

BANKING SECTOR REFORM AND FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT

This study examined banking sector reforms (BSR) and financial performance of quoted deposit money banks (DMBs) in Nigeria. Panel data obtained from 13 quoted DMBs were sourced from annual reports and statement of account of the DMBs from 2010 to 2019. Financial performance was modeled as the function of increased capital base, increase credit allocation, increase in deposit mobilization and assets quality. Panel data methodology is employed while the fixed effects model was used as estimation technique at 5% level of significance. Fixed effects, random effects and pooled estimates were tested while the Hausman test was used to determine the best fit. After cross examination, the Hausman test validated the fixed effect model. From the fixed effect model the study found that 52.6% variation in financial performance (represented as return on equity) of quoted DMBs could be traced to variation in BSR. The study found that deposit mobilization and capital adequacy ratio have negative significant relationship with return on equity of DMBs. Credit allocation has positive significant effect while assets quality has positive insignificant effect on return on equity. The study concludes that BSR have significant effect on financial performance of DMBs in Nigeria; and recommend that the Central Bank of Nigeria should increase the minimum capitalization of banks in line with perceived volatility of the operating environment; and also increase its oversight function on DMBs in the areas of credit allocation and deposit mobilization.

Keywords: Asset quality, banking sector reform, capital adequacy ratio, financial performance

INTRODUCTION

The Nigerian banking industry is undergoing revolutionary transformation as a result of reform programmes instituted by the Central Bank of Nigeria (CBN) to resolve existing problems in the industry. Notable banking sector reforms (BSR) in recent time includes bank recapitalization, abolishment of universal banking, reduction in tenure of managing directors/chief executive officers, withdrawal of public funds from deposit money banks (DMBs) and introduction of Asset Management Company of Nigeria (AMCON) with a mandate to buy back toxic assets from banks currently in need and return capital to the banks, improve liquidity and prepare grounds for the CBN to withdraw from affected banks (Akani et al., 2016).

The CBN pursue reforms with a view to enhancing prevailing conditions in individual banks as well as the entire industry. The dynamic nature of the banking sector and its importance to economic growth has made reforms necessary. Since reform is the platform via which the monetary authority eliminate breakdowns or deliberate wrongful actions and rectify or remould observed anomalies that results to failure of the entire financial system (CBN, 2011).

Banks' performance in terms of their capacity to generate sustainable profitability is their first line of defense against unexpected losses, as it strengthens their capital position and improve future profitability through investment of retained earnings (European central bank, 2010, as cited in Akani et al., 2016).

Arguments linking BSR to growth holds that a well-developed financial system enhances efficiency of intermediation by reducing information, transaction, and monitoring costs. It broadens deposit base of an economy and promotes investment by identifying and funding good business opportunities, facilitating exchange of goods and services and also hedging and diversifying risk (Sanusi, 2010). Through the process of intermediation, banks generally mobilize resources from those who have surpluses and channel same to those who are in deficits for productive activities in an economy (Akpansung & Gidigbi, 2014)

The objectives of BSR Nigeria includes effective financial intermediation by mobilizing deposits from surplus economic units and credit allocation, eliminating regulatory arbitrage by getting risk weights right and align regulation with best practices in risk management. The reforms provide banks with incentives to enhance risk measurement and management capabilities and seek to align regulatory capital of banks with economic risks. It sets regulatory benchmark of capital for three categories of risks: credit risk, operational risk and market risk (Onodje, 2009; Akani et al., 2016). Hence, reforms make banks more efficient, stable, and profitable; they also enhance banks' survival and expansion.

However, if reforms do not lead to promised positive effects, then they may lead to a less profitable and valuable banking industry. Literature suggests that the efficiency gains that accrue from large and growing wave of banking reforms have not been verified. Also, signals from the CBN indicates that three out of the remaining 25 banks after the recent reforms, are technically distressed (Osadume & Ibenta, 2018). This puts the research community in a quandary on whether the industry has followed a path of massive restructuring based on a misguided belief of efficiency gains or whether financial regulators and operators are lying to the public and shareholders about effects of their activity on banks' performance. It is important to address this issue by reconciling arguments with empirical reality of continued reforms in Nigeria's banking sector.

Anarfi et al. (2016) states that definite knowledge of factors that impact ability of banks to make profit in a sustained way is essential to ensuring stability in the economy. Banks' ability to generate revenue in excess of costs indicates their profitability, and this is driven by sundry factors including size of banks' equity capitalization (Anarfi et al., 2016). Volume of bank investment depend on capacity to mobilize loanable fund, and this determine financial performance indices like profitability.

Furthermore while there are studies on effects of BSR on economic growth, studies on effect of BSR on financial performance of DMBs is relatively scarce, save the studies of Osadume and Ibenta (2018), Akani et al. (2016), Akpansung and Gidigbi (2014), Ayanda et al. (2013), and Miko (2010). Thus, this study is designed to join the discourse on BSR and banks' performance by examining effects of BSR on financial performance of DMBs in Nigeria.

LITERATURE REVIEW

Banking Sector Reforms

Banking is an important aspect of the financial sector that needs reforms in order to enhance competitiveness and capacity of players' functional role of financing investments. BSR are propelled by need to deepen the financial sector and reposition it for growth and to integrate it into the global financial architecture and create a banking sector that is consistent with regional integration requirements and international best practices.

The ability of the financial system to engender economic growth hinges largely on the efficiency and stability of the banking sub-system (Soludo, 2004; Allen & Gale, 2000). Banking reforms are therefore undertaken to strengthen and reposition banks to enable them contribute to the development of the real sector through its financial intermediation process. Reforms involve a comprehensive process of substantially improving the regulatory and surveillance framework to foster healthy competition in operation, ensure efficient framework for monetary management, expansion of savings mobilization base, enforcement of capital adequacy, promotion of investment and growth through market-based interest rates.

Bank reforms ensure financial deepening which implies the ability of financial institutions to effectively mobilize savings for investment purposes. The growth of domestic saving provides the real structure for the creation of diversified financial claims. It also presupposes active participation of financial institutions in financial markets, which in turn entail the supply of quality financial services in financial institution (Akani & Lucky, 2015).

The Nigerian banking sector has experienced significant structural and institutional changes over the last few decades due to restructuring and liberalization of the financial market which had significant implications on the nation's banking sector. Since inception in August 1891, The Nigerian banking industry has evolved in seven stages. The first stage (1891-1951) was a free banking era, characterized by unregulated/unguided and laissez-faire banking practices and hence massive bank failure, the rest of the six stage fall under reform stages which started with the banking ordinance of 1952 that prevailed till 1959.

Thus, the first phase of bank reforms in Nigeria (1952 – 1959) bordered on definition of banking business, prescription of minimum capital requirements for expatriate and indigenous banks, maintenance of reserved funds, adequate liquidity and inculcating examination, supervision and control habit into bank management in Nigeria (Okpara, 1997).

Financial Performance

Financial performance describes a comprehensive assessment of a firm's standing in terms of assets, liabilities, equity, expenditure, revenue and overall profitability. It also represents a firm's current status and its ability to achieve desired financial objectives. Financial performance is measured using business-oriented formulas that allow users to compute a firm's effectiveness and potentials. An efficient banking system facilitates linkage between mobilization and use of resources, which accelerates economic growth. It is widely accepted that a banking system that relies on a wide range of banking products carry out this function because it increases efficiency by offering a broader and flexible array of products to the benefits of both borrowers and investors.

Determinants of key performance indicators (KPIs) of banks as captioned by Abduraheem et al. (2011) include accident ratio, opportunity succession rate, cash flow, return on capital employed (ROCE), liquidity, customer satisfaction rate, bank capital, asset quality, bank deposit overall equipment effectiveness, return on investment (ROI), and internal promotion. Considering performance in terms of bank capacity to generate sustainable profitability, European central bank (2010) argue that profitability is banks' first line of defense against unexpected losses, as it strengthens its capital position and improves future profitability through the investment of retained earnings.

It is worthy of note that an institution that persistently makes a loss will ultimately deplete its capital base, which in turn puts equity and debt holders at risk. Moreover, since the ultimate purpose of any profit-seeking organization is to preserve and create wealth for owners, the

bank's return on equity (ROE) needs to be greater than its cost of equity in order to create shareholder value. Although banking institutions have become increasingly complex, key drivers of their performance remain earnings, efficiency, risk-taking and leverage. In detail, while it is clear that a bank must be able to generate "earnings", it is also important to take account of the composition and volatility of those earnings (ECB, 2010).

Empirical Review

BSR enhance capital adequacy ratio. Capital adequacy ratio is a financial soundness ratio used by financial regulators to assess sound banking practices and financial performance of banks. It is a financial regulatory ratio introduced to improve banking sector's ability to absorb unanticipated adverse shocks and to ensure that banks cover a sufficient percentage of total assets with their own funds. It is used to restrict procyclicality by limiting the build-up of leverage in banks. Asset Quality Ratio (AQR) is another important financial soundness ratio commonly used by the financial authorities to assess the credit risk level and effective risk management of banks.

Gaston and Song (2014) states that credit quality inadequacies and resulting losses have always been a primary cause of bank failure. DMBs can only perform to expectation of the shareholders if they have adequate capital and good assets (Osadume & Ibenta, 2018 Soludo, 2004). Financial Stability Report (2009), the Central Bank of Nigeria (CBN) report that there is a cause of concern on the issue of asset quality of DMBs in Nigeria and that credit risk threatens the stability of the Nigerian financial system and remains the most significant risk faced by DMBs in Nigeria.

Akani and Lucky (2015) examined capital adequacy ratios and the impact and profitability of DMBs in Nigeria from 1980–2013. The objective was to investigate if a dynamic long-run relationship exists between capital adequacy ratios and profitability of DMBs. Time series data were sourced from Stock Exchange factbook and financial statement of quoted DMBs and the Johansen co-integration techniques in vector error correction model setting (VECM) as well as the granger causality test were employed. The results demonstrated that there is a positive and significant long-run relationship between return on asset and capital to risk asset ratio and capital to deposit ratio while others are negatively correlated. The findings also revealed a bi-directional causality running from ROA to ACRR and ROA to CNLAR.

Almaqtari et al. (2018) examined determinants of banks' profitability in India. The analysis utilized data from a balanced panel that covered from 2008 to 2017 for a total of 6 Indian banks. The study represented profitability with ROA and ROE, and size of bank, assets quality, CAD, liquidity, operating efficiency, deposits, leverage, assets management, and number of branches were used as other bank-specific factors. The findings show that size of bank, number of bank branches, ratio of assets management, operational efficiency, and leverage ratio are major bank-specific factors that influence profitability. Inflation rate, rate of exchange, the rate of interest, and demonetization were seen to have a serious effect on ROA.

Batten and Vo (2019) examined factors impacting banks' profitability in Vietnam from 2006 to 2014. The study adopted a number of econometric methods to evaluate data. The findings shows that, size of bank, capital adequacy, risks, and expenses impact profitability. The findings also show that bank-specific and non-bank-specific factors affect bank profitability. But the direction of causal links where similar when assessed based on profitability measures that were examined. Soludo (2004) while commenting on the BSR (the recapitalization policy) states that it was meant to: (1) enable Nigerian banks to become global players; (2)

protect depositors money by making the banking stronger; (3) make banks more effective in economic development; (4) enable banks to become less dependent of public funds; and (5) make banks become major financiers of the real sector (Akpansung & Gidigbi, 2014).

Based on the above, it is probable that BSR influences financial performance of banks. However, due to our need to conduct empirical tests, we hypothesize that:

H₀₁: BSR has no significant influence on financial performance of DMBs in Nigeria.

Baseline Theory of the Study

This study is based on buffer theory of capital adequacy (Calem & Rob, 1996) which states that capital adequacy ratio constrains profitability of banks and that regulators make banks hold a buffer of excess capital to reduce probability of failure. The theory explained that under legal capital requirements, a bank approaching regulatory minimum capital ratio might have incentive to boost capital and reduce risk in order to avoid the regulatory costs triggered by a breach of the capital requirements.

Buffer theory of capital adequacy also posits that poorly capitalized banks might be tempted to take more risk in the hope that higher expected returns will help them increase their capital while the aggressive banks may try to extend the frontiers of “imprudent management policy by operating with less capital base in violation of regulatory guidelines. The theory is relevant to Nigeria’s banking sector in which capital requirements constitute the main banking supervisory instrument. And where the CBN usually conducts on-site examination to exert regulatory pressure on banks to achieve objective of capital adequacy ratio which Rime (2001) explained is to force banks internalizing losses and decreasing moral hazard.

METHODOLOGY

This study adopts ex-facto design to determine the influence of BSR on financial performance of deposits money banks in Nigeria. This study also sees ex-facto research design as a design for experimentation, with capacity to demonstrate the direction and degree to which an independent variable of a study exerts effect on a dependent variable statistically.

The population of this study comprise all DMBs listed on the Nigerian Stock Exchange as at 31 December 2019. This includes DMBs that report to CBN and Nigeria Deposit Insurance Corporation. The study sampled 13 quoted DMBs based on availability of data. This study used secondary source data collected from the annual reports and accounts of the 13 sampled DMBs and relevant publications of the BCBS downloaded online from its website. The data obtained from the financial reports were run using e-view with a view to obtaining empirical results from the model specified for the study.

Multiple regression technique with panel data methodology was applied as suitable technique of analyzing data for this study. The rationale for this is predicated on the panel character of the data collected, which combines both time series and cross-sectional attributes. In order to undertake a statistical evaluation of our analytical model, so as to determine the reliability of the results obtained and the coefficient of correlation (r) of the regression, the coefficient of determination (r^2), the student T-test and F-test were employed.

Coefficient of Determination (r^2) Test –This measures the explanatory power of the independent variables on the dependent variables. Implying that it is an expression of the variation the endogenous variable(s) exert on the exogenous variable. As a rule of thumb, the

R^2 should be at least 60% for the endogenous variables to possess appreciable and acceptable predictive power on the exogenous variable.

F-Test: This measures the overall significance of a given regression model; and presents the extent to which aggregation of endogenous variables influence the exogenous variable. Conventionally, its probability is used, where the decision criteria hinges on whether or not the probability or p-value is greater or less than α or significant level, which in this study is 0.05. Thus, the null hypothesis will be rejected if the p-value is less than 0.05, and accepted p-value is greater than 0.05.

Student T-test: measures the individual statistical significance of the estimated independent variables at 5% level of significance.

Durbin Watson Statistics: This measures the colinearity and autocorrelation between the variables in the time series. The results range from 0 to 4, where 2 depict a perfect absence of serial correlation. However, due to the near impossibility of obtaining a DW score of 2, values that are close enough (to 2) are permissible.

Regression coefficient: This measures the extent in which the predictor variables affect the dependent variables in the study.

Probability Ratio: It measures also the extent in which the predictor variables can explain change to the dependent variables given a percentage level of significant.

Model Specification

To determine the nexus between BSR and the explanatory variables of this study, the model for the study is specified and the function capturing them is initially stated as: BFP= (BR)

(1)

Where: BFP = Bank Financial Performance serving as the dependent variable and is proxied using ROE and BSR = Banking sector reforms representing the explanatory variables proxied using CAR, BC, BD, and AQ. Based on the variables specified, the final regression model for testing the hypotheses and ascertaining the empirical results of the study are stated as:

Pooled regression specification

$$ROE_i = \alpha_0 + \alpha_1 CAR_i + \alpha_2 BC_i + \alpha_3 BD_i + \alpha_4 AQ_i + \varepsilon_i \quad (2)$$

Fixed Effect Model Specification

$$ROE_{it} = \alpha_0 + \alpha_1 CAR_i + \alpha_2 BC_i + \alpha_3 BD_i + \alpha_4 AQ_i + \sum_{i=1}^9 \alpha_i idum + \varepsilon_{it} \quad (3)$$

Random effect model specification

$$ROE_{it} = \alpha_0 + \alpha_1 CAR_i + \alpha_2 BC_i + \alpha_3 BD_i + \alpha_4 AQ_i + \mu_i + \varepsilon_{it} \quad (4)$$

Where

ROE = Return on equity measured as profit after tax to total equity

CAR = Capital adequacy ratio measured as tier 1 plus tier 2 capital to total risk weight assets

BC = Bank credits measures as percentage increase of commercial banks credit

BD = Bank deposits measures as percentage increase of commercial banks deposits

AQ = Assets quality of the banks measured as nonperforming loans to total loans and advances

α_0 = represents the constant or the intercept of the model;

α_1 - α_4 = represents the coefficients of the explanatory variables to be estimated in the model;

i : denotes the individual sampled bank;

t = is time-period; while

ϵ_{it} is the stochastic error term or disturbance for bank i at time t .

ANALYSIS AND DISCUSSION OF FINDINGS

Table 1: Presentation of Pooled Effect Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DM	-0.817752	5.810791	-0.140730	0.8883
CAR	-1.716021	4.966692	-0.345506	0.7303
CA	0.836516	1.504716	0.555930	0.5793
AQ	0.158058	1.913373	0.082607	0.9343
C	16.37301	63.35707	0.258424	0.7965
R-squared	0.027795	Mean dependent var		18.65197
Adjusted R-squared	0.014081	S.D. dependent var		80.59708
S.E. of regression	80.76135	Akaike info criterion		11.65945
Sum squared resid	795732.3	Schwarz criterion		11.77142
Log likelihood	-735.3750	Hannan-Quinn criter.		11.70494
F-statistic	0.871984	Durbin-Watson stat		1.753819
Prob(F-statistic)	0.482911			

Source: Computed by Researchers from E-view 9.0

The pooled effect estimation in Table 1 reveals that the adjusted R-squared (R^2) value is 0.014081 that is 0.1 per cent implying that the independent variables such as increase in deposit mobilization, CAR, credit location and AQ account for 0.1 per cent variation of ROE of DMBs within the period covered in this study. However, the F-statistic value is 0.871984 and its p-value is 0.482911 indicating that proxies of the independent variable jointly cannot impact significantly on ROE of DMBs over the periods of the study. The Durbin-Watson of 1.753819 reveals that there is no serial correlation in the variables. From the regression coefficient, deposit mobilization and CAR have negative but not significant relationship with ROE of DMBs while credit allocation and AQ have positive and significant effect on ROE.

Table 2: Presentation of Pooled Effect Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DM	-6.035718	7.058050	-4.855154	0.0003
CAR	-6.334215	6.214339	-4.019290	0.0003
CA	1.675296	1.757103	3.953442	0.0425
AQ	0.027018	2.494741	0.010830	0.9914
C	65.22562	76.32370	0.854592	0.3946
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.704041	Mean dependent var		18.65197
Adjusted R-squared	0.526280	S.D. dependent var		80.59708
S.E. of regression	81.64926	Akaike info criterion		11.76675
Sum squared resid	733326.2	Schwarz criterion		12.14747
Log likelihood	-730.1888	Hannan-Quinn criter.		11.92143
F-statistic	4.798343	Durbin-Watson stat		1.889719
Prob(F-statistic)	0.000651			

Source: Computed by Researchers from E-view 9.0

The result of fixed effect estimation reveals Table 2 that the adjusted R-squared (R^2) value is 0.526280 that is 52.6 per cent implying that dimensions of the independent variables such as increase in deposit mobilization, CAR, credit location and AQ account for 52.6 per cent variation in ROE of DMBs within the periods covered in the study. However, the F-statistic value is 4.798343 and its p-value is 0.000651 indicating that the independent variables jointly

can impact significantly on return on equity of the quoted commercial banks over the periods of this study. The Durbin-Watson of 1.889719 reveals that there is no serial correlation in the variables. From the regression coefficient, deposit mobilization and CAR have negative and significant relationship with ROE of DMBs. Credit allocation has positive and significant effect while AQ has positive and no significant effect on ROE.

Table 3: Presentation of Pooled Effect Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DM	-0.817752	5.874676	-0.139200	0.8895
CAR	-1.716021	5.021297	-0.341749	0.7331
CA	0.836516	1.521259	0.549884	0.5834
AQ	0.158058	1.934409	0.081708	0.9350
C	16.37301	64.05364	0.255614	0.7987
Effects Specification				
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			81.64926	1.0000
Weighted Statistics				
R-squared	0.427795	Mean dependent var		18.65197
Adjusted R-squared	0.304081	S.D. dependent var		80.59708
S.E. of regression	80.76135	Sum squared resid		795732.3
F-statistic	2.871984	Durbin-Watson stat		1.753819
Prob(F-statistic)	0.032911			
Unweighted Statistics				
R-squared	0.327795	Mean dependent var		18.65197
Sum squared resid	795732.3	Durbin-Watson stat		1.753819
Correlated Random Effects - Hausman Test				
Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		8.501336	4	0.0377

Source: Computed by Researchers from E-view 9.0

The result of random effect estimation in Table 3 reveals that the adjusted R-squared (R^2) value is 0.304081 that is 30.4 per cent implying that indicators of the independent variable such as increase in deposit mobilization, CAR, credit location and AQ account for 30.4 per cent variation on ROE of DMBs within the periods covered in the study. However, the F-statistic value is 2.871984 and its p-value is 0.032911 indicating that the independent variables jointly impact significantly on ROE of DMBs over the periods of the study. The Durbin-Watson of 1.753819 reveals that there is no serial correlation in the variables. From the regression coefficient, deposit mobilization and CAR have negative insignificant relationship with ROE of DMBs while credit allocation and AQ have positive and significant effect on ROE.

Table 3 presents the result of Hausman test. The result shows a chi-square value of 8.501336 and a probability value of 0.0377 which implies that there is enough evidence to reject the null hypothesis. From the foregoing, it stands that among the three estimators (pooled, fixed effect model and random effect model) used for analysis in the study, fixed effect estimates presented is most efficient and consistent estimate that can track the true nature of the nexus between BSR and ROE of the quoted DMBs.

DISCUSSION OF FINDINGS

The estimated results proved that increase capital base have negative significant relationship with ROE of quoted DMBs such that a unit increase on the variable can reduce return on equity of the commercial banks by 6.3 per cent per year over the period covered in the study. The negative effect of CAR on ROE of DMBs contradict our a-priori expectations as the study expected a positive relationship between increase capital base and financial performance of DMBs. The negative effect of the variable contradicts the objectives of the BSR such as the banking sector consolidation and recapitalization in 2004/2005.

The negative effect of the variable can be traced to poor management quality. Akani and Lucky (2017) noted that a bank can be capitally adequate but if poorly managed will still collapse. This was the experience of Nigeria DMBs less than five years after consolidation. This finding contradict buffer theory of capital adequacy that poorly capitalized banks might be tempted to take more risk in the hope that higher expected returns will help them increase their capital while the aggressive banks may try to extend the frontiers of imprudent management policy by operating with less capital base in violation of the regulatory guidelines. This finding contradict the findings of Akani and Lucky (2017), Yüksel et al. (2018) and that of Muraina (2018) that while CAD had a positive significant effect on profitability, credit risk had a negative significant impact on profitability.

The estimated results proved that increased bank credit have positive significant relationship with ROS of quoted DMBs such that a unit increase on the variable increases ROE of DMBs by 1.6 per cent per year over the period covered in the study. The positive effect of increase bank credit on ROE of DMBs confirm our a-priori expectations, as the study expected a positive relationship between increase bank credit and performance of DMBs. The positive effect of the variable confirms the objectives of the BSR such as the banking sector consolidation and recapitalization in 2004/2005 which is to increase effective intermediation of through increase in credit and deposit mobilization.

CONCLUSION AND RECOMMENDATIONS

From the findings, the computed p-value of 0.0003 is less than the critical value of 0.05 at 5% level of significant; therefore the study concludes that there is significant relationship between increase capital adequacy and the return on equity of DMBs in Nigeria. The computed p-value of 0.0425 is less than the critical value of 0.05 at 5% level of significant; therefore the study concludes that there is significant relationship between increase bank credit and the return on equity of DMBs in Nigeria.

From the findings, the computed p-value of 0.0003 is less than the critical value of 0.05 at 5% level of significant; therefore the study concludes that there is significant relationship between increase bank deposits and the return on equity of DMBs in Nigeria. The computed p-value of 0.9914 is greater than the critical value of 0.05 at 5% level of significant; therefore the study concludes that there is no significant relationship between increase bank assets quality and the return on equity of DMBs in Nigeria.

The study therefore, recommends that the CBN should increase the minimum capitalization of DMBs in line with perceived naira depreciation or inflation rate spike. Where there is an adequate regulatory effort by the CBN, DMBs will become more efficient and that efficiency will reduce volatility, and boost investors' trust and participation in bank equity holding. The study also recommends that, to enjoy depositors' confidence, DMBs must have a strong

capital base as evidence of its strength and as a tool for operating profitability so that as the confidence of depositors in the banking system increases they will make more deposits which invariably enhances the profitability of the entire sector. Hence more efforts should be made to ensure adequate and sustainable capital of DMBs in Nigeria.

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