IMPACT OF LEVERAGE ON THE FINANCIAL PERFORMANCE OF MANUFACTURING INDUSTRIRS IN NIGERIA

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NSU/ADM/MBA/FIN/0035/016/017

B.Sc (B.U)

A PROJECT SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES, NASARAWA STATE UNIVERSITY, KEFFI IN PARTIAL FULFILMENTOF THE

REQUIREMENTS FOR THE AWARD OF

MASTER OF BUSINESS ADMINISTRATION (MBA) DEGREE IN MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION

FACULTY OF ADMISTRATION

NASARAWA STATE UNIVERSITY, KEFFI

NIGERIA

MARCH 2019

CERTIFICATION

This Project, “Innovation Strategy **a**nd Organizational Performance In Selected Deposit Money Banks In Lagos State, Nigeria” meets the regulation governing the award of Master of Business administration (MBA) Degree in Management of the School of Postgraduate Studies Nasarawa State University, Keffi, and it Contribution to Knowledge.

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DEDICATION

To my husband John Mark Ouko; for his care and support.

ACKNOWLEDGEMENT

This research has been made possible by a number of groups of persons who enabled the success of this study of Effect of financial management practices on performance of Nigeria Medical Training College. I acknowledge the constructive influence of lecturers throughout the MBA programme for positively influencing my way of thinking and on whose shoulders I lean today. My informed thinking have by and large been made possible by his mercy the Almighty God blessing the ideas of lecturers, peers and the writings of accredited authors like Mugenda and Mugenda. I adore the Lord God Almighty for his protection, love, care, good health and the blessings with a sound and sober mind that was able to think and came up with these fresh ideas.

To the University of Nairobi, I feel proud to be part of the Institution and to my fellow classmates; I thank them all for their invaluable support especially during brainstorming sessions with varying ideological school of thoughts. In this regard I salute the guidance and the directions accorded to me by Dr. Joshua Wanjare my supervisor in this research project for relentlessly guiding me with a lot of enthusiasm and interest and for remarkably never failing to be available when I needed his assistance. May the almighty God continue to bless them and open all the doors of their opportunities into immeasurable fortunes.

Lastly but very important my family, parents, brother and sisters and true friends who through goodwill played a vital role in supporting me in all gregarious manners. God bless this academic work and all its users to put it into its intended good use.

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ABSTRACT

Financial management in public organizations is concerned with ensuring funds are available when needed and that they are obtained and used in the most efficient and effective way to the benefit of the citizens. Managing the movement of funds in relation to the budget is essential for a public academic institutions performance. But experience reveals that the financial management processes of public academic institutions are generally weak and dominated by conditions of resource scarcity visà-vis the ever increasing agenda of development activities on which such funds could be spent. Despite NMTC being ISO 9001:2000 certified, its performance in terms of service delivery continue being poor as depicted by the high level of employee turnover, delays in service delivery, low student retention rate and low customer satisfaction index. The study sought to establish the effect of financial management practices on performance of NMTC. This study was conducted through the use of a descriptive design. The target population of this study was the 201 finance staff of NMTC from which 60 were selected using stratified random sampling. This study made use questionnaires for primary data collection. Data collected was purely quantitative and it was analyzed by descriptive analysis. In addition, the researcher conducted a multiple regression analysis so as to determine the effects of each of the independent variables on performance of NMTC. The study found that the annual budget process affects the performance of Nigeria Medical Training College mainly through cost-minimization emphasis, budget inflexibility, resource allocation and budget accuracy. Financial reporting and tracking through record keeping, having internal accounting experts, data management and financial information communication affect the performance of NMTC to a very great extent. The study concludes that that financial reporting and tracking had the greatest effect on the performance of NMTC, followed by annual budget process while level of internal controls had the least effect on performance. The study recommends that for the institution to reap the maximum benefit from their budgets, the managers should be evaluated in part on the accuracy of their budgets. NMTC should also improve their financial reporting and tracking by automating their record keeping.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

There is a common believe among economists that continuous growth and development of any country's economy increasingly depends on its full integration into the local, regional and global market-place. The reason is that variety of investible funds will be sourced for development and increase of the productive capacity of its component real sectors such as the industrial/manufacturing sector, the agricultural sector including the housing sector among others, all things being equal. The banking system plays the all-important role of financial intermediation of insuring that adequate funds are mobilized and supplied to the real sectors of the economy for productive purposes. Okpala (2009) defined the role of banks in the economy in the following way:

Banks in most economies are the principal depositories of the public's financial savings, the nerve centre of the payment system, the vessel endowed with the ability of money creation and allocation of financial resources and conduit through which monetary and credit policies are implemented.

Banks accumulate/mobilize funds from various savers and lend to borrowers by way of provision of payment facilities, credit and capital to individuals, firms and governments for investment in the economy. It is also the duty of the banking system to inculcate banking habit at the household and micro-enterprise levels (Soludo, 2010).Management of the banking sector is an integral part of management of the overall economy. Therefore, the performance of the sector is an important factor in determining how the

overall economy performs. The reason is simple. The banking system is a component of the financial system while the financial system is the life wire of the economy and the entire nation. The need for healthy functioning of the financial system has been emphasized by many people. Sanusi (2010) noted that the functioning of the financial system matters to everyone – to the economy at large and also each one of us. The Nigerian economy has huge potential for growth. To realize that potential, it is imperative that … and take steps to not only fix the problems, but also
Introduce measures to establish financial stability, enable a healthy evolution of the financial sector and ensure the banking system contributes to the development of the real economy.

Bank performance in terms of increased earnings has implications for survival and growth among other factors. Therefore, improving the financial results constitutes the most critical aspect of performance of a bank. The financial performance of a bank include its ability to maintain adequate capital (statutory and general), the quality of assets (loans and advances) in terms of the level of exposure to risk, operational efficiency and profitability and ability to fund contractual obligations always at bearable cost.

The importance of effective performance of the banking industry to the economy and to the country at large cannot be over-emphasized. Not only does it enhance international investment and competitiveness, but also play active developmental roles in the domestic economy in a very significant manner. In order to ensure that the banking system remain sound, robust and financially viable, the Central Bank of Nigeria (CBN) in recent times

has introduced a number of reforms in the system. The reforms had changed the number, ownership structure, management composition and the manner by which the banks in the country are run. In an address delivered at a special meeting of Banker's Committee for the Chief Executive Officers (CEO's) of all the commercial banks in the country, Soludo (2004) argued that the goal of the reforms is to help you become stronger players and in a manner that will ensure longevity and hence higher returns to your shareholders over time and greater impacts on the Nigerian economy. We strongly believe that the ultimate beneficiaries of this policy shift would be the Nigerian economy – the ordinary men and women who can put their deposits in the banks and have a restful sleep; the entrepreneurial Nigerians who can now have stronger financial system to finance their businesses; and Nigerian economy which will benefit from internationally connected and competitive banks that would also mobilize international capital for Nigerian development.

The Nigerian banking industry is comprised of the regulators on one side and operators on the other side. The regulators are the Central Bank of Nigeria (CBN) – the apex bank and the Nigerian Deposit Insurance Corporation (NDIC) – the insurer of depositor's fund. The operators include the deposit money banks (DMBs), the development banks, micro finance banks, finance companies, discount houses and other specialized financial institutions. The interest of the researcher in this study is the Deposit Money Banks (DMBs) otherwise known as the commercial banks. This is because they are the oldest form of modern banking in Nigeria and also plays a central role in the achievement of government's monetary policy objectives for the economy.

The Nigerian economy is one of the developing economies of the world that is facing a number of economic and social problems of unemployment, lack of basic infrastructural facilities, poverty, insecurity, underdeveloped agricultural system and decreasing standard of living among other problems. As the country strives hard to achieve her aim of being among the 20 largest economies of the world by the year 2020, efforts should be made to reposition the banking system in order to make it responsive to the financing challenges of a modern economy.

1.2 Statement of the Problem

The banking sector in Nigeria has, in recent times, witnessed a couple of reforms which resulted in mergers and acquisitions of some banks adjudged unhealthy by the healthier ones. The goal of the reforms according the Central Bank of Nigeria (CBN) – the regulatory agency - was to make the banking system safe, sound and to enhance their international competitiveness. Soludo (2004) argued that Strengthening and consolidating the banking system will constitute the first phase of the reforms designed to ensure diversified, strong and reliable banking sector which will ensure the safety of depositors money, play active developmental roles in the Nigerian economy, and be competent and competitive players in the African and regional global financial system.

Deposit money banks continue to spend huge resources in credit risk management modeling with the objective of maximizing profits.The problem of the banks, many have argued, is poor performance. This means the inability of the banks to deliver good and acceptable financial results that will turn around their financial fortunes in order to satisfy the expectations of their various stakeholders. These stakeholders include the overall

economy of Nigeria, depositors of funds or customers, the shareholders, the regulators as well as the communities in which banks operate.

Banks owe the obligation of providing credit facilities for overall development of the economy especially the strategic sectors. Depositors expect the best possible levels of interest rates and maturity structure of loans. Banks also require adequate liquidity to enable depositors to withdraw their funds when they want them or on maturity. The shareholders require maximum returns on their investments in order to remain invested in the bank and to be willing to provide additional capital resources at and when needed. To the regulators however, the banks are required to ensure that they do not undertake excessive risks and those they also operate prudently and within the stipulated regulatory requirements. To the communities in which banks operate, the expectation is for banks to be good corporate citizens capable of maximizing the exploitation of the opportunities available and minimizing the threats to the environment.

Many arguments, accusations and counter accusations exist as to who is responsible for the poor performance of banks in Nigeria. Those who believe that the banks are responsible for the poor performance have argued that the banks have not strictly adhered to the prudential guidelines for banks. The Central Bank believes that the banks are creating some fundamental problems in the system. Soludo (2004) viewed following issues as problem facing the banks as: Persistent illiquidity, poor asset quality and unprofitable operations, Weak corporate governance, evidenced by high turnover in the Board and management staff, inaccurate reporting and non-compliance with regulatory

requirements, falling ethics and demarketing of other banks in the industry among other issues.

Others believe that the poor performance of banks is as a result of over regulation by the regulatory agencies. According to Okaro (2009) many economists, financial analysts, and financial institutions have argued over the years that regulation (i.e. government enforcement of rules that prescribe the permissible and non-permissible business activities) has done more harm than good for both financial institutions themselves and for the public they serve. In particular, government restrictions allegedly have allowed non-regulated or less-regulated financial services firms to invade the markets and capture many of the customers of the regulated financial institutions, who are not sufficiently free to compete effectively. Moreover, regulations are often backward looking, addressing problems that have since disappeared, and they may compound this problem of 'relevancy' by changing much more slowly than the free market place, inhibiting the ability of regulated financial institutions to stay abreast of new technologies and changing customer tastes

In order to determine the validity or otherwise of the lingering argument, with a view to proffering policy recommendations on the way forward, it has become necessary to evaluate the health and performance status of deposit money banks in Nigeria between the period of 2004 and 2012. It is against this back-drop that this research is conducted.

1.3 Research Questions

The following research questions are formulated for the purpose of this study:

I. What was the nature of the relationship between the Balance structure and growth rates of the deposit money banks in Nigeria and their financial results?

II. What was the position of deposits and liquidity of the banks?

III. What proportion of the total loans, advances and other assets of the banks were bad or doubtful of recovery/repayment within the period of study?

IV. What were the annual aggregates and compositions of shareholder's fund?

V. What were the annual earnings or profitability recorded by the deposit money institutions within the period of study?

VI. What specific policy initiatives could be taken to ensure increase financial output of the banks in particular and the banking industry at large?

1.4 Objectives of the Study

The broad objective of this research is to determine how the financial performance (results) of Nigerian banks has impacted on their ability to meet the desire of their various stakeholders. The specific objectives are:

i. To determine the impact of Balance Sheet structure and growth rates of the banks on their financial results.

ii. To access the impact of deposits levels and liquidity position of the banks on their financial results.

iii. To determine the impact of non-performing loans, advances and other assets of the banks on financial results;

iv. To determine the impact of Capitalization of the banks on their financial results

v. To access the impact of earnings (Profitability) of the banks on their financial results.

vi. To identify the challenges of effective and efficient management of deposit money banks in Nigeria.

vii. To generally proffer policy recommendations based on the findings.

1.5 Hypotheses of the Study

The following are the hypothesis of the study:

I. Balance sheet structure and growth rates have no significant positive impact on the financial performance of banking institutions.

II. Deposits and liquidity position do not have significant positive impact on the financial performance of deposit money banks.

III. There is no significant negative impact of non-performing (bad) loans, advances and other assets on the financial performance of banking institutions.

IV. The amount of shareholder's funds does not have significant positive impact on the financial results of banking institutions.

V. The earnings or profitability level of banks has no significant positive impact on their financial performance.

These hypotheses will be tested for each of the banks and then aggregated for the three banks.

1.6 Significance of the Study

The relevance of this study can be viewed in two perspectives – practical and academic.

a. Practical Significance

This study will assist the operators, regulators and customers in the following ways;

- It will highlight the bank performance variables where management of the banks pays greater attention to, so that the interest groups will understand the direction of management and take informed decisions.
- It will also help the policy makers and regulators to objectively analyze the performances of the banks in relation to the government policy objectives.
- It will provide useful information to industry watchers, analysts and interested public on the ideology of the bank's managers.

b. Academic significance

This study will be significant to the academic arena in the following ways;

- It will contribute to the variety of literature on bank performance.
- It will serve as a reference material for researchers interested in further studies on the subject matter.

1.7 Scope of the Study

- The research covers only the financial aspects of bank performance. This is based on the believe of the researcher that the financial results, as published by the banks periodically, is the public face and reference material for rating of the banks by all interest groups – the regulators, shareholders, customers, financial analysts, capital market investors as well as the general public.
- For the purpose of data collection and statistical analysis, the researcher intends to use audited and published financial reports and accounts of three deposit money banks in Nigeria, for the period 2004 to 2012. The banks include First Bank of Nigeria (FBN) Plc, United Bank for Africa (UBA) Plc and Guaranty Trust Bank (GTB) Plc. While the First

- Bank of Nigeria is the oldest bank currently operating in Nigeria, the United Bank for African Plc and the Guaranty Trust Bank Plc are the most globalized bank in Africa and one of the ‘new generation’ banks in Nigeria respectively. These banks are also among the biggest banks in Nigeria in terms of their capital base, asset-size and quality including branch network.

CHAPTER TWO

INTRODUCTION

2.1 Concept of Banking System

The business of banking has evolved from the era of depositing of gold for safe keeping in the Goldsmith's strong room to the era of exchange of one currency for another (i.e. money changing) into today's complex financial services involving the provision of banking solution to the society and the people. The history of banking dates back to the 13th century in ancient Greece and Rome in Europe, where trade and commerce flourished necessitating exchange of one valuable for the other. At that time, no banking institutions existed rather the temples (sacred places) served as safe-deposit vaults for the valuables of worshipers and loans were also made from the treasuries to member of the worship groups. Following this period, was the establishment of Bank of Barcelona in Spain founded by merchants in 1401, the Bank of Venice (1587), the Bank of Amsterdam (1601) and the Bank of Hamburg (1619). These institutions laid the foundation of modern banks of deposit and transaction.

Following the activities of these banks, commercial banking later spread to the rest of Europe and became more organized through the activities of the Goldsmith in London-Britain. Then the Goldsmith developed the bank note in the form of receipts issued to the depositors of gold. The origin of bank notes and activities of goldsmith have been explained by Ndugbu (2001) as follows:

The bank note developed from the practice of developing gold for safekeeping in the goldsmith's strong room – a practice which was common in the days when these were virtually the only places available for the safe storage of valuables. Since gold was the only form of money, payments for value received involved the withdrawal of gold from the goldsmith and transfer of this gold to the creditor who would no doubt proceed to return it to the goldsmith's vault. These Goldsmiths issued transferable receipts nuion the security of gold deposited with them and hence paved the way for the development of rudimentary current accounts, bills discounting and loan facilities. It was much more convenient to use a goldsmith's receipt as a form of payment. The buyer would simply endorse such a receipt, making it payable to the seller. Claims to gold therefore, came to be used in lieu of gold itself – the receipt later became transferable instrument. As this practice became more widespread, depositors would ask the goldsmith for a number of receipts of convenient denominations. When this receipts or claims to gold came to be made payable to bearer, we have the first fully fledged bank note. Bank notes at this stage of development were fully backed by gold and convertible on demand into gold.

As a result of increased confidence in paper money leading to greater use of it by people in settling debts, the necessity to maintain 100 percent gold backing for the note issues was realized. The daily depositing of gold and subsequent conversion of the gold into notes increased. It was then discovered by the goldsmith bankers that any given stock of gold would support an issue of bank notes greatly in excess of the monetary value of the gold. The goldsmith at a point in time equally realized that demand for gold and silver in their vault was becoming less than deposits. They therefore, began to lend some of the deposits in order to earn interest on them and equally kept enough gold deposits in their

vaults in order to meet depositor's withdrawal needs. The origin of lending activities of the Goldsmith has been traced. Ndugbu (2001) asserted that:

When bankers began to issue bank notes of greater value than the gold held in their strong-rooms, we have the origin of bank lending – the unbaked part of the note issue was used to make interest yielding loans. The value of that part of the note issue not supported by an equivalent value of gold is known as fiduciary issue. The bankers who had originally made a charge for holding deposits could now start to attract deposits by offering depositors an interest payment.

The early part of the 19th century saw the issue of paper money by most of the banks, commercial ones inclusive, in what many authors described as the gold standard era. The notes issued by the commercial banks were backed by their reserves. Because the bank notes during gold standard era were fractionally backed notes, there was the temptation to 'over-issue' the notes by the bankers which resulted to cases of imprudence on the part of the bankers causing their inability to meet unexpected large demand for gold. Today, the gold standard is no longer in operation because the paper money is not convertible into gold. The bank note today is only backed by the government security and not gold. Therefore, it is entirely fiduciary.

The bank note or today's paper money is valuable simply because it is generally acceptable as a medium of exchange. ...coins no longer contain a commodity value of precious metal to their monetary value (Ndugbu, 2001).

2.2.2 Types of Banking.

The classification of banking organizations depends primarily on the mission, functions and objectives of their establishment as well as the nature of their funding. For this reason, a bank can be classified as central bank, commercial bank (deposit money banks), development bank, savings bank/association, co-operative bank and recently in Nigerian context, micro finance bank. The Central Bank is a government bank. It sees to the implementation of government monetary policy objectives. It is the economic adviser to the central government. Its functions also include the supervision of the working of the deposit money banks and to protect the interest of the depositing public. It acts as the lender of last resort and has the singular right to issue currency notes of the country of its origin. In Nigeria, just like in many other counties of the world, they are responsible for licensing of all other types of banking institutions.

The commercial banks are the most common of all types of banking organizations. Their primary function is to accept deposits from the general public – individuals, organizations, associations, governments and many others, and give out credits for various kinds of projects and for the development of various sectors of the economy. Their credits are basically short-term in nature and so it is for the deposits that they receive. They also facilitate the process of withdrawal and or transfer of deposits by their owners through the checking process. The development banks are established primarily to provide long-term funds to certain essential sectors of the economy for development purposes. The purposes may include industrialization, agriculture, real estate, trade or other ventures. They undertake these responsibilities against collateral or security. They share similar responsibilities with Merchant and Investment banks. Because they provide

long-term funds, their sources of fund are also long-term through term loans, equity capital, etc.

The savings banks or associations are not popular in most economies. Their function is basically to promote savings habit among the public especially the low income groups and also provide them with decent possible terms of interest rates and maturity structure of loans. As the name implies, co-operative banks are usually established by members of co-operative associations who may be famers, traders, artisans, etc with the objective of promoting thrift among members and also to advance credit facilities to them.

Micro finance banking in Nigerian came up following the National Microfinance Policy of 2000s. It is the latest of the types of banking institutions in Nigeria. They may be viewed as the repackaged version of the former community banks. The objective of establishment of micro finance banking is to provide financial services to small businesses that do not have the capacity to obtain credits from the formal financial system. The objective of National Microfinance Policy in Nigeria is put in this way:

The principal objective of the Microfinance Policy, Regulatory and Supervisory Framework is to widen and deepen access to financial services for the larger productive segment of the population that had been under-served or excluded from the services provided by the formal financial system (Central Bank of Nigeria Banking Supervision Annual Report, 2008).

The microfinance banks provide financial services against more lenient conditions but must be assured of the character of the borrower.

2.2.3 Functions of Banking.

The primary function of a bank since the beginning of the business of banking to present, has remain mobilization of deposits in form of savings and to advance loans/credits to different sectors of the economy. This responsibility could be approached or understood in various ways; like by type of banking organization as discussed in the section above. Essentially, the function of any type of banking business can be better appreciated within the framework of its balance sheet. The balance sheet is the monetary description of sources and applications of bank resources. It clearly indicates the items of bank assets and liabilities. Therefore, looking at the management of bank balance sheet is another way of looking at functions undertaken by a bank. Nwankwo (1991) defined bank balance sheet management in this way:

Balance sheet management is the totality of funds management in banking which, broadly defined, includes all policies and approaches designed to obtain funds from deposits and borrowings and to allocate them to loans and investments.

However, irrespective of the nature of the functions of any type of banking institution, one overriding function of banking is that it aims at solving human and societal financial problems.

Deposit money banks play a vital function in the economic resource distribution of countries. For survival and growth, deposit money banks need to be profitable. Beyond their middle man function, the profitability of banks has serious effects on economic growth. Good financial performance promotes high shareholders returns. As a result of this, there exists further investment thereby promoting economic growth. Also, poor financial performance of deposit money banks can lead to failure and financial crunch

which have undesirable impacts on the economic growth, Ongore & Kusa (2013). Credit and liquidity problems may adversely affect the financial performance of a bank as well as its solvency if not properly managed. Credit risk management has been an essential part of the loan process in the banking sector.

Deposit money banks continue to spend huge resources in credit risk management modeling with the objective of maximizing profits. Unfortunately, existing research which investigated the effect of risk management on banks performance have produced mixed results. For example, scholars like Kithinji, (2010), Epure and Lafuente (2012) as well as others discovered that credit risk management negatively impact deposit money banks profitability. While Kuforiji (2008); Kolapo, Ayeni & Ojo (2012) holds that credit risk management has a positive relationship with banks performance. Also, several other studies have helped authenticate that credit risk management help banks improve on their profitability. Kargi, (2011), Felix and Claundine (2008), Al-Khouri (2011) amongst others found that credit risk, liquidity risk and capital risk are key variables that influence banks performance especially when profitability. Conclusion from the review of extent literature clearly suggest that the actual relationship between risk management (credit and liquidity) and banks performance is yet to be settled and researchers do not necessarily split this risk factors into categories while embarking on finding a solution. It therefore creates a lacuna for a more recent empirical investigation to be tested in Nigeria, a country faced with so many recurring issues and recently faced recession which impacted virtually all the key sectors of the economy. This study seeks to establish the degree to which banks risk management (credit and liquidity risk) have impacted profitability of Nigerian deposit money banks.

2.3 Historical Evolution of Banking in Nigeria.

History has shown that the first bank ever to operate in Nigeria – the African Banking Corporation, was established in 1892. No banking legislation existed in Nigeria until 1952 when three foreign banks and two indigenous banks were established. The foreign banks include the Bank of British West Africa, Barclays Bank, and the British and French Bank while the indigenous banks are the National Bank of Nigeria and the African Continental Bank, with a collective total of forty branches.

Before the establishment of Central Bank of Nigeria by the CBN Act of 1958, there was in existence a body known as the West African Currency Board. The Board was established by the then British Colonial Government to serve as the Central Bank for the Anglophone West African countries. Thus the Board was charged with the primary responsibility of issuing the West African Pound which served as the legal tender currency in Ghana, Nigeria, Sierra-Leone and Gambia.

The responsibility for management of reserves held in trust for these Anglophone West African countries was another important function performed by the WACB. Such reserves were invested by the Board on behalf of the West African countries as instruments in the London Money Market. Overtime, the Board manifested some weaknesses for which it was criticized. The weaknesses according to Ndugbu (2001) include the following;

It carried on commercial banking activities alongside other commercial banks; lacked basic apparatus to control the supply of money; and also got involved in physical

distribution of currency from one point to another; the Board's activities were considered discriminatory against indigenous West African Industrialists. It was not in the development of the colonies and most of the activities were based on commerce and trade.

These factors led to the widespread agitation for the establishment of indigenous Central Banks in the country. The Central Bank of Nigeria (CBN) is the apex regulatory authority of the financial system in the country. It was established by the CBN Act of 1958 and started operations in July 1959. Empowered by the CBN decree 24 (as amended) and Banks and Other Financial Institutions Decree (BOFID) 25, both in 1991, the bank has been involved in licensing, regulation and supervision of the banking sector and finance companies in Nigeria.

2.3.1 The Nigerian Financial System.

The Nigerian financial system is the part of Nigerian economy concerned mainly with lending and borrowing, long or short term. It consists of banks, non-bank financial intermediaries such as mortgage institutions, savings and loans organizations, insurance companies, pension fund managers including financial managers and advisers. The concept of financial system has been defined by many authors. Akinsuleri (2010) defined financial system in the following way:

The financial system consists of the financial intermediaries, financial markets, financial instruments, rules, conventions and norms that facilitates and regulate the flow of funds through the macro economy.

The Nigerian financial system, like the financial system of any other countries, can be classified in many ways. It can either be by their generic names such as the Central Bank (CBN), the deposit money banks (DMBs), merchant banks, micro finance banks, non-bank financial institutions, money and capital market organizations or by the way they are funded as well as by their functions. The deposit financed institutions in Nigeria are those banking institutions whose funds come from customer deposits. They include all the twenty-four licensed deposit money banks in Nigeria (otherwise known as universal banks today), merchant banks in the past and savings banks/associations, micro financed banks etc. They are also called money market institutions. Non-deposit financed institutions in the other hand are those that obtain funds from sources other than customer deposits. In Nigeria, they include insurance companies, the pension fund administrators, investment companies (obtain funds from unit trusts and shares) etc.

There are some other institutions financed by government subventions and some other prescribed sources, basically to achieve developmental goals in certain specialized sectors of the economy. In Nigeria, they include the Federal Mortgage Bank of Nigeria (FMBN), Bank of Industry (BOI), Nigerian Import Export Bank (NEXIM bank), Agricultural Bank etc. There are also the capital market institutions. These institutions are licensed primarily to facilitate the purchase and sale of capital market instruments such as bonds, shares etc. In Nigeria, they include stock broking firms, finance houses, the Nigerian Stock Exchange, Securities and Exchange Commission (SEC) etc.

It is possible to classify the Nigerian financial system by functions. Okaro and Onyekwelu (2003) classified the Nigerian financial system by functions as follows;

a) Monetary Financial Institutions, i.e. those institutions like the Central Bank and commercial banks whose main function is the provision of adequate stock of money for the economy.

b) Non-Monetary Financial Institutions, such as savings, banks, building societies, etc. who function primarily to facilitate transfer of money between economic units.

c) Money Creating Financial Institutions, such as the commercial bank whose debts – liabilities, i.e. deposit are accepted as money and transferable by cheque and who can create the stuff they lend, i.e., their lending is not limited strictly to the amount of deposit they attract.

d) Liquidity Providing Financial Institutions e.g., institutions or instruments that provide facilitates to convert or dispose of assets into money or near money assets – time deposit, treasury bills, bonds stocks and shares, bank acceptances, commercial bills, etc. these specialize in financial assets that provide varying degrees of liquidity or moneyless.

e) Equilibrating Financial Institutions, such as the Central Bank and the Securities and Exchange Commission that stand at the apex of the institutions to plug identified holes and fill in gaps in the financial system.

f) Institutions that ensure against or minimize risks in business. Examples are the Insurance companies, the Nigerian Deposit Insurance Corporation, the Agricultural Credit Guarantee Scheme, etc.

g) Intermediary Financial Institutions who stand between the ultimate borrower of funds by borrowing the primary securities of the borrower and issuing their own secondary

securities. The bank for instance, borrows deposits from the depositor/lender in return for its own security, i.e. entry in a passbook, bank teller, or commercial paper, and lends to the ultimate borrower in return for the lender's security.

h) Brokerage Financial Institutions, such as stock brokers, and fund managers who link those with surplus funds to lend with those desirous of borrowing funds; or those who have stocks and shares for sale with those who need to buy stock and shares.

The Nigerian financial institutions have been summarily classified into four. Okaro and Onyekwelu (2003) made summary classification of the Nigerian financial system/institutions as follows:

1) The apex institutions like the Central Bank, at the apex of the banking system; the Securities and Exchange Commission at the apex of the financial market, particularly the money and capital markets, and the recently created Nigerian Deposit Insurance Corporation (NDIC) insuring all the commercial and merchant banks, i.e. all deposit financed financial institutions.
2) The banking institutions comprising the four National Development Banks, the commercial and merchant banks and the federal savings bank.
3) The non-bank financial institutions incorporating the various state development finance institutions, insurance companies, pension and provident funds.
4) The financial markets incorporating the money and capital markets, the stock exchange and the stock brokers.

Impact of Service Quality on Bank Profitability

In today's banking environment, banks' profitability levels have been compressed due to increased competition and spread reductions. Banks once relied upon products to make

their profit margin in a highly regulated industry, and the customers basically were on the sidelines, but today banks are driven by customers who demand service quality (Stone, 1995). Parasuraman, Zeithaml and Berry (1988) observed that quality of service is very important in separating competing businesses in the retail sector as well as in banking. Banks seeking to maximize profitability have come to realize that good quality helps a bank obtain and keep customers and poor quality will cause customers to leave a bank. It is well and good to recognize this need for implementing the practice of service by all of its employees, but how to carry out the practice and convince the bank's employees of this need is another matter. Lewis (1993) found that service quality was one of the most effective means of establishing a competitive position and improving profit performance. To establish a competitive position, it was noted by Hall (1995) that banks must measure and determine their level of service quality, if they desire to keep their customers and satisfy their needs. In addition, it should also be pointed out that the only means through which service can be measured is to ask the service recipients. Reinforcing this important research, there have been a large number of researchers who identify service quality as a primary means of providing a competitive advantage to banks, and according to Soteriou and Stavrinides (1997) the importance of service quality has been documented in numerous studies. They found that the advantage was readily identifiable through their research. In some specific studies in four U. S. banks, Morrall (1994) found that the implementation of service quality at First Chicago Bank, Compass Bank, Marquette Bancshares, Inc., and Wachovia Bank gave them a substantial advantage over their competitors. Once banks implemented service quality, their profitability was also noticeably improved.

Measurement of Banks Profit

Banks once relied upon products to make their profit margin in a highly regulated industry, and the customers basically were on the sidelines, but today banks are driven by customers who demand service quality. Parasuraman, Zeithaml and Berry (1988) observed that quality of service is very important in separating competing businesses in the retail sector as well as in banking. Lewis (1993) also found that service quality was one of the most effective means of establishing a competitive position and improving profit performance.

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Profitability in the banking industry and every business enterprise is quite a significant success/growth indicator. This is so because profits reassure depositors/ stakeholders of the safety of their investments, of the competence of management and adequacy of capital base which together provide good defense against risk which is inherent in the

banking industry. Banks with low profits can hardly venture into new markets, new programmes or develop/innovate packages for their customers and the business. Consequently, firms need to analyses their performances from the viewpoint of their profits.

Factors Influencing Bank Profitability

Many studies have introduced some useful variables in the profit function of commercial banks to shed light on key factors that make a difference in bank profits. Such studies are not without ambiguity especially with regard to the measurement of the variables and the results reported thereafter. However there is general agreement that bank profitability is a function of internal and external factors. Koch (1995) observed that the performance differences between banks indicate differences in management philosophy as well as differences in the market served. Athanasoglou, Brissimis and Delis(2006) concurred and argued that profitability is a function of internal factors that are mainly influenced by a bank's management decisions and policy objectives such as the level of liquidity, provisioning policy, capital adequacy, expense management and bank size, and the external factors related to industrial structural factors such as ownership, market concentration and stock market development and other macro-economic factors.

Several studies (Elyor (2009), Uzhegova (2010*)* have used Capital adequacy, Asset quality, Management efficiency, Earnings performance and Liquidity (CAMEL) to examine factors affecting bank profitability with success. The US Federal Deposit Insurance Corporation (FDIC) developed a system for early identification of problems in banks' operations (Uzhegova, 2010). Some alternative bank performance evaluation models have been proposed.

Several scholars have established some level of prediction in relation to the influence of service quality on profitability of banks while yet others have found the contrary. For example, Grant (1998) reported that studies have found a positive correlation between customer satisfaction and stock market returns; Zeithaml, Parasuraman and Berry, (1993) advocate that when a company advocates and provides excellent customer service, resulting into excellent customer satisfaction which in turn increases customer's desire to use the supplier's services in the future, thus increasing the company's profitability.

Also, Bolton and Lehman (1999) found out that individual's perceptions of equity in service encounters has been shown to influence repeat service purchase; Bates, Bates and Johnson (2003) posited that a positive relationship exists between improvements in service quality and a company's profitability as evidenced in their studies of companies in the United Kingdom (U.K.), when they found out that better service providers had a significantly better return on equity than the poorer providers.

These findings show that there is a positive relationship between loyalty, favourable attitudinal behavioural intentions such as praise for the company and expressions of preference for the company and its goods and services over others. This is the clear situation when Heskett, Jones, Loveman, Sasser and Schlesinger (1994) in Soteriou and Zenious (1999) concluded among other things that profit and growth are stimulated primarily by customer loyalty. These studies are indications that higher levels of satisfaction lead to customer loyalty and that increasing loyalty helps secure future revenues, reduce the costs of future transactions and those of defective goods and services with the resultant effect of decreasing price elasticity and minimizing the likelihood of customers' defection.

Conversely, there abound results of studies that support the contrary position, that there is lack of evidences to support a link between quality and financial performance, pointing out that evidences pointing to a direct positive linkage between service quality and profitability are anecdotal in nature since many managers were frustrated by the inability of quality improvements to result into organizational performance. A typical empirical situation was the study that showed that the British Airways which scored well on customers' satisfaction ironically did performed poor financially compared to relatively low quality carriers such as Ryanair (Palmer, 2005). Anderson, Fornell and Lehman (1992), Passikoff, (1997), Zeithaml, Parasuraman and Malhotra (2002), also did not establish any positive relationship between service quality improvements and corporate profitability.

Due to the great importance of profitability for good functioning of the banking system, authors in this area have postulated theories that could predict some form of relationships between variables. The Market Power (MP) hypothesis posits that the performance of banks is influenced by the market structure of the industry while the Efficiency Structure (ES) hypothesis, on the other hand posits that banks earn high profits because they are more efficient than others. The balanced portfolio theory has also added greater insight into the study of bank by ascribing profitability in the banking industry to policy decisions such as portfolio diversification, portfolio composition, the feasible set of assets and liabilities determined by the management and the unit costs incurred by the bank for producing each component of assets (Nzongang & Atemnkeng, 2006)

The above theoretical analyses show that MP theory assumes that bank profitability is a function of external market factors, while the ES and Portfolio theories largely assume

that bank performance is influenced by internal efficiencies and managerial decisions. Due to this, most researchers prefer market structure theories rather than the traditional theory to analyze the profitability of the industry in terms of industry structure.

The literature reviewed could not point particularly to any Nigerian circumstance (s) where profits in the banking sector are linked to the application of service quality programmes by banks. This relationship is a necessary ingredient for bank executives/managers in as much as it will determine the linkage between investments in service quality and profits. Besides, causality with respect to the nature of relationship between quality and profits in other countries is a contentious matter as other findings did prove otherwise.

Also, reviewed literature did not precisely indicate that behavioural patterns of Nigerian bank customers did show any direct relationship with the application of service quality systems in service provision and delivery. Consequently, there is every need for a search towards filling this gap. This level of inadequacy in the current body of knowledge relating to the relationship between investment in service quality and bank profitability within the Nigerian context makes it obvious that the area has not been thoroughly researched. The value of this study will be justified by the empirical research that will attempt to make an important contribution to the body of knowledge and the literature on service quality and bank profitability.

2.3.2 Development of the Nigerian Banking System

The development of the Nigerian banking system has been gradual and responsive to the changes in the economic policy of government at any point in time. In order to achieve coherence in the sequence of the developments, most authors have categorized the major developments in the banking system within time intervals. These intervals are known as eras or periods. The researcher prefers this approach due to its coherent nature. The eras of the development of the Nigerian banking system include:

2.3.3 Free Banking Era (Era of no Banking Legislation)

The era of free banking legislation marked the beginning of the development of the banking in Nigeria. As the subject implies, the era was characterized by near absence of any form of banking laws and regulations, resulting in one crisis after the other. Available literatures indicate that the setting up of banking firm during the period was easy, provided that the firm is registered under the Companies Ordinance.

There was no limit the activities undertaken by the banking firm except the issuance of Bank of England notes. The period of free banking saw the presence of three foreign banks and two indigenous banks in the country. The first was the African Banking Corporation which came to the areas now constituting Nigeria in 1892. In 1894, the Bank of British West African (now First Bank of Nigeria Plc) commenced operations in Nigeria. The bank served the Colonial Administration and foreign business concerns located within Nigeria.

The Anglo-African Bank which later became Bank of Nigeria was established in 1899 in an attempt to break the monopoly of BBWA. It is worthy of note that the interest of all the foreign banks was in serving the expatriates and their business interests in Nigeria. Around 1917, about three years after the amalgamation of the Northern and Southern Nigeria, the Barclays Bank DCO (Dominion, Colonial and Oversees) now Union Bank of Nigeria Plc, was established. The bank was more of colonial than indigenous by nature of operations. Efforts were made by Nigerians to break the monopoly of the foreign banks. One of such efforts was the establishment in 1914 of the Industrial and Commerce bank. This bank did not live long due to management and capitalization problems. It failed in 1930.

The first successful indigenous bank in Nigeria according to history was the National Bank of Nigeria. Established in 1933, the objectives of the bank include, encouraging any Nigeria likely to benefit by loans, advances and overdrafts; helping the small and big scale businesses to fund their business activities; and operating in a manner as to give Nigerians confidence to work effectively in the commercial and industrial fields. However, the bank had many management challenges that crumbled its operations in 1970s.

Another indigenous bank of that time worthy of note is the Agbonmagbe bank. This bank was established in 1945. Later in 1969, the bank was renamed Wema bank following its acquisition by the Western State Government of Nigeria in consideration of high indebtedness of the bank to the state government. The Penny bank and African Continental Bank were other indigenous banks established in the 40s. These banks failed

shortly after their establishments due to many problems ranging from poor capitalization, poor management, indiscriminate bank expansion, fraudulent personnel/operators, illiquidity, persistent stealing, imprudent lending etc

2.3.4 The Era of Banking Legislation

Although banking services existed in Nigeria prior to the promulgation of Banking Ordinance in 1958, the foundation for modern banking in the country could be said to be laid in July, 1959 following the commencement of operations of the Central bank of Nigeria (CBN). Consequently, money and capital market activities in the country commenced following the enactment of legislation setting up the Lagos Stock Exchange. The Central Bank authorized the issue of treasury bills, and prescribed the investment of specified funds by the insurance companies.

In order to deal with the issues of liquidation of failed banks by providing for appointment of a receiver and a liquidator, the banking law was amended in 1961. Also, in 1952 there was another amendment of the banking law increasing the minimum capital requirement of banks and allowing them also to own real estate assets for the purpose of branch expansions. The amendment equally prescribed shareholding limits of banks in other concerns including granting unsecured credits and advances to the bank employees. The banking decree was again adjusted in 1969 prescribing new capital requirements for banks. Okaro (2009) noted that:

In 1969, the Banking decree adjusted the capital requirements to the indigenous banks from N500, 000.00 to N600, 000.00 and expatriate banks N500, 000.00 to N1.5m, provided for the capital deposit ratio for the first time, increased the capital loan ratio

and extended the CBN's power to include vetting banks advertisements and authoring opening and closure of branches and bank amalgamations.

Another event worth mentioning during the era of banking legislation, is the introduction of Merchant banking in Nigeria, consequent upon the registration of Philip Hill (Nig) Limited in September, 1960 and Nigerian Acceptance Limited (NAL) in November 1960. The two institutions were merged in 1969 to form the Nigerian Acceptance Limited (NAL). NAL merchant bank received first license ever issued to any institution in Nigeria specifically to operate merchant activities and became the first and only merchant bank in the country until 1973.

2.3.5 The Era of Indigenization

Having established the legal framework for the operations of money and capital market institutions in the country, the Federal government between 1959 and 1970, took the first step in the socialization of banking sector with the promulgation in 1973, of the Indigenous Enterprise Promotion Act. The indigenization policy was aimed at removing the dominance of the banking sector and the economy by expatriates. The policy led to the government acquisition of 60 percent ownership in the then existing expatriate banks. Also, the Federal government established 100 percent public owned Nigerian Agricultural and Co-operative Bank, the Nigerian Bank for Commerce and Industry, and the conversion of the Nigerian Building Society (with government acquisition of 100 percent equity) into the Federal Mortgage Bank of Nigeria to respectively provide finance to agriculture, small and medium-scale industry and housing. Most States governments

also established own commercial banks, finance and housing corporations with the objective of promoting economic development in their respective domains.

Another highlight of the indigenization period was the Federal Government's appointment of the Financial System Review Committee in 1976 headed by Dr. Pius Okigbo. The committee's mandate was to review the Nigerian Financial System as a whole in order to serve the need of economic emancipation of the country. Okaro (2009) had listed the Committee's terms of reference to include the following:

a. To examine the adequacy, relevance or otherwise of the institutions in and the structure of, the financial system to meet the needs of the economy for rapid development;
b. To examine the organizational and ownership structures of institutions in the system, evaluate their viability in the context of the stated preamble; the economy's future domestic and international requirements and development trends;
c. To study operational trends in the system with particular reference to promotional activities of the financial institutions generally; and
d. To make recommendations in the light of their findings in respect of (a), (b) and (c) above and any other matter or issue which the committee, in its own judgments, deems relevant and helpful in the successful discharge of their tasks.

2.3.6 Universal Banking Era

The concept of universal banking in Nigeria was informed by the international trend of making banking institutions a complete financial supermarket capable of catering for the varying financing needs of various customers. The introduction of universal banking scheme in the country has been described in this way:

With the globalization in the world economy and internalization of financial services, the Central Bank of Nigeria approved-in principle the adoption of Universal Banking (UB) in Nigeria and subsequently issued guidelines to all banks for implementation of the scheme with effect from January 1, 2001. To give effect to the adoption of the concept therefore, banking business was redefined (Okaro 2009)

Under the scheme, a single uniform license was issued to the conventional banks that subscribed to become part of it without delineation as to 'commercial' or 'merchant'. What was required was to surrender the old license to the CBN for cancellation. The license gave the banks opportunity and freedom to choose or undertake activities involving money and capital market operations, insurance services, mortgage financing etc, or a combination thereof provided that they have complied with the regulatory requirements or guidelines to undertake such activities.

The Federal Government during this era restructured and repositioned the development banks in order to make them become more efficient and effective. Consequently, the former Nigerian Development Bank (NIDB) and NERFUND were merged to form the Bank of Industry (BOI). Family Economic Advancement Programme, Peoples Bank of Nigeria and Nigerian Agricultural and Cooperative Bank also merged to form the

Nigerian Agricultural, Cooperatives and Rural Development Bank (NACRDB). The CBN equally introduced the Automated Clearing system to make for easy clearing of cheques and other financial instruments among banks. Under the arrangement, 'Settlement Banks' were appointed to conduct direct clearing and also maintain deposits with the CBN in return.

The settlement Banks according to Okaro (2009) were appointed based on the fulfillment of the following criteria;

a) Deposit of N15 billion as settlement collateral;
b) Branch network in the CBN clearing location; and
c) Volume of items cleared should not be less than 2.50 percent of the total national volume for a period of six months.

The universal banking scheme had its challenges. The challenges as noted by Okaro (2009:65) include;

a) The need for capacity building on insurance and capital market operations for supervisors.
b) Adequacy of capital to meet exposure for increased risk.
c) Enhancing of professionalism, transparency and efficiency to cope with competition
d) Resolution of conflict of interest.

The ways to mitigate the challenges of universal banking in Nigeria were recommended by financial experts. Okaro (2009) also listed the recommendations thus;

a. Banks should maintain adequate and separate record keeping in all areas of operation;
b. There should be organizational structure, which clearly distinguish lines of authority.
c. Attributable income and cost should be clearly separated and appraised.

d. Consolidated supervision among the all the regulators.
e. Enhancement of regulatory capacity.
f. Need for self regulation to complement formal regulation.
g. The need to conduct more in-depth analysis of risks
h. The need to align local practices with best global practices
i. He need to encourage mergers/acquisitions and macro-economic stability.
j. Understanding the laws operating in the different sub-sectors i.e. the Investment and Securities Act, CBN Rules and Regulations and the Insurance Act.
k. Improvement in information technology (IT).
l. The introduction of innovative products.
m. Transparent and speedy judicial process
n. Good corporate governance
o. The need for a paradigm shift in monetary policy strategy, away from the current bank-base approach, to a market or holistic approach.

2.3.7 Era of Banking Consolidation

In July 2004, the CBN announced a major banking sector reform policy requiring all commercial banks licensed in Nigeria to raise their minimum paid-up share capital (capital base) to N25billion naira from N2billion within a period of 18 months ending December 31, 2005. The whole essence of the consolidation programme the CBN argued was to actualize the regulator's vision of a sound and reliable banking structure for the 21st century characterized of absence of illiquidity and bad health. After initial arguments by stakeholders and financial analysts as to the desirability and feasibility of such high

amount of capital base, the programme went on successful resulting to the pruning down of number of commercial banks in Nigeria from 89 to 25 by the end of December, 2005. Soludo (2004) had listed the elements of the banking system consolidation programme to include:

a) The requirement that the minimum capitalization for banks should be N25 billion with full compliance by December 31, 2005.
b) The phased withdrawal of public sector funds from banks, starting in July 2004.
c) The consolidation of the banking institutions through mergers and acquisition.
d) The adoption of a risk-focused, and rule based regulatory framework;
e) The adoption of zero tolerance in the regulatory framework, especially in the area of data/information edition / reporting.
f) The automation process for the rendition of returns by banks and other financial institutions through the enhanced Financial Analysis and Surveillance System (e-FASS)
g) The establishment of a hotline, confidential internet address (governor cenbank.org) for all those wishing to share any confidential information with the Governor of the Central Bank on the operation of any bank or the financial system.
h) The strict enforcement of the contingency planning framework for systematic banking distress.
i) The establishment of an Asset Management Company as an important element of distress resolution;
j) The promotion of the enforcement of dormant laws, especially those relating to the issuance of dud cheques, and the law relating to the vicarious liabilities of the Board members of the banks in cases of failing by the bank.

k) The revision and updating of relevant laws, and the drafting of new ones relating to effective operations of the banking system.

l) Closer collaboration with the Economic and Financial Crimes Commission (EFCC) in the establishment of Financial Intelligence Unit (FIU), and the enforcement of anti-money laundering and other economic crime measures; and

m) The rehabilitation and effective management of the Nigerian Security Printing and Minting (NSPM) Plc to meet the security printing needs of Nigeria, including the banking system which constitutes over 90 percent of the NSPM's business.

The idea of the consolidation is that a well capitalized bank will not have issues carrying out payment and clearing functions. Other objectives that the CBN intended to achieve with the consolidation policy according to Soludo (2004) include;

a) Creating a sound and more secure banking system that depositors can trust.

b) Building domestic banks that investors can rely upon to finance investments in the Nigerian economy;

c) Encouraging industry consolidation and reducing systematic risk;

d) Fighting corruption and white-collar crimes through improved transparency and accountability, and insisting on sound corporate governance practices in the financial services sector;

e) Driving down cost structure of banks, improving banks' efficiency and encouraging competition with the goals of lowering interest rates and providing large cheap credit to the economy; and

f) Meeting international benchmarks and minimum requirements for the integration of regional financial systems.

2.3.8 Era of Banking Reform

In 2009, the Central Bank of Nigeria as part of its banking sector reform agenda announced the removal of Chief Executive Officers and some top management staff of five (5) commercial banks, and appointed interim management committee members for the affected banks. This development came up following consistent liquidity problems as a result of excessive risk taking, corporate governance issues and mounting non-performing credit being witnessed in some commercial banking institutions. The CBN also gave lifeline to the affected banks to enable them meet customer withdrawal needs and maturing financial obligations. The long term objective of the reform is anchored on four pillars of improving;

1) *The quality of banks through improved corporate governance, risk management and transparency;*
2) *Ensure financial stability*
3) *Facilitate the evolution of healthy financial system through the institution of appropriate model and operational infrastructure for banking system; and*
4) *Ensure that banks contribute to the development of real economy (Daily Sun, 2010*).

The CBN so far under the reform has recorded the following achievements;

- *Establishment of Asset Management Corporation of Nigeria (AMCN) , Bankers Sinking Fund*
- *Establishment of N500 billion power / manufacturing facility, N200 billion for SMECGS, new Prudential Guideline on Loan Loss Provisioning, adoption of Common Year End for banks, Corporate Governance Reforms, Regulation of Margin Lending, adoption of Risk-Based Supervision of Banks and plan to abolish Universal Banking. (Daily Sun, 2010).*

2.4 Indices of Bank Performance in Nigeria.

The key indicators of bank performance in Nigeria are contained in the Central Bank's approved bank's financial condition assessment guide/rating system known as CAMEL. This is interpreted as follows;

C = Capital Adequacy

A = Asset Quality

M = Management Quality (Efficiency)

E = Earnings Strength (Profitability)

L = Liquidity Sufficiency

This is further interpreted as;

1) Capital Adequacy – a measurement index used to determine the ability of a bank to hedge against risk in the event of liquidation. Known as Capital Adequacy Ratio (CAR), it is the ratio of Classified Loans and Advances to Shareholder's Fund.
2) Asset Quality – a measurement index used to determine the level of a bank's exposure to risks. It is a proportion/ratio of nonperforming credits to total credits.
3) Management Efficiency –

   Management efficiency or good management is assessed using several indices – professional competence, cost control, cognitive initiative (proactiveness), ability to plan and forecast and provide to face the dynamic economic environments, ability to comply with established internal and external checks and balances, ability to motivate and retain talents, ability to drive the organization to higher earnings (return on equity, return on assets, and portfolio mix of earnings), asset quality, etc.(Onwumere, 2009)

4) Earnings/Loans to Deposits Ratio – a measurement index on efficiency determined by ratio of Profit Before Tax (PBT) to Total Assets.
5) Liquidity – a measurement index used to determine the ability of a bank to fund its contractual obligations like lending and investment commitments, customers' deposit withdrawals and maturing liabilities. It is a ratio of liquid Assets to Total Deposits.

2.4.1 Regulatory Capitalization Requirements for Banking in Nigeria.

The Central Bank of Nigeria (CBN) from time to time release guidelines for banks and other financial institutions operating in the country with wide variety of requirements including minimum capital base. As at September 2010, the following capitalization requirements apply to the under-listed categories of financial institutions in Nigeria.

Category of Financial Institution	Minimum Capital Base
Deposit Money Banks (DMBs)	N25 billion. However, new guideline recently released by the CBN and expected to take effect from October 04, 2010 had categorized banks in the country into three, with different capitalization requirement as follows; 1) Regional banks – N10billion 2) National banks – N25billion 3) International banks – N50billion.
Micro Finance Banks	N20million
Mortgage Institutions	N500million

Insurance Companies	1) Life Insurance business N150million. 1) Composite Insurance (General Business) N250million.
Stock Broking Firms	N50million
Pension Fund Administrators	N500million
Pension Fund Custodians	Deposit Money Banks with a minimum capital base of N50billion

2.5 Summary

In this chapter, the various concepts of performance, banking and the history of banking in Nigeria demand and the relationship between performance and bank profitability were discussed.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In carrying out this work, certain methods were used. This chapter explains in depth, the procedures followed in arriving at the inference of this research work. Research decision is the framework for investigating a research problem or in other words refers to the methods used in collecting data, which are to be used in investigating and analyzing a research problem. It also highlights the sources of data, variables on which the data was collected, model specification and parameters estimation techniques.

3.2 Research Design

In this research, the comparative / descriptive research design was employed. This type of design is suitable and appropriate for the objective of the study because descriptive research design aids the researcher in the observation and analysis of the relationship among the variables of the model of the study. Also, the use of this method of research design is considered cost effective.

3.3 Population and Sampling Technique

The population of the study covers entire twenty-four (24) operational deposit money banks in Nigeria, following the 2005 banking consolidation programme of the Central Bank. These institutions are spread (with unequal number of branches) all over the thirty-six states of the federation including the Federal Capital of Nigeria, Abuja.

The four basic elements of sampling plan for the study are;

a. Sampling Unit: The deposit money banks in Nigeria.

b.Sampling Size: Three (3) out of the current twenty-four (24) operational deposit money banks in Nigeria were selected as case study. They are the First Bank of Nigeria (FBN) Plc, the United Bank for Africa (UBA) Plc and the Guaranty Trust Bank (GTBANK) Plc. The FBN Plc was established since 1894 hence the oldest banking institution in Nigeria. The UBA Plc is reputed as the most globalized bank in the whole of African continent while the GTBANK Plc is among the 'new generation' banks in Nigeria – a name ascribed to banks in Nigeria that commenced operations with modern technology in banking.

a. Sampling Procedure: The quota sampling type of non-probability (non-random) sampling was adopted in the selection of the banks studied. The method was adopted to ensure that only the banks that posses the major characteristics specified by the researcher are chosen. The characteristics include age (in terms of 'old' and 'new' generation banks) and branch network (especially in terms of global spread). The researcher assumes that all the deposit money banks in Nigeria posse's similar performance features and are rated using the same rating standards.

b. Sampling method: The audited and published annual financial reports and accounts of each of the three selected deposit money banks in Nigeria were utilized. The study covered a six year period, 2004 to 2012.

3.4 Methods of Data Collection

The source of data collection for analysis in this study is through the secondary source (audited and published annual financial reports and accounts) hence no questionnaire administration is required.

3.5 Procedure for Data Analysis and Model Specification

The technique for data analysis involved both content and statistical. By content is implied that the data collected was evaluated on purely descriptive, comparative and analytical grounds. The statistical tools which were used in the hypothesis testing include simple percentage and ratio analysis. The simple percentage is suitable for determining the proportions of elements/components of a whole while ratio analysis is suitable for status indication.

Model Specification

The model of relationship among variables for the study is derived from the model of bank examination rating system in Nigeria known as CAMEL. The key elements of the system:

C = Capital Adequacy

A = Asset Quality

M = Management Quality (Efficiency)

E = Earnings Strength (Profitability)

L = Liquidity Sufficiency.

Because the third variable of the model – Management efficiency, cannot be measured using numerical values, it has been excluded from the model specification. In specifying model of relationships for the study, the following alphabets are used to indicate the respective variables:

Y = this is the dependent variable of the model and is encompassing. Its value is dependent upon the values of the other variables of the model. It is the proxy for financial results.

S = an independent variable used to determine the balance sheet mix and levels of growth or deterioration of assets of the banks. It represents Balance Sheet Structure and Growth Rates.

L = Also an independent variable for determination of ability of the banks to meet their financial obligations such as lending and investment commitments, deposit withdrawals and maturing liabilities. It is the proxy for Liquidity Sufficiency

A = this is used for determination of levels of performing loans and advances of the banks. It represents Asset quality.

C = this is used to determine amount of shareholder's funds used in operations of the banks. It is the proxy for Capital Adequacy.

E = this is used to determine the profitability levels of the banks. It is the proxy for Earnings Strength.

Starting with the first hypothesis which states that no significant positive impact exists between balance sheet structure and growth rates, and financial results, we have;

Y (S) = 0 --- (1)

The second hypothesis states that there is no positive impact of deposits and liquidity position on financial results, for which we have;

Y (L) = 0 --- (2)

For the third hypothesis, which states that there is no significant positive impact between financial results and non-performing (bad) loans, advances and other assets, we have;

Y (A) = 0 -- (3)

The fourth hypothesis posits no significant positive impact of amount of shareholder's fund (share capital) on the financial results, for which we have;

Y (C) = 0 -- (4)

The fifth hypothesis states that the earnings or profitability level of the banking institutions has no significant positive impact on their financial results, for which we have;

Y (E) = 0 -- (5)

In order to confirm the validity of the above hypothesis, the dependent variable Y (results) can be rewritten as a function of the independent variables S, L, A, C and E in the equations of the hypothesis 1 – 5. Thus, for equation (1) we have

Y = f(S)…………………………………………………………… (6)

This can be further rewritten as

Y = ao + a1 S ……………………………………………………… (6.1)

a1 < O

With respect to the above, it is expected that the coefficient of S is negative because of the assumption that poor balance sheet structure and growth rates results to poor financial results.

For equation (2) we have

Y = f (L)…………………………………………………………….. (7)

This can be further rewritten as

$Y = b_o + b1\ L$ …………………………………………………………… (7.1)

$b_1 < O$

The expectation with respect to the coefficient of L is negative because of the feelings that poor deposit and liquidity condition results to poor financial results.

For equation (3) we have

$Y = f\ (A)$……………………………………………………….. (8)

This can be further rewritten as

$Y = a_o + a_1\ A$ ……………………………………………………. (8.1)

$a_1 < O$

The expectation with respect to the coefficient of A is negative because of the feelings that poor quality of assets results to poor financial results.

For equation (4) we have

$Y = f\ (C)$……………………..………………………………….. (9)

This can be further rewritten as.

$Y = \beta_o + \beta_1\ C$ ……………………………………………….……. (9.1)

$\beta_1 < O$

The expectation with respect to the coefficient of C is negative because of the feelings that inadequate capitalization results to poor financial results.

Finally for equation (5) we have

$Y = f\ (E)$…………………………………………………………… (10)

This can be further rewritten as

$Y = \Upsilon_o + \Upsilon_1\ E$ ……………………………………..………. (10.1)

$\Upsilon 1 < O$

The expectation with respect to the coefficient of E is negative because of the assumption that earnings results to poor financial results.

3.6 Justification of Methods

The choice ofsimple percentage and ratio analysis as used in this study is in line with previous work which also uses the same tool to measure the extent of relationship between Performance and banks profitability; studies include Uhuaba (2012), Okpala (2009), and Uhomoibhi (2005).

3.7 Summary

This chapter present the methodology adopted for the study. The design adopted for this study is the descriptive research design. The population of the study covers entire Money Deposit Banks across Nigeria. The tool of data analysis used issimple percentage and ratio analysis.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction:

In this chapter, the data collected for the research are presented, analyzed and interpreted.

4.2 Data Presentation:

The published five-year financial summary of the selected deposit money banks namely the First Bank of Nigeria (FBN) Plc, the United Bank for African (UBA) Plc and the Guaranty Trust Bank (GTBANK) Plc, are presented in appendix I, II and III respectively. The presentation covers the period between 2006 and 2012.

Brief Analysis of the Performance Trend and the Growth Indicators of the selected Banks (2012)

1. First bank of Nigeria Plc

The financial summary of the bank shows that the bank within the period of study consistently met and surpassed the required minimum shareholder's funds of N25billion naira. Also, the bank recorded profits on its operations at varying proportions and rates.

Other financial growth indicators of the bank increased within the period of assessment. Total assets of the bank rose by 41.76 percent in 2007, 52.76 percent in 2008, and 43.07 percent in 2009 and 6.30percent in 9months period ended December 31, 2009. The shareholder's funds also increased between 2006 and March 2009 financial year end but declined by 17.45 percent against the March 2009 figures in the 9months financial period ended December 2009.

The total assets and total loans and advances also increased but at different rates within the period under review. The percentage changes of the growth indicators are represented in the table below.

Performance of Financial Growth Indicators of First Bank of Nigeria Plc (2012)

	2006 (MAR)	**2007 (MAR)**	**2008 (MAR)**	**2009 (MAR)**	**2009 (DEC)**	**2007 (MAR**	**2008 (MAR)**	**2009 (MAR)**	**2009 (DEC)**
Share Capital	2619	5238	9945	12432	14504	100	89.06	25.01	16.67
Share Premium	0	15858	254524	254524	254524	-	1505	0	0
Reserves	56377	56255	75378	84098	48459	.022	33.99	11.57	-42.38
Undistributed Profit (PAT)	12350	18355	30473	35074	1275	48.62	66.02	15.10	-96.36
Shareholder's Funds (Equity/tier 1 capital)	71346	95706	370320	386128	318762	34.14	286.93	4.26	-17.45
TOTAL ASSETS	538145	762888	1165461	1667422	1772454	41.76	52.76	43.07	6.30

TOTAL DEPOSITS	390846	581827	661624	1071836	1236599	48.86	13.71	62.00	15.37
TOTAL LOANS AND ADVANCES	175657	219185	437768	684107	1022486	24.78	99.73	56.27	49.46

Source: First Bank of Nigeria annual report and accounts 2012

2. United Bank for Africa (UBA)

Within the period of 2005 to 2009, the total asset of the bank rose from N248.928billion to N1.4 trillion representing a 462.76 percent growth over the 5 year period. Customer deposits grew by 269.23 percent in 2006, 18.52 percent in 2007 and 40.15 percent in 2008. However, total customer deposits decline by 8.50 percent in 2009 financial year. Other growth indicators in the bank such as shareholder's fund and total loans and advances recorded increases between 2006 and 2008 financial year but declined in 2009. The percentage changes of the growth indicators over the reporting period are presented in the table below;

Performance of financial growth indicators of United Bank for Africa Plc (2006 – 2009

	2009	2008	2007	2006	2005	annual increase (decrease) rate

	N'million	N'million	N'million	N'million	N'million	2009	2008	2007	2006
Ordinary Share Capital	10778	8622	5748	3530	1530	25.01	50.00	62.83	130.72
Share Premium	113645	114036	119066	23209	0	-0.34	-4.22	413.02	0
Reserves	63296	65497	40007	20882	16172	-3.36	63.71	91.59	29.12
Undistributed Profit (PAT)	12889	40002	19831	11468	4653	-67.78	101.71	72.92	146.46
Shareholder's Fund (Networth)	200608	228157	184652	59089	22355	-12.07	23.56	212.50	164.32
total assets	1400879	1520091	1102348	851241	248928	-7.84	37.90	29.50	241.96
total deposits	1151086	1258036	897651	757407	205110	-8.50	40.15	18.52	269.23
loans and advances	543289	405540	320229	107194	67610	33.97	26.64	198.74	58.55

Source: United Bank for Africa Plc annual report and accounts 2012

3. Guaranty Trust Bank (GTBANK)

All the financial growth indicators of the bank recorded increases between 2006 and 2009. The shareholder's fund increased by 22.55 percent, 201.99 percent, 13.74 percent and 2.26 percent in 2006, 2007 2008 and 2009 financial years respectively. Aggregate customer deposits in the bank grew by 36.63 percent in 2006, 22.77 percent in 2007, 24.86 percent in 2008 and 48.58 in 2009. Total assets and total loan and advances granted to customers within the period of study recorded different levels of growth. The table below depicts the changes of the growth indicators of the bank with the period of analysis thus;

Performance of financial growth indicators of Guaranty Trust Bank Plc (2012)

	DEC 2009 N'000	DEC 2008 N'000	FEB 2008 N'000	FEB 2007 N'000	FEB 2006 N'000	Annual Increase (Decrease) Rate			
						2009	2008	2007	2006
Ordinary Share Capital	9326875	7461500	6839708	4000000	3000000	25.00	9.09	70.99	3.33
Share Premium	119076566	119076565	119076565	21391928	21391928	0.00	0.00	456.64	0
Reserves	60072347	53012660	35136791	22041260	16253614	13.32	-0.35	59.41	35.61

Undistributed Profit (PAT)	23848061	2807325 2	2148988 5	1301314 6	8677506	- 15.0 5	30.6 3	65.14	49.96
Shareholder's Fund (Net worth)	21232384 9	2076239 77	1825429 49	6044633 4	4932304 8	2.26	13.7 4	201.9 9	22.55
TOTAL ASSETS	10199115 36	9182787 56	7143453 49	4783630 61	3045806 33	11.07	28.5 5	49.33	57.06
TOTAL DEPOSITS	66226102 6	4457402 12	3570061 28	2907923 72	2128337 70	48.58	24.8 6	22.77	36.63
TOTAL LOANS AND DVANCES	53813756 9	4139838 17	2915307 77	1137051 83	8347685 2	29.99	42.0 0	156.3 9	36.21

Testing of the Hypotheses for the Study

Hypothesis 1

Balance sheet structure and growth rates have no significant positive impact on financial performance of banking institutions.

The aggregate balance sheet values of the individual selected banks from 2006 to 2009 and their individual components are presented in tables 1, 2 and 3 below:

The balance sheet structure and growth rate of First Bank of Nigeria Plc (2012).

	31	31 March	31 March	31 March	31 March	Annual Increase	

	December 2009.		2009		2008		2007		2006		(Decrease) Rate				
	N' million	%	N' million	%	N' million	%	N' million	%	N' million	%	31 Dec, 09 %	31 Mar, 09 %	31 Mar, 08 %	31 Mar, 07 %	31 Mar, 06 %
Assets:															
Cash and Balances with CBN	67576	3.81	140353	8.42	89076	7.64	60881	7.98	49444	9.88	-51.85	57.56	46.31	23.13	-74.6
Treasury Bills	14219	0.80	17697	1.06	147680	12.67	159832	20.95	108316	20.13	-19.65	-88.02	-7.6	47.56	-
Due from other Banks	255902	14.44	510722	30.63	247059	21.20	137864	18.07	94029	17.47	-49.89	106.72	79.2	46.61	-
Loans	102	57.	6841	41.	4377	37.	2191	28.	1756	32.	49.4	56.	99.	24.	53.

and Advances	2486	69	07	03	68	56	85	74	57	14	6	27	73	78	2
Advances under finance lease	10835	0.61	11769	0.71	10297	0.88	3043	0.40	1701	0.32	-7.94	14.3	238.38	78.89	81.5
Investment Securities	49386	2.79	34663	2.08	44509	3.82	56087	7.35	55773	10.36	42.47	-22.12	-20.64	0.56	126
Investment in Associates	2224	0.13	2224	0.13	74	0.01	74	0.01	74	0.01	-	2905.4	-	-	-
Investment in Subsidiaries	30416	1.72	28449	1.71	26949	2.32	7887	1.03	7882	1.47	6.91	5.57	241.67	0.06	-
Trading Securities	221863	12.52	151111	9.06	93396	8.01	71477	9.37	-	46.82	61.8	30.67	-	-	-
Other	512	2.8	4800	2.8	3949	3.3	2970	3.8	3131	5.8	6.74	21.	32.	-	-

Assets	45	9	7	8	8	9	1	9	7	2		54	99	5.16	28.4
Property and Equipment	46302	2.61	38320	2.30	29155	2.50	16850	2.21	13952	2.40	20.83	31.44	73.03	20.77	9.95
TOTAL	**1772454**	**100.01**	**1667422**	**100.01**	**1165461**	**100.00**	**762881**	**100.00**	**538145**	**100.00**	**6.30**	**43.07**	**52.77**	**41.76**	**14.29**
Liabilities:															
Share Capital	14504	**0.82**	12432	0.75	9945	0.85	5238	0.69	2619	0.49	16.67	25.01	89.06	100.00	**-**
Share Premium	254524	14.36	254524	15.27	254524	21.84	15858	2.08	-		0.00	0.00	2	-	**-**
Reserves	48459	2.73	84098	5.04	75378	6.47	56255	7.37	56377	10.48	-42.38	11.57	33.99	-0.22	**-**
Customer	123	69.	1071	64.	6616	56.	5818	76.	3908	72.	15.3	62.	13.	48.	47.

Deposits	6599	78	836	28	24	77	27	27	46	63	7	00	74	86	28
Due to other Banks	65087	3.67	78980	4.74	44281	3.80	14448	1.89	323	0.06	-17.59	78.36	206.49	4373.07	-
Borrowings	35473	2.00	35042	2.10	29414	2.52	22101	2.90	-		1.23	19.13	33.09	-	-
Current Income Tax	14948	0.84	7238	0.43	5091	0.44	5710	0.75	4148	0.77	106.52	42.17	-10.84	37.66	4.91
Other Liabilities	92172	5.20	109796	6.58	78492	6.73	58773	7.70	81081	15.07	-16.05	39.88	33.55	-27.51	47.00
Deferred Income Tax Liabilities	10144	0.57	12,758	0.77	6712	0.58	2671	0.35	2751	0.51	-20.49	90.08	151.29	-2.91	-
Retirement Benefit	544	0.0	718	0.0	-	-	-		-		-24.2	-	-	-	-

Obligations		3		4							3				
TOTAL	**1772454**	**100.00**	**1667422**	**100.00**	**1165461**	**100.00**	**762881**	**100.00**	**538145**	**100.01**	**6.30**	**43.07**	**52.77**	**41.76**	**14.29**

Source: First Bank of Nigeria Plc annual report and accounts 2012

The balance sheet structure and growth rate of United Bank for Africa Plc (2012)

	31 Dec, 2009.		30 Sept 2008		30 Sept 2007		30 Sept 2006		31 March 2005		Annual Increase (Decrease) Rate			
	N'm	%	N'm	%	N'm	%	N'm	%	N'm	%	2009,%	2008,%	2007, %	2006, %
Assets:														
Cash and Balances with	38972	2.78	95733	6.3	63902	5.80	57866	6.8	12411	4.99	-0.59	0.5	0.1	3.66

CBN														
Treasury Bills	15945	1.14	171401	11.3	96958	8.80	159571	18.75	53444	21.47	-0.91	0.77	-0.39	1.99
Due from other Banks	459829	32.82	591791	38.93	454399	41.22	406239	47.72	97305	39.09	-0.22	0.3	0.19	3.17
Loans and Advances	543289	38.78	405540	26.68	320229	29.05	107194	12.59	67610	27.16	0.34	0.27	1.99	0.59
Investment Securities	150565	10.78	96397	6.34	74421	6.75	49543	5.82	7432	2.99	0.56	0.3	0.5	5.66
Investment in Subsidia	37753	2.69	13562	0.89	5786	0.52	5533	0.65	403	0.16	1.78	1.34	0.05	12.73

ries														
Investment in Associates	9943	0.71	595	0.04	21	0	21	0.00	0	0	15.71	27.33	0	0
Investment inJoint venture	900	0.06	900	0.06	0	0	0	0.00	0	0	0	0	0	0
Other Assets	80186	5.72	88007	5.79	38419	3.49	33048	3.88	4169	1.67	-0.09	1.29	0.16	6.93
Property and Equipment	63497	4.53	56165	3.69	48213	4.37	32226	3.79	6154	2.47	0.13	-0.75	0.5	4.24
TOTAL	**1400879**	**100.01**	**1520091**	**100.02**	**1102348**	**100.00**	**851241**	**100.00**	**248928**	**100.00**				
Liabiliti														

es:														
Share Capital	10778	0.77	8622	0.57	5748	0.52	3530	0.42	1530	0.61	0.25	0.50	0.63	1.31
Share Premium	113645	8.11	114036	7.50	119066	10.80	23209	2.73	0	0.00	0.00	-0.04	4.13	0.00
Reserves	63296	4.52	65497	4.31	40007	3.63	20882	2.45	16172	6.50	-0.03	0.64	0.92	0.29
Customer Deposits	1151086	82.2	1258036	82.76	897651	81.43	757407	88.98	205110	82.40	-0.09	0.40	0.19	2.69
Due to otherBanks	10080	0.72	32000	2.11	0	0.00	0	0.00	0	0.00	-0.69	0.00	0.00	0.00
Borrowings	14760	1.05	0	0.00	1135	0.10	1135	0.13	1676	0.67	0.00	0.00	0.00	-0.32
Current	1416	0.1	3443	0.2	3959	0.3	1359	0.1	2494	1.0	-	-	1.91	-

Income Tax				3		6		6		0	0.59	0.13		0.46
Other Liabilities	34273	2.45	37424	2.46	33749	3.06	35118	4.13	18998	7.63	-0.08	0.11	-0.04	0.85
Deferred Income Tax Liabilities	0	0	991	0.07	991	0.09	1499	0.18	1070	0.43	0.00	0.00	-0.34	0.40
Dividend payable	42	0.003	42	0.00	42	0.04	7102	0.83	1878	0.75	0.00	0.00	-0.90	2.78
Retirement Benefit Obligations	1503	0.11	0	0.00	0	0	0	0.00	0	0.00	0.00	0	0	0
TOTAL	**1400**	**100**	**1520**	**100**	**1102**	**100**	**8512**	**100**	**2489**	99.				

	879	**.03**	**091**	**.01**	**348**	**.03**	**41**	**.01**	**28**	99				

Source: United Bank for Africa Plc annual report and accounts 2012

Balance sheet structure and growth rate of Guaranty Trust Bank Plc (2012)

	Dec, 2009.		DEC 2008		FEB 2008		FEB 2007		FEB 2006		Annual Increase (Decrease) Rate			
	N'm	%	N'm	%	N'm	%	N'm	%	N'm	%	DEC 2009, %	DEC 2008, %	FEB 2008, %	FEB 2007, %
Assets:														
Cash and Balanceswith CBN	34890.7	3.42	62579.4	6.81	38969.7	5.46	32346.4	6.76	30894.8	10.14	-44.25	60.58	20.48	4.69
Treasury Bills	29405.6	2.88	52715.5	5.74	63105.7	8.83	124794.4	26.09	101806.5	33.43	-44.22	-16.46	-49.43	22.58

Due from other Banks	202810.2	19.89	191187.2	20.82	64224.2	8.99	96593.5	20.19	41410.4	13.60	6.08	179.69	-33.51	133.26
Other Facilities	0	0.00	0	0.00	0	0.00	4443.7	0.93	4460.8	1.47	0	0	0	-0.38
Loans and Advances	538137.5	52.76	413983.8	45.08	291530.7	40.81	113705.1	23.77	83476.8	27.41	29.99	42.00	156.39	36.21
Adv under financelease	1.2	0.00	23.8	0.01	18.0	0.01	0	0.00	0	0.00	-94.96	32.22	0	0
Investment Securities	134126.9	13.15	86616.9	9.43	115240.9	16.13	40739.8	8.52	13774.7	4.52	54.85	-24.84	182.87	195.76
Investment in Subsidiarie	29774.8	2.92	28274.8	3.07	15022.2	2.10	4536.5	0.95	848.0	0.28	5.31	88.22	231.14	434.96

s														
Deferred tax assets	0	0	0	0	0	0	0	0	0.00	00	0	0	0	0
Other Assets	9478.7	0.93	46866.1	6.52	94581	13.24	41453.8	8.67	16177.6	5.31	-79.77	-50.45	128.16	156.24
Equipment on Lease	0	0	0	0	0	0	0	0.00	1.2	0	0	0	0	0
Property and Equipment	41285.4	4.05	36030.9	3.92	31652.4	4.43	19749.4	4.13	11729.4	3.85	14.58	13.83	60.27	68.38
TOTAL	**1019911.0**	**100.0**	**918278.4**	**101.4**	**714344.8**	**100.0**	**478362.6**	**100.0**	**304580.2**	**100.01**	**11.07**	**28.55**	**49.33**	**57.06**
Liabilities:														
Share Capital	9326.8	0.91	7461.5	0.81	6839.7	0.96	4000.0	0.83	3000.0	0.98	24.99	9.09	70.99	33.33

Share Premium	119076.5	11.68	119076.5	12.97	119076.5	16.67	21391.9	4.47	21391.9	7.02	0.00	0.00	456.64	0.00
Reserves	60072.3	5.89	53012.6	5.77	35136.7	4.92	22041.2	4.61	16253.6	5.34	13.32	50.88	59.41	35.61
Customer Deposits	662261	64.93	445740.2	48.54	357006.1	49.98	290792.3	60.79	212833.7	69.88	48.58	24.86	22.77	36.63
Due to other Banks	1083	0.11	27965.2	3.05	324.8	0.05	0	0.00	356.4	0.12	-96.13	859.98	0.00	0.00
finance lease Obligations	2211.1	0.22	2125.2	0.23	2350.4	0.33	0	0.00	0	0.00	4.04	-9.58	0.00	0
Current Income Tax	2373	0.23	9237.9	1.01	5791.4	0.81	3332.7	0.70	2171.2	0.71	-74.31	59.51	73.76	53.50
Other	8128	7.9	186892	20.	127740	17.	72196.	15.	33041.	10.	-56.	46.	76.	118.

Liabilities	4	7	.1	35	.3	88	9	09	1	85	51	31	93	51
Deferred Tax Liabilities	4134.4	0.41	3,395.7	0.37	2731.6	0.38	1071.0	0.22	1144.4	0.38	21.75	24.31	155.05	-6.41
Dividend payable	0	0	0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.00	0.00	0.00	0.00
Retirement Benefit Obligations	240.8	0.02	475.0	0.05	1204.8	0.17	984.8	0.21	644.5	0.21	-49.31	-60.57	22.34	52.8
Debt Securities in issue	65515.6	6.42	48838.1	5.32	0.0	0	0.0	0.00	0.0	0.00	34.15	0.00	0.00	0.00
Other Facilities	0	0.00	0	0.00	0.0	0	4488.6	0.94	4505.9	1.48	0.00	0.00	0.00	-0.38
Other borrowings	12332.5	1.21	14058.4	1.53	56142.5	7.86	58063.3	12.14	9237.5	3.03	-12.28	-74.96	-3.31	528.56
TOTAL	**1019**	**10**	**918**	**100**	**714**	**10**	**478**	**100**	**304**	**10**	**11.**	**28.**	**49.**	**57.0**

	911.0	**0.0**	**278 .4**	**.0**	**344 .8**	**0.0**	**362 .7**	**.0**	**580 .2**	**0.0 0**	**07**	**55**	**33**	**6**

Source: Guaranty Trust Bank Plc annual report and accounts 2012

Decision:

From the above tables, the banks maintained a diversified balance sheet mix and average liquid asset base. This enhanced their liquidity position and potentials for profitability of operations and safety of depositors fund in relation to level of business undertaken.

The aggregate assets of the individual selected banks grew every year within the period of analysis.

While some components of the total assets grew, others declined indicating the individual components of the total assets where the bank's available funds are applied. The contribution of each component of the total assets to the total assets and the annual growth rate the bank's assets are as shown above

The liability side of the balance sheet of the selected banks also witnessed increases. The total deposits, share capital and reserves of all the banks rose within the period of analysis. These indicate sources of funds for the banks operations.

Consequently, we reject the H1 and accordingly accept H0.

Hypothesis 2

Deposits and liquidity position do not have significant positive impact on the financial performance of deposit money banks.

To test this hypothesis, the liquidity ratio and loan-to-deposit ratio of the selected banks are compared with the rate prescribed by the current monetary policy.

Liquidity Ratio = liquid assets divided by total deposit liabilities

Loan-to-deposit ratio = total loans and advances divided by total deposit liabilities

The liquidity and loan-to-deposit ratios of First Bank of Nigeria Plc (2004 – 2012)

Decision rule:

Ideally, banks are to keep about 40% of their deposits in liquid assets. Also, the liquidity ratio prescribed by the monetary policy within the period of analysis is from 35 – 40 percent.

From the computations above, the liquidity ratio of all the selected deposit money banks on annual basis, within the period of analysis rose above the 40 percent prescribed by the monetary policy except for the First Bank of Nigeria's 9 month financial result ended December 31, 2009 of 27.31 percent.

Similarly, the loan-to-deposit ratio of all the selected deposit money banks revolves around the prudential maximum of 60 percent. This shows that a large proportion of the deposits are used to fund loans and advances granted to customers of the deposit money banks.

Therefore, we reject the H1 and accordingly accept H0

Hypothesis 3

There is no significant negative impact of non-performing (bad) loans, advances and other assets on the financial performance of banking institutions.

To test the hypothesis, we determine the ratio of performing loans and advances to total loans and advances of the selected banks.

The Ratio of Performing Loans and Advances to Total Loans of First Bank of Nigeria Plc (2004 – 2012)

4.3 Summary of Findings.

The Nigerian deposit money banks maintained a good balance sheet mix and average balance sheet growth within the period of the study. The total assets of the banks increased on yearly basis. Loans and advances constituted the large component of the total assets. Cash with the Central Bank and Due from other banks accounted for a reasonable percentage of current assets. Also, the major components of the liability side and all the growth indicators witnessed increases on the annual basis within the period of the study. The total deposits, other liabilities and paid-up capital and reserves of the deposit money banks rose. The structure of the assets and liabilities was such that ensure a balance between profitability, liquidity and safety of the depositor's money.

The Nigerian deposit money banks met and in some cases surpassed the regulatory liquidity requirement of between 35 to 40 percent within the period of the study. Therefore the banks maintained good liquidity within the period of the study.

Also, within the period of study, the quality of assets of the banks improved on the annual basis. The rate of performing credits are high ranging from 93.26 percent to 99.77 percent between the year 2004 and 2012 while the rate of non-performing loans are low. It was therefore found that the non-performing loans and advances have no significant negative impact on the financial performance of the deposit money banks.

All the banks met the statutory minimum shareholder’s funds and capital adequacy ratio above the minimum required ratio of 10 percent. The banks however, recorded inconsistent levels of earnings and profitability on operations. The earnings per share in some banks improved while it deteriorated in other banks. In the cause of the study, it was discovered that the banks faced some challenges; the issue of variation of the number of months that make up financial year resulting to unequal accounting period ranging from 9 to 15 months.

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the major findings of the study based on the analysis of data collected. Also contained in this chapter are the conclusions of the research study as well as the policy recommendations based on the findings.

5.2 Conclusion

Based on the findings, it is concluded that the deposit money banks in Nigeria made the following achievements between the period of 2004 and 2012.

- Increased all the bank financial growth indicators such as the shareholder's funds, totals assets, total deposits and total credits and advances.
- Consistently met and most in most times surpassed the minimum regulatory liquidity and capital requirements.
- Had high proportion of credits and advances that were being repaid in compliance to the repayment schedule.

However, the banks achieved inconsistent levels of earnings and profitability therefore resulting to their inability to meet investors' expected return on investments.

5.3 Recommendations

Earnings and profitability of banks like other corporate entities has implications for survival and growth among other factors. Low earnings and profitability have led to

distress in the banking system in the past. Weak financial performance of the banking institutions is bad and cannot guarantee constant supply of variety of funds to the economy for development. Therefore the banks should be made to reduce cost of operations so as to improve earnings.

As Nigeria strives hard to become one of the 20 largest economies of the world by the year 2020, there is need for the central bank to ensure that the banking institutions engage in strict banking business of savings intermediation and grant adequate credit facilities to the productive sectors of the economy for development.

The central bank should also ensure that the capital base of the banks is reviewed periodically with a view to raising it up to a level that commensurate with the level of business undertakings of the banking institutions in Nigeria.

5.4 Suggestions for Further Studies

This study reveals that the deposit money banks in Nigeria granted huge credit facilities within the period of study. But the sectors of the economy that received what credit facilities ought to be known. This is necessary as it will indicate whether the banks were engaged in strict banking business in terms of savings intermediation or they are traders-trading in foreign exchange, government securities and financing direct importation of goods. It is therefore suggested that other researchers who may wish to study the performance of Nigerian banks should narrow down the topic to the area of sectoral allocation of bank credit facilities. This will show the contribution of the banks to the development of the real sector of the economy

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