over a spectrum of critical aspects, including investment strategies, risk management approaches, and the broader landscape of financial operations within these institutions which underscores the need for careful consideration of deposit-related strategies in the pursuit of their developmental objectives.

Based on the above, this paper assumes that the relationships between deposit size and financial performance of DMBs in Nigeria. Therefore, the following hypothesis is proposed;

H02: There is no statistically significant relationship between deposit size and financial performance of MDBs in Nigeria.

Decision-Making in Granting Loans and Financial Performance of DMBs

Effective decision-making in granting loans is crucial for the financial performance of Deposit Money Banks (DMBs). The credit process, involving the payment of money to customers in exchange for the right to recover it with interest and any other dues on it, is central to this decision-making on credit process (Central Bank of Nigeria, 2019). Anbar and Alper (2011) emphasize the importance of periodic reports on all credit operations at all levels and submitting same to various departments, linking decision-making levels to diverse economic activities and considering loan duration and maximum limits for lending (Francis, 2013).

DMBs tailor lending policies based on permitted activities, available funds, and the approval period, which involves verifying alignment with internal policies and customer-submitted documents (Islam et al., 2017). Khrawish's (2011) categorization of loan implementation further connects decision-making to short, medium, and long-term financial strategies, illustrating the direct impact on the financial performance of DMBs.

Consequent upon the foregoing, the study assumes that there exist relationships Decision-Making in Granting Loans and Financial Performance of DMBs in Nigeria. Therefore, the following hypothesis is proposed;

HO3: The level of decision-making in granting loans in DMBs in Nigeria is not significantly related to its financial performance.

Role of Guarantees in Credit Allocation and Financial Performance of DMBs

A guarantee is a legal tool for banks to secure repayment from clients who fail to meet specified loan payment timelines, aiding clients in obtaining loans (Chen, 2006). Guarantees in lending ensure procedural adherence to laws, with loan officers meticulously assessing guarantee quality, ownership, and legal status. The goal is timely loan collection, emphasizing a thorough evaluation of the borrower's industry reputation (Kim, Song, & Zhang, 2011).

Collateral is crucial when lenders struggle to enforce consequences for strategic default. It deters borrowers from dishonest reporting, making strategic default less appealing. John et al. (2000) highlights a unique aspect of agency problems between managers and claimholders. Drawing from Jensen and Meckling's work (1976), they demonstrate that if collateralized assets are more stable in value during default, managers have a stronger incentive to favor secured over unsecured properties. This leads to higher equilibrium yields on collateralized debt to compensate for the increased risk of "asset substitution." Other models, such as Coco (1999) and De Meza and Southey (1996), explore relationships between borrowers' riskiness and guarantees, showing that collateral use may vary based on borrower risk aversion and overoptimistic tendencies.

Based on the cited studies, this paper assumes relationships between guarantees in credit allocation and financial performance of DMBs. Therefore, the following hypothesis is proposed;

HO4: There is no significant relationship between guarantees and the financial performance of DMBs in Nigeria.

Interest Rates and Financial Performance of DMBs

Interest rates significantly influence financial decisions (Sørensen & Werner, 2006). In low-interest periods, people invest, avoiding low-return bank deposits (Ben Naceur & Goaied, 2008). Conversely, during high-interest times, individuals prefer bank deposits for safe profits, reducing borrowing for projects due to high costs (Delis & Kouretas, 2011). Studies corroborate the link between interest rates and DMBs' financial performance (Podder, 2012).

Central banks play a crucial role in determining the interest rate framework, guiding commercial banks in their interactions with customers in lending, borrowing, and deposits. The interest rate on loans is influenced by the prevailing interest rate and the risk rate, encompassing risks associated with the loan's purpose, borrower analysis, and the potential for non-collection (Sørensen & Werner, 2006; Delis & Kouretas, 2011; Alshatti, 2015; Kayode et al., 2015). Bhattarai (2015) underscores the significance of profitability and hypothetical risks, highlighting their positive impact on the lending rate.

Interest rates impact both DMBs and customers. Rising rates make it difficult for customers to repay loans, leading to losses for DMBs. Conversely, excessively low rates result in negligible interest income, affecting DMB profitability. Striking a balance in interest rates is crucial for the overall benefit of banks (Makkar and Singh, 2013; Lipunga, 2014). Macit (2011) analyzed the bank-specific and macro-economic determinants of the profitability of DMBs and found that interest rates are a major determinant.

Premised upon the foregoing, this paper predicts relationships between interest rate and financial performance of DMBs. Therefore, the following null hypothesis was proposed;

HO5: There is no significant relationship between interest rate and the financial performance of DMBs in Nigeria.

Control Mechanisms and Follow-Up Procedures in Lending and Financial Performance of DMBs

Control, or self-censorship in banking, involves management-imposed restrictions on directing funds to protect depositors and shareholders (Kim et al., 2011). Operational risk, representing potential losses due to operational failures, arises from noncompliance, fraud, errors, and internal or external factors (Njogo, 2012).

As for follow-up, it means the need to follow up loans to discover any potential difficulties in repayment and to take the appropriate action to ensure repayment in a timely manner (Anbar & Alper, 2011). Default risk is the possibility of loss resulting from a borrower's failure to honor its obligations based on agreed terms culminating into losses that can erode the DMBs' capital. Every time a bank extends a credit facility, the bank is exposed to credit risk (Sanusi, 2010).

Banking control aims to achieve three main objectives: first, maintaining the stability of the financial and banking system by overseeing institutions and establishing rules for asset and liability management; second, ensuring the efficiency of the banking system through examining accounts, assessing internal operations, and evaluating financial elements to comply with established laws; and third, deposit protection, involving controlling authorities' intervention to mitigate risks and safeguard funds when credit institutions fail in meeting obligations to depositors (Menicucci & Paolucci, 2016; Poudel, 2018; Sørensen & Werner, 2006).

The above views point to the interconnectedness between control mechanisms and follow-up procedures and financial performance of DMBs. Therefore, the following null hypothesis was proposed;

HO5: There is no significant relationship between control mechanisms and follow-up procedures and the financial performance of DMBs in Nigeria.

Theoretical Framework

Loan Pricing Theory: Balancing Interest Rates, Adverse Selection, and Moral Hazard

In the realm of banking and finance, the establishment of appropriate loan interest rates is a complex endeavor that requires a delicate balance between profitability, risk management, and maintaining a healthy borrower-lender relationship. Stiglitz and Weiss (1981) have emphasized the intricate interplay between adverse selection and moral hazard, challenging banks to carefully consider the implications of their interest rate decisions. This discussion delves into the profound insights offered by Stiglitz and Weiss, along with the subsequent research by Chodecai (2004), shedding light on the challenges banks face when setting interest rates and managing potential adverse outcomes.

Adverse selection arises from information asymmetry, as banks struggle to accurately assess the creditworthiness of borrowers. Setting high interest rates to mitigate risk inadvertently attracts high-risk borrowers, exacerbating the adverse selection problem. Moral hazard surfaces post-loan approval, as borrowers may engage in riskier ventures, shifting the burden to the lender. Chodecai's work emphasizes this behavioral shift and its impact on risk evaluation and repayment. Balancing risk prevention with maintaining borrower incentives poses a formidable challenge for banks. While high interest rates aim to deter risk, they may attract high-risk borrowers, and subsequent moral hazard behavior complicates risk assessment. The synthesis of Stiglitz and Weiss's insights with Chodecai's findings emphasizes the need for a multifaceted approach to loan pricing. Effective risk management requires tools beyond interest rates, such as borrower profiling and tailored structuring, fostering a symbiotic lending environment that encourages responsible financial behavior. Acknowledging the intricate dynamics, banks must adopt comprehensive strategies to strike a balance between profitability and risk mitigation.

Credit Market Theory

Credit Market Theory, within the neoclassical credit market model, asserts that credit terms are pivotal in achieving market equilibrium. Assuming constant collateral and restrictions, the lending rate serves as the primary pricing mechanism. As demand for credit rises with a constant customer supply, the lending rate increases, and vice versa. The theory suggests that higher borrower failure risks correlate with a higher lending premium. In the context of regulatory frameworks like the Bank and Other Financial Institutions Act Amendment (BOFIA) of 1998 and the Central Bank of Nigeria (CBN) guidelines, banks are obligated to report significant borrowings, and there are limitations on the total value of loans in relation to shareholders' funds for money deposit banks (Felicia, 2011).

The neoclassical credit market model serves as a structured framework for understanding the relationship between bank lending practices, credit terms, interest rates, borrower risk, and deposit money bank performance. By emphasizing the interest rate as a key price mechanism and considering risk, it sheds light on how changes in credit conditions affect deposit money bank operations.

Information Theory of Credit:

Information theories of credit, as per Fan, Lai, and Li (2015), involve measuring credit for individuals and companies by improving banks' predictive abilities for customer repayment. The depth of credit markets is crucial for financial institutions to better understand scheduled borrowers' repayment records. Love, Pería, and Singh (2016) highlight the significance of open or private loan registries in expanding credit markets through comprehensive reimbursement history. Agarwal, Chomsisengphet, Liu, Song & Souleles (2018) emphasize the impact of exchanged data in credit transactions on credit reception, effective borrower-lender matching, and implied interest rates for credit allocation.

Feenstra, Li, and Yu (2014) suggest that credit markets can tailor specific elements for various types of lenders and borrowers. When lenders have more comprehensive information about borrowers, including credit history, concerns about funding non-practical activities diminish, leading to increased credit extension. Büyükşahin and Robe (2014) note investors' tendency to prioritize present earnings over potentially more informative accounting collections and revenue statements in assessing applicants. Edwards, Tan, Villeneuve, Meek, and McQueen (2016) propose learning from past mistakes by providing precise data to enhance decision-making in loan processing, contributing to a better understanding of processes determining repayment capabilities and amounts to be advanced.

Methodology

This study employs a descriptive research design, to understand specific behaviors in the banking environment without manipulation. Descriptive survey research aims to provide statistical information about aspects of the study relevant to policymakers, aligning with the study's objectives (Greener, 2008; Saunders et al., 2009).

The study's population includes Credit Officers from 38 Deposit Money Banks (DMBs) in Nigeria. Thirteen DMBs meeting regulatory criteria, assessed by favorable ratings from the Central Bank of Nigeria, are selected using Quota sampling. This comprises Access Bank PLC, Fidelity Bank PLC, First City Monument Bank PLC, First Bank Nigeria Limited, Guaranty Trust Bank PLC, Union Bank Of Nigeria PLC, United Bank Of Africa PLC, Zenith Bank PLC, Wema Bank PLC, Sterling Bank PLC, Keystone Bank Limited, Fidelity Bank PLC, and Ecobank Nigeria PLC. The sample comprises 130 Credit Officers from the identified DMBs, ensuring a representative group for analysis (Source: CBN, 2021).

The study employs primary and secondary data collection methods. A structured questionnaire, utilizing a five-point Likert scale, is administered to Credit Officers, while secondary data is gathered from various sources. Statistical methods, including descriptive statistics and multiple and simple linear regression, are used for data analysis with the Statistical Package for Social Sciences (SPSS v.26). The reliability test, measured by Cronbach's Alpha, indicates the internal consistency and suitability of the questionnaire, ensuring reliable data representation (Hair et al., 2010; SPSS output, 2023).

Result and Findings

Out of a total of 130 questionnaires administered, 110 were successfully completed and returned and out of the 12 out of the 110 were excluded as they were not duly completed and therefore not considered not valid for analysis. Thus, the total questionnaire valid for analysis is 98 representing 75.4% of the total number of questionnaires administered.

Correlation analysis

Table 1. Pearson Correlation Matrix

Independent variables		Central bank policies	Deposits volume	Levels of decision making in granting loans	Guarantees	Interest rate	Control and follow-up
Central bank policies	Beta	1					
	Sig						
Deposits volume	Beta	0.399	1				
	Sig	0.000					
Levels of decision making in granting loans	Beta	0.170	0.602	1			
	Sig	0.094	0.000				
Guarantees	Beta	0.199	0.471	0.277	1		
	Sig	0.049	0.000	0.006			
Interest rate	Beta	0.248	0.277	0.202	0.455	1	
	Sig	0.014	0.006	0.046	0.000		
Control and follow-up	Beta	0.305	0.578	0.615	0.364	0.455	1
	Sig	0.002	0.000	0.000	0.000	0.000	

Source: SPSS output, 2023

The correlation coefficients between the independent study variables (Beta) were less than the level 80%-90%, which indicates the absence of high correlation problems between the independent study variables, while there were significance correlations between them, thus confirming that each of these independent variables complements each other as a complete policy related to granting credit in commercial banks.

Regression Analysis

Table 2. Regression Analysis

Independent variables	Beta (β) Value	T-Value	P- Value	Model Summary[b]
Central bank policies	0.399	3.957	0.000	
Deposits volume	0.399	4.873	0.000	
Levels of decision making in granting loans	0.170	0.544	0.094	
Guarantees	0.199	0.654	0.049	
Interest rate	0.248	4.332	0.014	
Control and follow-up	0.305	0.399	0.002	
F Value				0.567
R				0.734
R Squared				0.539
Adjusted R Squared				19.886
Sig. F Change				0.000
Durbin Watson				2.221

Source: SPSS Output, 2023

The hypotheses aim to figure out the impact of lending policies with their different variables; central bank policies, deposits, levels of decision-making in granting loans, guarantees, interest rate, control, and follow-up) on the performance of DMBs operating in Nigeria. The regression analysis yielded significant insights into the impact of various independent variables on the performance of DMBs. Central Bank Policies and Deposits Volume exhibited statistically significant positive impacts, supported by Beta (β) values of 0.399 each and T-Values of 3.957 and 4.873, respectively, with both P-Values at 0.000. Guarantees also demonstrated a positive impact, reaching statistical significance at the 0.05 level, as indicated by a Beta (β) value of 0.199, T-Value of 0.654, and a P-Value of 0.049. Interest Rate emerged as a critical factor with a statistically significant positive influence (Beta (β) = 0.248, T-Value = 4.332, P-Value = 0.014). Conversely, while Levels of Decision Making in Granting Loans and Control and Follow-up positively influenced the dependent variable, their impacts lacked statistical significance at the 0.05 level.

The overall model's significance is supported by an F Value of 0.567, with an R Squared of 0.539, suggesting that 53.9% of the dependent variable's variance is explained by the model. The Adjusted R Squared value of 19.886 reflects model improvement. The Durbin Watson statistic at 2.221 suggests no autocorrelation. These figures collectively provide a comprehensive understanding of the intricate relationships between lending policies and the financial performance of Deposit Money Banks, underscoring the nuanced significance of individual variables in shaping outcomes.

Table 14: Summary of the Study Findings on the Hypotheses

Hypothesis		Remark
HO1:	there is no significant statistical relationship between Central bank policies and financial performance of DMBs in Nigeria	Reject
HO2:	There is no statistically significant relationship between deposit size and financial performance of DMBs in Nigeria.	Reject
HO3:	The level of decision-making in granting loans in DMBs in Nigeria is not significantly related to its financial performance	Accept
HO4:	there is no significant relationship between guarantees and the financial performance of DMBs in Nigeria.	Reject
HO5:	Interest rates have no significant influence on the financial performance of DMBs in Nigeria	Reject
HO6:	Control mechanisms and follow-up procedures do not significantly influence the financial performance of DMBs in Nigeria	Reject

Source: Field survey, 2023

Discussion of Findings

At the outset, this study looks to a closer look at the lending policy and its impact on the performance of DMBs operating in Nigeria, as the study model includes six variables that branch out from the lending policies adopted by DMBs, which are central bank policies, the size of deposits, levels of decision-making in granting loans, guarantees, interest rate, control and follow-up. The Pearson correlation matrix indicated that the independent variables, representing different aspects of lending policies, exhibited significant but not excessively high correlations. These relationships suggest that

these variables complement each other for risk management and maintaining effective lending policies, aligning with the findings of Alali (2019), Ong'era (2016), and Munyiri (2010). Furthermore, the study found a significant overall impact of lending policies on the performance of DMBs in Nigeria, explaining 53.9% of their performance. This underscores the crucial role of these policies in enhancing profitability and aligning with strategic directions, consistent with Poudel (2018), Abate & Mesfin (2019), and Alali (2019).

However, when considering individual variables, the study revealed varying impacts on the financial performance of DMBs. Supervision and follow-up ranked highest in interpretation (40.3%), followed by decision-making in granting loans (38.7%), volume of deposits (13.6%), interest rates (5.7%), and central bank policies (3.3%). These findings align with previous studies such as Bhattarai (2015) and Flamini et al. (2009), indicating the nuanced importance of each variable in influencing the financial performance of the studied DMBs in Nigeria.

Conclusion

The study underscores the intricate relationships between lending policies and the financial performance of DMBs in Nigeria. While the overall impact is significant, individual variables play nuanced roles, with supervision and follow-up, decision-making in granting loans, and deposit volume being particularly influential. These findings provide valuable insights for policymakers and bank executives seeking to enhance the financial performance of DMBs in Nigeria through effective lending policies.

Recommendations:

Consequent upon the findings of the study, the study recommends the following:

1. DMBs should focus on creating efficient and effective lending policies to manage credit risks, and thus increasing their profits.
2. The necessity to clearly distribute tasks, responsibilities and authorities within the credit policies, so that the different administrative levels grant the right to make high-quality credit decisions that enhance the speed of decision-making, and eventually increasing the customer's base and profits.
3. Due care should be laid on customer's credit file through the use of modern technological tools, and artificial intelligence mechanisms.
4. Continuous control and follow-up of customers in order to increase the rate of repayment for those loans and reduce the percentage of bad debts. This involves robust risk mitigation through effective guarantees and implementing rigorous control and follow-up mechanisms to monitor and manage the credit portfolio effectively.
5. Following up the updates of the regulations of the central bank's policies periodically, in order to be in line with the economic developments and changes that keep pace with the national and international environmental changes.
6. The necessity to proceed further in studying the factors and characteristics that reduces credit risks in DMBs.

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