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Impact of Loan Loss Provisioning On Banks Credits in Nigeria during Consolidation Period

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ABSTRACT: *The banking sector in Nigeria over the years has witnessed a number of crises that led to the distress of many banks particularly in the '90s through early 2000s. The crisis, which was caused and fueled by among others high figures of loan loss provisioning leading to dissipation of profit, capital erosion and impairment of liquidity, negative shareholders funds and consequently poor asset quality these has necessitated the introduction of banking sector reform agenda , which includes consolidation in order to address the problem decisively. This study therefore, assesses the impact of loan loss provisions on banks credits in Nigeria, during the consolidation era. The methodology of the study is designed along historical approaches and use of descriptive statistics. It also uses a paired sampled t-test to measure or test the research hypothesis based on the secondary data collected from 10 sampled banks over a seven years period i.e. from2002 through 2008.The study limits itself to 2008 because thereafter other reform agendas were introduced, such that the inclusion of 2009 to 2013 might impede or distort the actual outcome of the study. The study finds that loan loss provisions has negative impact on banks credits in Nigeria. Based on the findings, it is recommended that the regulatory authorities should be evolving tighter limits on excessive concentration of risk and tightening provisioning requirements on non-Performing loans. Further, strict application of prudential guidelines becomes imperative, so that banks liquidity and Capital bases are sustained in such a way that it will not rubbish the consolidation reform policy gains.*

KEYWORDS: *Bank Credits, loan loss provisions, Reform agenda, Consolidation, Assets quality.*

I. INTRODUCTION

Reformation of the Banking sector is becoming a global phenomenon. The driving forces for this attitudinal change are technological innovation, deregulation of the financial sector and international competition (ECB 2001). Another reason can be attributed to banking crisis of the 1990s witnessed in the Asia and Latin America. These global phenomena have its toll on the Nigerian banking sector which has paved way for the Nigerian banking sector reform. The banking sector reform in Nigeria covers variety of issues, prominent among which is bank consolidation policy. Consolidation is a policy geared towards enhancing the performance of banks by raising their capital base either through mergers, absorptions (acquisitions) or recapitalizations. Bello (2005:46) views consolidation as the merger of two or more commercial interests or corporations, while Soludo (2005:5) perceives consolidation as an amalgamation or a combination in which all the combining companies are legally dissolved and a new company is formed with the objectives of enhancing performance through sound asset quality as one of the yardsticks. In this paper however, consolidation refer to the intervention policy of the Central Bank of Nigeria (CBN) in 2004 to better sanitize the banking sector.

In Nigeria, commercial banking began in 1892 when the South African based African Banking Corporation (ABC) opened a branch in Lagos. It ran into operational problems which led to its closure and subsequent take-over in 1894 by the Bank of British West Africa (BBWA) now First Bank of Nigeria. With the coming of the then Barclays Bank now Union Bank of Nigeria, in 1917, expatriate banks dominated the banking sector until when the indigenous banks started coming up in 1927(CBN,1995). The period 1892 to 1951 is usually referred to as the era of "*free banking"* or "*banking boom*" in Nigeria because apart from the absence of stringent laws governing the establishment and management of banks during this period, the establishment of banks was not related to the capacity of the economy to effectively absorb the sharp growth in financial asset (CBN, 1995),but the establishment of indigenous banks then was driven largely by nationalistic considerations rather than economic factors; hence these banks ran into crisis more so that there was minimal regulation. Most of the early indigenous banks collapsed in rapid succession (Okigbo, 1981). The introduction of the Banking ordinance of 1952, the establishment of the Central Bank of Nigeria (CBN) in 1959, and the promulgation of the banking Act of 1969 made the bank distress syndrome relatively contained in Nigeria.

Since 1892, the banking sector has witnessed devastating episodes of distress. The first took place in the late 1930s and early 1950s mainly due to lack of regulation, poor asset quality and bad management. In fact, 21 of the 25 indigenous banks which had been established in the country by 1954 failed (Okigbo, 1951). The federal government policy of indigenization made Federal government to acquire 40 percent of foreign banks holding. This action created further collapse and crisis in the banking industry as government resort to borrowing from banks to finance its deficit budget this resulted in huge bad debt. This literally translated into poor asset quality, attracting huge loan loss figures. The intervention of government in the banking sector to resolve distress crisis led to the introduction of the Structural Adjustment Programme (SAP) and the establishment of the Nigeria Deposit Insurance Corporation (NDIC) in 1986 and 1988 respectively. The liberalization policy in 1986 re-introduced banks with foreign equity. Systematic distress resurfaced in the Nigerian banking industry again between 1989 and 1998 leading to a number of distress syndromes. The crisis of 1989 was attributed to the withdrawal of public sector deposits from banks. This development constrained banks' ability to grant out fresh loans, while the ones issued out were turning out to be non-performing, hence attracting more loan loss provisions. Most of the state-owned banks became insolvent because they carried heavy bad debts (Hamman, *et al* 2004). The 1996/97 liberalization led to significant number of bank closure and take- over's and control by the CBN and NDIC. The alarming rate of distress scourge in the banking sector between 1997 and 2003 gave birth to the banking sector reform of July 6, 2004 of which consolidation is one of the 13-point reform agenda (Hamman, *et al* 2004).

Statement of the Research Problem and Objectives : It has been argued that one of the main thrusts of bank consolidation in Nigeria is to improve the asset quality of banks and reduce distress tendencies. Prior to consolidation, the banking sector has been recording double digits in the ratio of loan loss provisions, which indicate poor asset management. For example CBN (2004, 2005) reports ratios of 19.3%, 24.8%, 22.6% and 19.1% for loan loss provisions. The hope is that the new policy intervention will bring about better asset management in line with (Soludo, 2005:15) proposed distress resolution strategy. Banks in the post consolidation are expected to record low *loan loss provisions*. However, barely four years into the consolidation of the industry, the CBN Governor in 2009 reports that some banks have seriously exhibited varying symptoms of distress. This necessitated the CBN to bail out nine of the 24 surviving banks with the sum of ₦620 billion in 2009 in order to prevent the occurrence of distress in the industry (Sanusi, 2009). The action of the CBN became necessary because the balance sheet of the affected banks had shrunken, their shareholders funds impaired because of huge loan loss provisions and they had liquidity problems. Since this unpleasant development that greeted the banking industry is a clear indication of the banks' poor asset management, the question that comes to mind is whether consolidation has really helped improve the asset quality, thus reducing the *loan loss figures* of banks in Nigeria. It is therefore, pertinent to assess the impact of the new intervention policy on the loan loss provisions of banks in Nigeria (Sanusi, 2009).

The objective of the study is to assess the impact of loan loss provisions on banks credit in Nigeria before and during the consolidation era. In order to achieve the above objective, the current study tests the null Hypothesis that Loan loss provision has no significant impact on banks credits in Nigeria during consolidation period. This study is limited to the assessment of loan loss provisions and banks credits of banks before and after consolidation era in Nigeria. Consolidation as used in the paper connotes government's intervention policy by way of an increase in banks capital. The study is restricted to only one of the measurement variables of asset quality out the many variables that are used by the CBN; this variable is the loan loss provisions ratios. The study covers a period of seven years, 2002 to 2008 inclusive, where 2002 to 2004 is considered the pre-consolidation era and 2005 to 2008 as post-consolidation. The period between 2009 and 2013 was excluded because new reform measures other than consolidation were introduced, which may impede the outcomes of the earlier exercise.

II. LITERATURE REVIEW

In line with the statutory mandate of the CBN, under its relevant Act as amended, the CBN is empowered to regulate Nigeria's financial sector in order to ensure monetary stability and a sound financial system. Prior to the liberalization of Nigeria's banking system in 1986, the regulatory framework was based on direct control of the bank's balance sheet by the CBN. This involved the placement of ceilings on credit expansion as well as interest rate specification of their cash reserve requirement and liquidity ratios. Also, entry into banking industry in terms of the granting of new banking licenses was highly restricted. Some of the banking regulations were often perceived by operators as counter-productive and a significant factor of stress in the system, especially as they inhibited operator's ability to take full advantage of changing market conditions.

Hamman et al (2004) observe that the sharp fall in Nigeria's oil revenue in the first half of the 1980s precipitated a severe economic crisis which exposed the fragility of the nation's banking system. In response, the federal government embarked on a major shift in economic strategy in 1986 with the adoption of the Structural Adjustment Programme (SAP). The desire to sanitize banking operations in a market-driven environment prompted the introduction of measures which adversely affected some of the banks that were not accustomed to conducting business in a competitive market environment. Among such policy measures were the dismantling of controls and the introduction of market instruments unfamiliar to bank operators. The establishment of the Nigerian Deposit Insurance Corporation (NDIC) by the government in 1988 to provide a partial insurance for depositors' funds on the advice of the CBN was a major policy measure intended to restore public confidence in the banking industry.

As a result of liberalization of the financial system and technological progress soon after SAP, the Nigeria banking system had to undergo major policy changes. Many new private banks, some with foreign equity interests came into existence. The policies however, lasted for only few years as the licensing of new banks was suspended in 1993 and interest rate regulation was briefly re-introduced in 1994. This development subjected the banks, especially the new ones to serious problems in attracting bank deposits, due to the high cost of operations and forcing most of them to opt for making more use of non-price instruments in order to gain a greater market share. For instance, advertising expenditures, technology innovations and relationship banking all of which had been less attractive to some banks, prior to deregulation became increasingly important to them. Other banks used branch expansion as a major competitive instrument to gain a greater market share of both deposit and services. Asogwa (2004) observes that since 1996, the financial system has been significantly liberalized with the objective of enhancing the efficiency of resources allocation and strengthening competition in the banking industry. As a result of governments liberalization policy and improved performance of the financial system in particular, some developments including structural reforms were made in the Nigerian banking system. First, there has been a significant number of bank closure and takeovers of management and control by CBN and the NDIC. Other important developments in the banking system included the conversion by some banks to public limited liability company (Plc) and the introduction of universal banking in 2001. The Universal banking policy was intended to place merchant banks on a same level playing field with their commercial bank counterparts as well as provide greater opportunities for banks to engage in other forms of non core banking business.

Asogwa (2004) however, argues that despite these reforms, Nigeria's banking system is still a long way from attaining the desired objectives for which the reforms were introduced. Over the years, the implementation of reforms has suffered serious setbacks due to a number of factors. For instance, the efficacy of liberalization has often been undermined by the scale of distress arising from lack of compliance by banks with the CBN's prudential requirements and an inadequate supervisory capacity of the regulatory authorities. Another major impediment to the efficacy of financial sector reforms has been the failure to maintain macroeconomic stability, due to the Federal Government's large budget deficits which were financed mainly by the CBN.

The major objectives of the banking system are to ensure price stability and facilitate rapid economic development (Soludo, 2005). Regrettably, these objectives have remained largely unattainable in Nigeria as a result of some deficiencies. These include low capital base, large number of small banks with relatively few branches, dominance of few banks and poor rating of a number of banks. To address these deficiencies, the CBN came up with a 13-point banking reform agenda in June 2004 top most of which, the requirement for all Deposit Money Banks (DMBs) operating in Nigeria to have a minimum capital base of ₦25 billion through either raising of additional capital or mergers and acquisitions. The motive for the Consolidation as contained in the maiden speech delivered to the Bankers' Committee by the CBN Governor on June 14 2004 was to ensure diversified, strong and reliable banking sector, which would ensure the safety of depositors' money, and play active developmental roles in the Nigerian economy and be a competitive player in Africa and global financial system. The reform, which later came to be known as bank consolidation, which started in 2004 extended the deadline given to banks up to December 31, 2005 within which to meet the capital requirement. Banks are unavoidably involved in risk taking by the nature of their business operations. Types and various forms of risks faced by banks are well documented in the literature (Sundarajan & Bakino, 1991; Ebhodaghe, 1992; Ferguson, 2003). For instance, banks face the risk of not being able to meet their obligations to depositors to whom they have issued demandable claims. This is called *liquidity risk*. There is also the risk of default or *credit risk*, which is the likelihood of borrowers failing to repay as agreed. Similarly, there is the possibility that the mechanisms processes and controls employed by banks to carry out its functions fail to achieve desired results, thus causing *operational risk*.

The theoretical literature also indicated that besides individual bank's specific endogenous factors, there are also some exogenous factors that trigger risks and which banks have to contend with. Some of these external factors are adverse developments in the macro-economy, policy reversals; lapses in the regulatory/supervisory framework as well as weak legal and or judicial system that could precipitate or exacerbate poor quality assets. To stay in business, banks generally adopt risk mitigating principles to minimize their risk exposure by rigorously screening lending opportunities available, using unique expertise as well as continuously monitoring and obtaining repayments (Donli, 2004). This presupposes that competency in the overall risk analysis, and effective monitoring mechanism could minimize the incidence of non-performing facilities and loan loss provisions in the banking system. It further underscores the importance of good assets quality analysis for a bank.

Empirical Review : In a study conducted by Adam (2003) on bank regulation, risk asset and income of banks in Nigeria using before and after regulation approach, complemented by statistical test of equality between means of different samples found that regulation has improved risk asset quality, loan loss provisioning and profit performance in the banking sector. Other studies found the same result in spite of the difference between the models used, for example;

Gonzalez – Hermosillo & Takatoshi (1997) revealed that the ratio of non – performing loan to total loans increase the probability of banking fragility as it reduced the probability of survival. King *et al* (2006) argued that because of environmental changes, causes of bank distress are also changing. Indeed, there are a lot of legislative and supervisory rules changes during the last decade about banking. The authors test the significance of the difference, in means, for selected ratios of failing banks between two periods 1984 – 1994 as pre regulation and 1995 – 2003 as post regulation. They found out that the performance of failing banks of the first period is significantly weaker than the one of the second period implying that regulation enhances banks performance.

In another study conducted by Donsyah (2003) on impact of bank capital requirements in Indonesia, using regression model, found out that regulatory capital influences the behavior of Indonesian Banks. Further, Banks credits decelerate and that banks prefer to shrink the asset and liabilities due to capital regulation which would impact the economy in terms of slowdowns of credit supply. Amplifying this study further,(Blum and Hell wig ,1995) showed the relationship between bank equity and bank lending may amplify macroeconomic cycles, tempting banks to lend less when times are bad and to lend more when times are good.

Laeven and Majnoni (2002) conducted a study on banks' loan loss provisioning, using regression, their findings indicate a statistically significant correlation between loan loss provisions and each of the explanatory variables they have hypothesized. However, the loan loss provision and loan asset growth showed that the correlation between loan loss provisions and loan growth was weak, suggesting imprudent behaviors by the average banks. However, they also found out that many banks tend to delay *provisioning for bad loans* until too late when cyclical downturns have already set in, possibly magnifying the impact of the economic cycle on banks income and capital. Again they found out that bank make *statistically significant higher provisions* when they incur losses than when they generate positive level of income before provisions and tax. The study concluded that during cyclical downswings banks eat into their capital to make provisions for loan losses, and that therefore on average banks do not provision enough during good time to cover losses during bad times.

Studying loan loss provisioning on Philliphine Banks Danvee (2010) using a comprehensive and unique data base of Philliphine's financial intermediaries examine how the bank capital position influence the management of loan loss provisioning between (2001-2009). The results showed evidence of capital management through loan loss provision; they also found out that both low capitalized and well capitalized banks made provisions during economic recessions. However, studies by Bikker and Metzemakers (2004), Bushman and William (2007), and Moyer (1990) found a negative relationship between capital ratios and loan loss provisions, whereas Collins et al (1995), Beattie et al (1995) and Eng and Nabar (2007) found a positive relationship between capital ratios and loan loss provisions. Therefore, while determining capital adequacy banks should make adjustments for loan loss provisions, so as to show the true capital position, un- impaired by losses. Berger et al (1991) study of US banks showed that non performing loan signaled future problems in an increase in loan write-off (loan loss provisions) for banks which have passed capital adequacy requirements.

Loan loss provision is critical in assessing financial system stability, in that it is a key contributor to fluctuations in banks profitability and capital positions, which has a bearing on banks supply of credit to the economy (Beatty and Liao, 2009). Some of these studies discussed in this work were carried out in advanced economies, using different methodologies, and are carried out in an environment where there is relative stability in these economies financial systems. Therefore, the studies in the developing economies may suffer some hitches because of environmental factors and difference in the methodology; hence the study may not necessarily yield the same results as was the case with those in advanced economies (Sabari, 2010). Nevertheless, their findings suggest the need for conducting research in similar areas in Nigeria, more so, none of the studies specifically studied bank Credits , loan loss provision, behavior before and after the consolidation per se; hence this added value to the current study. Also, the paired samples test shows clearly the dichotomy between pre and post consolidations periods .and the paired sample t test is used since we have two interval/ratio variables from the same population .Further, Paired sample t test is used and not independent sample t test because the scores are for the same population/sample-meaning that there is an underlying relationships between the scores.

Theories : There are quite a number of economic theories that provide theoretical underpinning for bank consolidation. Some of these theories are bank efficiency theory, synergy theory, too big to fail (TBF), Agency, share holders value and financial intermediation theories. Synergy theory suggests value enhancement resulting from consolidation. According to Pandey (2005), synergy implies a situation where the combined firm is more valuable than the sum of the individual combining firms. It is defined as two plus two equals to five (2+2>5) phenomenon. Synergy refers to benefit other than those related to economies of scale. Enyi (2006) sees synergy as a benefit realized far in excess of the sum of the combined benefits realizable from the individual combining firms. This means that when two banks are put together, they are worth more than the value of the firms apart and is algebraically expressed as a+b+gain (Arnold, 2007).

According to the theory of too big to fail; certain financial institutions are so large and so interconnected that their failure will be disastrous to an economy. Proponents of this theory believe that these institutions should become recipient of beneficial financial and economic policies from government and/or central bank to keep them alive. However, critics see this as counterproductive and that large bank or other institutions should be left to fail if their risk management is not effective. This theory has been refuted in countries like China and also in Nigeria where the regulatory authority has been bailing out banks that display or show distress tendencies. The study will concentrate on the synergy theory and the theory of financial intermediation (which will be discussed below), because it is the candid belief of most researchers on consolidation that objectives of or the benefits derived mainly from consolidation is the synergy effect, which is a function of financial intermediation hence the choice of the two theories.

Theoretical Framework : This study is based on the synergy and financial intermediation theories. It is widely recognized that the financial system plays crucial role in economic development. By separating the saving and investment functions, such that those who save need not to be those who invest, the financial system enhances rational saving and investment. This is more so, that investment in all economic sectors, particularly the real sector, made possible by the financial system, increases the quantum of goods and services produced in the economy. As national output increases, the level of employment improves. At a broad level of generalization, empirical studies have established strong evidence of a positive correlation between real growth of output and banks assets (Goldsmith 1969, Cameron 1972, McKinnon 1973, Gurley and Shaw, 1976). The study examined bank credits and loan loss provisions of banks during Consolidation era in Nigeria. The creation of a pool of investment fund is the objective of bank financial intermediation. Banks through credit creation provide a pool of investment funds for borrowers. But the ability to create credit to a large extent depends on the development of a nation's banking system, which consolidation hopes to provide, and poor asset quality leads to loan loss provisions figures. According to Joseph, (1911) bank financial intermediation does not only entail creation of a pool of investible funds, it's also involves allocating funds.

III. METHODOLOGY

The study is designed along historical and descriptive approaches. It utilizes historical data especially the annual reports and statistical bulletins of the banks and regulators which provides useful sources of data for the study. The population of the study comprises the 25 Deposit Money Banks (DMBs) that emerged after the consolidation exercise as at 2005 (Morgan,2005).The sample size is 10 banks, selected out of the 25 operational banks.. The Margin of error formula was modified, and derives Bebeji stratified sample size formula and it is used to arrive at the sample size, as shown below (Zwillinger, 1995 & Bebeji, 2011).

A 95 % confidence level is used and a margin of error of 0.05 with a critical value of 1.906 and standard deviation of 8.59 which gives the sample size of 10.4 or approximately 10 banks.

$$E = Z^{\alpha}/_{2} \left(\frac{\sigma}{\sqrt{n}}\right)$$

$$E\sqrt{n} = Z^{\alpha}/_{2}. (\sigma)$$

$$\sqrt{n} = \frac{Z^{\alpha}/_{2} . (\sigma)}{E}$$

$$n = \left(\frac{Z^{\alpha}/_{2} . (\sigma)}{E}\right)^{2}$$

Source- Bebeji (2011)

Where: **n** is the sample size,
$Z^{\alpha}/_{2}$ is the critical value
(σ) the standard deviation of the population
E margin of error

Stratified sampling was used to filter the elements in the population based on proportional stratums' share of the entire population and then to pick appropriate number of sample from each stratum in order to provide adequate and diverse information required for the study. Purposive sampling was further used to select the banks from each strata based on their capital base. The following Table 1 (number one) shows the proportion of Banks to be selected from each stratum

Table 1 Proportion of banks to be selected from each stratum

Group	Number of Banks in each group	Proportion of Banks to be selected in (%)	Number of Banks to be selected from each stratum
1.	7	28%	3
2.	9	36%	4
3.	6	24%	2
4.	3	12%	1
Total	**25**	**100%**	**10**

Table 2 Names of Banks in each stratum

GROUPS	BANKS
GROUP ONE	FBN; GTB; UBA; INTERCONTINENTAL; UBN; OCEANIC; ZENITH
GROUP TWO	ACCESS; DIAMOND; ECOBANK; FIDELITY; IBTC; PHB; WEMA; AFRIBANK; STERLING
GROUP THREE	FCMB; FIRST INLAND; SKYE; SPRING; UNITY; EQUITORIAL TRUST BANK
GROUP FOUR	NIB; STANBIC; STANDARD CHARTERED

Source: Morgan (2008)

For the stratification purposes, the IMF report that divided the banks into four strata after consolidation as shown in Table 2 above was used. Data for this study was collected from secondary sources journals, CBN, NDIC publications and NSE facts book. Paired sample t-test statistical technique was used as a tool for the hypothesis testing because it can be use to assess the pre and post consolidation behavior/ impact concurrently. Further, paired sample t test is useful because we have two interval/ratio variables from the same population, hence it is preferable and not the independent sample t test because the scores are for the same population/sample-meaning that there is an underlying relationship between the scores.

IV. DISCUSSIONS AND FINDINGS

In this section, a descriptive analysis of the datasets of the variables of the study is given. The analysis is then followed by test of the hypothesis that relate to each dataset and discussion of the result obtained there from.

Total credit and Loan Loss Provisions : The figures in Table 3 below shows an Extract of the total credits, total loan loss provisions and loan loss provisioning ratios for the period under study.

Table 3 Loan Loss Provision Ratios

Year	Total Credit ₦ million	Loan loss provisions ₦ million	Proportion of loan loss provision ratio (%)
2002	212,737	41,225	19.3
2003	247,783	51,750	20.8
2004	315,060	56,791	18.0
2005	426,830	54,056	12.6
2006	677,565	66,704	9.8
2007	1,472,088	53,808	3.6
2008	2,639,745	110,152	4.2

Source: The selected banks annual reports various issues

It can be observed from the table 3 that, the provisions for loans losses ratio during 2002 to 2004 (pre-consolidation period) is higher than 2005 to 2008 (post- consolidation period). The loan loss provision ratios continue to decrease from 12.6% in 2005 to 4.2% in 2008. By contrast period between 2002 to 2005 which was considered as pre-consolidation period has been recording double digits of loan loss provision ratios as against the single digits recorded during post consolidation period. This suggests that the proportion or ratio of provisions made for loan loss provisions is higher prior to consolidation as against post consolidation period. To test the hypothesis that Loan loss provisions has no significant impact on bank credits in Nigeria, during a consolidation era, a test was carried out using SPSS and the summary of the output is presented below.

Table 3: Paired Samples Test results for Loan Loss Provision

	Paired Differences					T	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference: Lower	Upper			
Pre-Consolidation Loan Loss Provisioning - Post-Consolidation Loan Loss Provisioning	-8267.333	9800.729	5658.453	-32613.693	16079.026	-1.461	2	.281

Source: Author's computation from SPSS Output

Effect of Size Statistics

$$Eta = \frac{t^2}{t^{2+N-1}}$$

Where: t^2 = t test results; N= number of observations

Table 3 contains summary of a paired samples t test conducted to evaluate the impact of loan loss provisions on banks credits and the SPSS output is as shown above. The result shows that the mean increase in post consolidation period was 267.33 with a 95percent confidence interval ranging from 49922.00 to 58189.33. The t-value is t (2) = -1.461, while the p-value is 0.281, which is within the confidence interval of -32613.69 and 16079.02. From the result, the p-value, which is 0.281, is greater than the significance level of 0.05 (p >0.05) Thus, from the result, the difference between the two means is not statistically significant and the means for the paired sample test are not equal. The result does not therefore provide sufficient evidence for rejection of the null hypothesis that Loan loss provision has no significant impact bank credits in Nigeria. And to assess the magnitude of the intervention policy, effect of size statistics further computed is 0.51.Therefore, given our eta squared value of 0.51 we can conclude that there was large effect with substantial difference for loan loss provisions figures for pre and post consolidation periods. The result is consistent with the finding of Bushman and William (2007), Bikker and Metzemakers (2004) and Moyer (1990) that there is a negative relationships between capital ratios and loan loss provisions. But contradicts the findings of Eng and Nabar (2007), Collins et al (1995), Beattie (1995) and Adam (2003).

FINDINGS : The major finding on the loan loss provision variables is that since the results shows negative relationships, it suggests that consolidation has not spiraled the level of credits facilities granted as was the general notion prior to consolidation and secondly, banks do not fully comply with the prudential regulations, especially on issues of loan loss provisions, hence inverse relationships between Total credits and loan loss provisions ratios..

IV. CONCLUSIONS

The study has established that there is negative and insignificant relationship between loan loss provision and bank credits. It was found out that the banks credit policies on loan loss provisions after consolidation were not effectively implemented by most banks hence the figures for loan loss provision and loans loss ratio has an inverse relationship with Naira value, because while the Naira value is going up, the ratio is decreasing/declining. Prior to consolidation banks do over provide for loan losses and in some instances provide 100%, confirming high degree of poor asset quality. However, immediately after consolidation the provisioning declines sharply to as low as 50% ratio, which suggest that the facilities are in the range of doubtful categories (as against prior to consolidation when they are in lost category); the study noted that consolidation does not encourage over provisioning and huge nonperforming figures It is pertinent to state that high quality asset supports a capital structure, low quality assets results in loss threaten liquidity and impair solvency. The higher the asset quality the less need for a high capital base and vice versa, hence the need for the sound asset quality variable that is loan loss provision to be effectively managed.

V. RECOMMENDATIONS

The prudential guidelines should be reviewed frequently and the regulatory authorities must ensure strict compliance. So that problem banks can be detected early for corrective measures to be taken.

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