

Comparative Assessment of Financial Assets and ... Ahmodu, A. O. Et. al., (2026)

Comparative Assessment of Financial Assets and Equity on Bank Lending Rate among Deposit Money Banks in Nigeria

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Abstract

This paper examines the Comparative Assessment of Financial Assets and Equity on Bank Lending rate among Deposit money Banks in Nigeria. The research uses the qualitative approach to the study wherein secondary data sources like annual reports, financial statements, and related literature were used. The results indicate that adequate financial analysis can help credit risk management, and minimize the number of non-performing loans as well as to improve the loan evaluation of deposit money bank which will result in the better financial output. A set of key financial ratios, credit evaluation ratios, and lending results reveal that strategic applications of financial analysis provide the Deposit Money Bank, Nigeria with strength in its lending decisions and general profitability. For effective bank lending, this paper proposes the constant upgrading of modern financial analysis equipment and employees and equip them with capacity building. The paper would be beneficial to the literature as it seeks to shed light on the contribution of financial analysis as an important asset of risk prevention and successful lending in Nigerian banks.

Keywords: Financial Analysis, Banks Lending, Credit Risk Management, Deposit Money Bank, Loan Assessment, Non-Performing Loans.

Introduction

The banking industry highly depends on financial analysis in an attempt to maximize lending habits and control credit risks. Financial analysis is a current and relevant topic in Nigeria since the economic environment requires responsive measures created by the dynamics of business (Abubaka et al. 2019). Financial information is vital in determining the creditworthiness of the lender in an organisation; thus, affecting the quality of lending and financial performance of banks. Nigerian banking sector has been growing at a great pace and is undergoing a lot of reforms. Nevertheless, credit risk, non-performing loans, and capital adequacy are still among the dilemmas that are faced by this sector. Financial analysis, in turn, through the case of credit risk management has taken the stage in defining the stability and profitability of banks (Ajao and Ehi 2019).

Financial analysis is the most important tool used in deposit money banks in Nigeria to analyze the risks involved in lending using different tools and techniques. In addition, financial analysis helps banks in decision making when lending to individuals since the banks carry out analysis of the financial statements, ability to repay the loan as well as the economic climate of the business. The process promotes chances of loan recovery and alleviates the determine of bad debts which has traditionally damaged the profitability of banks in Nigeria, Akinselure and Abisola (2019). Consequently, banks should continuously



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advance their financial analyses framework in order to be able to stay afloat. Credit risk management has been associated with the financial soundness of the commercial banks around the world. (Alshatti, 2015) discovered that a good credit risk management enhances the profitability of the banks by diminishing loan losses as well as increasing the quality of the relevant assets. Although his research was dedicated to the case of Jordanian banks, those principles can be applied to the Nigerian reality, when banks are under the same threats of economic changes and shifts in the regulation conditions. In Nigeria, Deposit Money Bank, Nigeria are well established institutions with long histories relative to the delivery of financial services yet they still find issues with credit administration and loan quality portfolios, (Fatima, 2013). Such issues require effective financial analysis tools to counter the risk and to enhance lending success. Appropriate analysis can enable banks to customize loans to meet matters of their customers in terms of the finances that they can channel and hence inclusion and economic growth. The recent studies in Africa also focus on the effect of the credit risk to the performance of the commercial banks. As an example, Kwashie et al. (2022) examined Ghanaian banks and stated that credit risk management is an effective means that contributes to enhanced financial performance. These results illustrate the topicality of a tight financial analysis in the region as the measure of the experiment of efficiency of lending. Likewise, Majani (2022) also considered banks included in the Nairobi Securities Exchange and confirmed the existence of the positive correlation between financial outcomes and credit risk management. This implies that financial analysis can be of great help to banks in various African markets, such as Nigeria, in regulating their exposure to credit risk as well as maintaining profitability.

According to Molla (2018), Janata Bank Limited was also examined and it was concluded that an evaluation of loans using financial analysis has a direct impact on the performance of banks. These observations demonstrate the universal need of banks to focus on the financial examination in lending behaviors so as to achieve risk aversion and financial feasibility. Lastly, the review study by Olalere and Wan (2016) on risk management and financial performance in the cases of the Nigerian banks emphasizes that cohesive financial analysis models are necessary in handling credit risks. Their report suggests that there should be an on-going counteract of the current risk assessment techniques in order to make the Nigerian banks more resilient to market fluctuations and credit shocks. To sum up, financial analysis can be defined as the foundation of the successful lending activity of banks in Nigeria. With the deposit money banks in the era in economy of uncertainty, following advanced credit risk management and financial evaluating strategies will be essential in transforming the performance of loans and overall soundness of the organisation.

Statement of the Research Problem

Inadequate financial analysis leading to poor lending decision resulting in increased non-performing loans and decreased profitability in Deposit Money Bank, Nigeria. Such issues require effective financial analysis tools to counter the risk and enhance lending success. Appropriate analysis can enable banks to customize loans to meet matters of their customers in terms of the finances that they can channel and hence, inclusion and economic growth. Thereafter, the research or paper is needed to examine the impact of financial analysis as a tool for effective bank lending in Deposit Money Bank, Nigeria.

Objectives of the study

The main objective of the study was to analysed how financial statement components influence the bank lending rate volatility of deposit money banks in Nigeria. The specific objectives are to;

1. assess the effect of financial assets on bank lending rate volatility of deposit money banks in Nigeria;
2. analyze the relationship between financial equity and bank lending rate volatility of deposit money banks in Nigeria.

Research Questions

The study provides answers to the following research questions so as to achieve the research objectives.

1. To what extent does financial assets affect the bank lending rate volatility of deposit money banks in Nigeria?
2. What is the relationship between financial equity and bank lending rate volatility of deposit money banks in Nigeria?

Hypotheses:

The formulated hypothesis was tested on the significant level of 0.005

H₀₁. Financial assets does not have significant effect on the bank lending rate volatility of deposit money banks in Nigeria



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H02. Financial equity does not have significant relationship on bank lending rate volatility of deposit money banks in Nigeria

Research Design

Research designs are perceived to be an overall strategy adopted by the researcher whereby different components of the study are integrated in a logical manner to effectively address a research problem. In this study, the researcher employed the survey research design. This is due to the nature of the study whereby the opinion and views of people are sampled. According to Singleton & Straits, (2009), Survey research can use quantitative research strategies (such using questionnaires with numerically rated items), qualitative research strategies (such using open-ended questions), or both strategies (such mixed methods). As it is often used to describe and explore human behaviour, surveys are therefore frequently used in social and psychological research.

Population of the Study

According to Udoyen (2019), a study population is a group of elements or individuals, as the case may be, who share similar characteristics. These similar features can include location, gender, age, sex or specific interest. The emphasis on study population is that it constitutes individuals or elements that are homogeneous in description. This paper used qualitative research method where they mainly used secondary data focusing on the influence of financial analysis as an instrument towards effective lending by Deposit Money Banks in Nigeria. The option of qualitative research was selected due to the capability of this method to study complex financial concepts and ways of lending in depth by analysing and comprehending the existing information instead of collecting numerical data. The proposed research design was focused on the collection and analysis of ideas related to the findings that have been documented and scholarly studies used in the context of financial analyses and credit risk management in Nigeria banking industry. The sources of this research had been existing academic literature, official bank reports, regulations and credible articles on financial analysis, bank lending, and credit risk management, specifically in the case of the Deposit Money Bank, Nigeria or the deposit money banks in Nigeria at large. It included a purposive sampling method to select the sources that were published in the period of 2015 to 2025, so that the data on the issue represented modern field practices and problems in the bank sphere of investigation.

Sampling and Sample Size

The sample selection was carried out on the basis of relevance, credibility, and contribution to the topic of investigation. The data collection method consisted of a secondary source that was gathered via the general search of academic databases and online resources including ResearchGate, Google Scholar, JSTOR, and institutional repositories. The method of selection entailed screening of abstracts and full-text to come up with information that contained relevant studies, reports and analysis related to the subject under study that addressed financial analysis techniques, credit risk assessment, loan evaluation, and loan outcomes. During data extraction, emphasis was given to contents and conclusions that were relevant to the research questions, thus coverage of the subject matter was inclusive. Analytical procedure entailed the use of thematic content analysis which is a qualitative approach that would identify, code and categorize the main themes in the literature gathered. The method supported the composition of different views on the concept of financial analysis and contribution to efficient lending by banks. Such themes as credit risk management, loan performance, and difficulties of the banks in Nigeria were elaborated in order to order all the findings in accordance with them. In order to improve the rigor of the analysis, the study critically analyzed the validity and the reliability of the sources and compared the findings of all the different studies and noted the similarities and differences. This triangulation increased the strength of the conclusions that were made using the secondary data. Comprehensively, the methodology was adequate to carry out the study as a comprehensive and sensitive study with an aim of understanding the impact of the financial analysis on the performance of bank lending within the Nigerian banking context, especially on Deposit Money Bank, Nigeria.

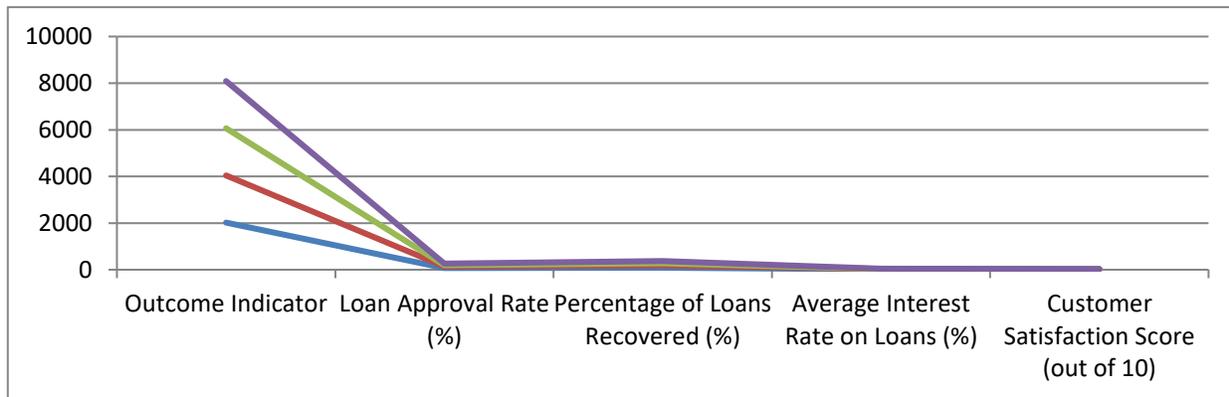
Presentation of Results

Table 1: Lending Outcomes and Customer Satisfaction at Deposit Money Bank, Nigeria (2021-2024)

Outcome Indicator	2021	2022	2023	2024
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Loan Approval Rate (%)	68	65	63	60
Percentage of Loans Recovered (%)	89	91	93	95
Average Interest Rate on Loans (%)	12.5	12.2	11.9	11.5
Customer Satisfaction Score (out of 10)	7.8	8.1	8.4	8.7

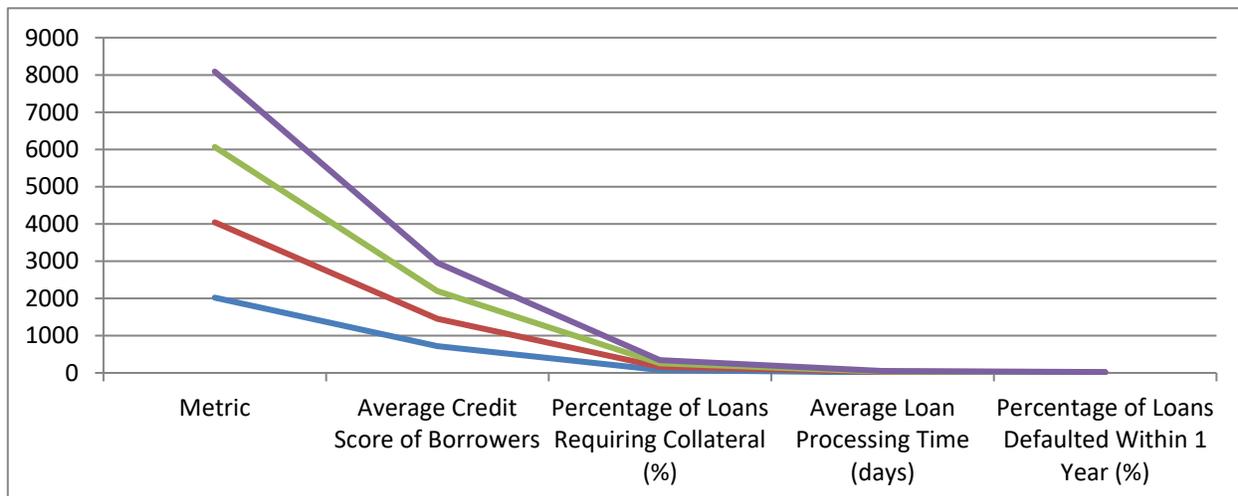


Source: *Deposit Money Bank, Nigeria Customer and Lending Reports (2021-2024)*

The decrease in loan approval rate from 68% to 60% likely reflects stricter lending criteria, which may have been implemented to reduce credit risk after more thorough financial analysis. Increasing loan recovery rates from 89% to 95% suggest more effective loan monitoring and recovery strategies, contributing to improved asset quality. The gradual decline in average interest rates on loans from 12.5% to 11.5% could indicate growing confidence in borrower quality, allowing the bank to offer more competitive rates. Customer satisfaction scores improved steadily from 7.8 to 8.7, signaling better customer service, loan processing experience, and possibly trust in the bank’s lending practices.

Table 2: Credit Risk Assessment Metrics at Deposit Money Bank, Nigeria (2021-2024)

Metric	2021	2022	2023	2024
Average Credit Score of Borrowers	720	735	745	760
Percentage of Loans Requiring Collateral (%)	82	85	88	90
Average Loan Processing Time (days)	14	13	12	10
Percentage of Loans Defaulted Within 1 Year (%)	7.0	6.1	5.4	4.7



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Source: *Deposit Money Bank, Nigeria Credit Risk Reports (2021-2024)*

The increase in average credit score from 720 to 760 shows a more selective borrower evaluation process, reflecting the bank's effort to lend only to clients with stronger credit profiles. The growing percentage of loans requiring collateral from 82% to 90% demonstrates enhanced risk mitigation by securing loans against assets, a sign of tighter financial analysis protocols. The reduction in loan processing time from 14 to 10 days indicates improvements in operational efficiency, possibly due to better financial assessment tools and streamlined lending procedures.

Discussion of Findings

The research aimed to determine how financial analysis is important as a way of improving the success of decisions that the banks make in its lending process with a special emphasis on Deposit Money Bank, Nigeria. The results imply that stringent financial analysis enhances loan portfolios quality as it allows better evaluation of credit worthiness on the side of the borrower. This causes a decrease in the number of non-performing loans and improvement of financial performance of the bank. The slow move towards corporate lending, as well as the steady SME support is a strategic choice of risk management that refers to the information on financial data. It has been noted that the most important financial ratios such as capital adequacy, coverage of provisions and the rate of return on assets have all recorded positive changes over the recent years, which illustrate that Deposit Money Bank, Nigeria has increased its capability to resist the risks of credits and to remain profitable. Such developments raise the role of financial analysis tools in lending policies and compliance with the regulations. Further, a decrease in the loan to deposit ratio indicates the more cautious tendency of lending practices caused by the development of the risk sensitivity. The good influence of financial analysis is again evidenced by credit risk assessment measures. There is a rise in the average credit scores and collateral requirements, indicating higher standards of assessment of the borrowers and depreciation of the borrower risks. A decrease in the time taken in the loan processing process also indicates that the development in the methodology of financial analysis is beneficial to the bank and the customer making use of its financial services. The quality of these financial analysis practices is determined by the quality of the lending results. Despite a reduction in the loan approval rates, this is probably due to quality-based rather than quantity-based lending decisions. The fact that loan recovery rates have increased and the interest rates decreased shows that financial analysis will lead to risk pricing and supervision of loans. Such improvement in customer satisfaction indicates that the borrowers have positively responded to such developments.

Conclusion

To sum up, the research points out that effective lending in banks is impossible without financial analysis. It helps not only in evaluating the credit risk but also enhance loan portfolio standard and financial performance. In the case of Deposit Money Bank, Nigeria, the use of financial analysis tools in the process of lending has more than helped stabilize the bank and increase its level of profitability thus placing the institution in a better position to ride out economic vagaries. On that basis, it is advised that Deposit Money Bank, Nigeria should keep investing in superior financial analysis technologies, e.g., data analytics, and credit scoring models, in order to further polish its risk assessment and decision-making. This will make the bank adapt quickly to the changes in the market environment and the borrower characteristics. Moreover, to improve the bank employees need to provide better training programs on financial analysis and credit risk management to a loan officer and a risk manager so that they can have current skills in knowledge and care. The theme of professional continuous learning will create a culture of hard work and accuracy in the loan processes.

Recommendations

1. The Deposit Money Bank is advised to have a balanced portfolio of loans that covers the SMEs and retail accounts and the issue of exposures to risky accounts. To maintain the growth and financial inclusion goals, the spread of credit risk due to proper financial analysis will be useful.
2. The bank ought to have adequate tracking mechanisms that ensure the analysis of loan performance and financial status of borrowers after lending. This is an active strategy which will enable early identification of possible defaults, which will be intervened once in order to reduce credit losses.

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3. The quality of bank lending will be improved by means of strengthening the financial analysis practices, increasing the quality of assets, and raising the financial performance.

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