THE DETERMINANTS OF FINANCIAL PERFORMANCE OF QUOTED BANKS IN NIGERIA: A STUDY OF SELECTED DEPOSIT MONEY BANKS (DMBs)(2001 – 2010)

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Abstract

This paper tried to examine the major determinants of the financial performance of Deposit Money Banks quoted in the Nigeria Stock exchange from year 2001 to 2010 using three Banks, the First Bank of Nigeria (FBN) Plc, United Bank for Africa (UBA) Plc and Zenith Bank Plc as case study. The study used the regression analysis method and established that; asset quality, capital adequacy and employee motivation apart from profits are key success factors in the financial performance of Banks. It recommend among others that banks should reward employees adequately, get listed in the Stock Exchange and the regulatory authorities should closely monitor the operations of Banks through various on-site and off-site examinations.

1.0 INTRODUCTION

1.1 Background of the Study

In any country, the banking sector occupies an important place in the financial system. The reasons for this are the role banks play in the development of an economy. Banks among others play the following roles in an economy. They act as intermediary between the deficit and surplus units in an economy, that is, they mobilize funds and allocate them among competing ends.

Secondly, they facilitate the use of appropriate monetary policy instruments as well as make the transmission mechanism reliable and policies effective. Thirdly, the banking sector is instrumental in the pursuit of stabilization policies and in structural transformation. The main source of funds for Banks is deposits and the main application of funds is loan and investment.

1.2 Statement of The Problem

The deregulation of the banking industry initiated by the Babangida administration in the 1980s has changed not only the structure but also the contents and service structure of banking business. Just as the number of banks grew from 40 in 1985 to 125 in 1991. The techniques of delivering banking services and range of products and services in the Market have also changed. The changes have been described as a “revolution” while others see them as another banking boom comparable to what was witnessed in the fifties. The antecedent of banks proliferation and lack of control by the supervisory authority led to the paper profit declared by banks in order to stay afloat. The effect of this unethical practices led to the distress in the banking industry with the introduction of the prudential guidelines and statement of Accounting standard (10) which majorly dwelt on the provisioning for loans and advances. The lesson to learn from the distress in the banking industry was that profitability alone does not determine the yardstick for financial performance of banks. The deficiency of profitability as a measure of financial performance led to the use of **CAMEL** which is an acronym for capital adequacy, Asset quality, Management, earnings and Liquidity by Monetary authorities. Since the introduction of **CAMEL**, the banking industry has improved tremendously with respect to their financial performances.

1.3 Objectives of The Study

The objectives of this study are to:

1. Determine the impact of adequate capital on quoted Banks' Financial Performance.
2. Ascertain if quoted Banks operate with adequate capital.
3. Ascertain if quoted Banks maintain high quality assets and its impact on financial performance.
4. Determine employee contribution and motivation to achieve Bank's financial targets.
5. Make policy recommendations.

1.4 Research Questions

Our study seeks to answer the following questions:

1. To what extent does Asset Quality impact on the Financial Performance of Quoted Banks?
2. Does Quoted Banks have adequate Operating Capital and what is its Impact on their Financial Performance?
3. Does Employee Motivation affect the Financial Performance of Quoted Banks?

1.5. Research Hypotheses

This study is to be guided by the following hypotheses.

H_{O1}: The asset quality of quoted Banks has no significant impact on their financial performance.

H_{A1}: The asset quality of Banks has significant impact on their financial performance.

Ho_2: The Capital adequacy of quoted Banks has no significant impact on their financial Performance.

H_{A2}: The Capital adequacy of Banks has significant impact on their financial performance.

H_{O3}: Employee motivation has no significant impact on the financial performance of quoted Banks.

H_{A3}: Employee motivation has significant impact on the financial performance of quoted Banks.

1.6 SCOPE of The Study

The study will only concentrate on selected quoted Banks and their activities for the period (2001 – 2010).

The selected quoted Banks under study are: **First Bank of Nigeria PLC (FBN); United Bank for Africa PLC (UBA)** and **Zenith Bank PLC.**

1.7 LIMITATIONS OF THE STUDY

The success of this study depends to a very large extent on both qualitative and quantitative factors.

1. **Ratio analysis:** This is affected by the following limitations:

a. Calculation of the ratios are based on the financial statements of Banks which do not give the true picture of the states of the Banks in the current as well as the future.
b. Different accounting policies adopted by Banks such as in the area of provisions for bad and doubtful debt.

2. **Financial constraints:** Data gathering and analysis involve financial expenses thus, the extent to which information is acquired depends on the available funds at the disposal of the researcher.

1.8 ORGANIZATION OF THE STUDY

The Study is divided into five sections. section one introduces the study, section two presents a review of current and related literature on the Study, section three discusses the research methodology, section four is the analyses, while the summary, conclusion and recommendations are in section five.

SECTION TWO

2.0 Review of Related Literature

In an attempt to review relevant literature on the Study, it is arranged in accordance with the conviction that in order to understand the present one must look into the past and to know the future, one must consider the past and present.

2.1 Historical Development of Banking In Nigeria From 1892- Date

This is classified into seven different phases, namely:

Phase	Date	Period
First	1892 to 1952	Free banking era
Second	1952 - 1959	Pre- central banking era
Third	1959 - 1970	Era of banking legislation
Fourth	1970 - 1976	Era of indigenization
Fifth	1977 - 1985	Post Okigbo era
Sixth	1986 - 1992	Deregulation era
Seventh	1992 - date	Era of banking distress

2.1.1. Free Banking Era (1892 - 1952)

The business of banking in Nigeria could be traced back to 1892 with the entrance of African banking corporation from South Africa. The bank's branch was established in Lagos, basically to assist in handling the shipping business of E. Dempster and company, a Shipping firm based in Liverpool. **Okaro and Onyekwelu** (2003) posited that the operations and assets of the African banking Corporation was later taken over in 1894 by the Bank for British West Africa (BBWA) now First Bank Of Nigeria. During this era, two other expatriate banks were established namely; the British and French Bank of 1948, now the United Bank For Africa Plc and the Barclays Bank Dominion, Colonial and overseas now Union Bank of Nigeria Plc. Many of the indigenous banks established during this period failed. Among the surviving ones were National Bank Of Nigeria, established in 1933 and Agbomagbe Bank (Wema Bank Plc) established in 1945.These failures led to the government's setting up of Mr. P. Paton's commission of enquiry in September 1947 to enquire generally into the business of banking in Nigeria and make recommendations on the form and extent of control which should be introduced. The Paton commission revealed serious deficiencies in the banking business boom, characterized by wild cat banking, which made failures inevitable. The result was the first ever banking legislation in the country, the banking ordinance 1951, which became effective from 1952.

It is however, noteworthy in the views of **Onoh** (2002) that a litany of quantifiable and unquantifiable factors led to the failure of many pioneer indigenous banks. These causes include the absence of a regulatory and supervisory authority to guide the banks and to play the role of lender of last resort, undercapitalization and over-branching; poor branch management and fraud; poor customer patronage; poor liquidity and poor quality management.

2.1.2 Pre- central Banking Era (1952 - 1959)

Okaro and Onyekwelu (2003) noted that this period was characterized by the coming into effect of the 1951 banking ordinance and lasted until 1959. The ordinance for the time defined banks and banking business, restricted the establishment of banks and the practice of banking to companies holding valid and dully issued licenses. A minimum paid up capital was also stipulated for both local and foreign banks. They fluctuated when the ordinance became fully operational in 1955. It was discovered that it did not assist under capitalized banks and was incapable of developing the banking system nor preventing fraudulent practices, hence the clamour for the introduction of a central bank. Such a bank should have powers to regulate commercial banks in their activities.

2.1.3 Era Of Banking Legislation (1959 - 1970)

Nzotta (2004) opined that the establishment of the central bank of Nigeria in 1959 gave impetus to the era of banking legislation. This establishment led to increased banking supervision and control, and substantially curtailed the malpractises prevalent in the system hitherto.

Subsequent amendments of the CBN Act of 1959, tightened the grip of the central bank over the commercial banking system. In 1969, the banking law was promulgated which formed the foundation of the regulation and supervision of the banking industry. The Act gave CBN power to regulate all aspects of the banking industry especially the aspect of capitalization, reporting and liquidity considerations, lending limits and reserves e.t.c.

2.1.4 Era of Indigenization (1970 - 1976)

According to **Okaro and Onyekwelu** (2003), the period since 1970 marks a new and fourth phase in commercial banking evolution in Nigeria, which terminated in 1976. The key features of this period included the socialization of the banking industry in Nigeria, which saw the federal government and the public part-owning shares of expatriate banks to bring public indigenous ownership to 60% of the banks shareholding in line with the indigenous enterprises promotion Act 1972 as amended in 1977. During this period, the federal government established wholly owned banks to accelerate economic developments in areas of mortgage acquisition, agriculture, small and medium scale industries e.t.c. These gave birth to the Federal Mortgage Bank Ltd, Nigerian Agricultural and Cooperative Bank, Nigerian Bank for commerce and Industry respectively e.t.c. The state governments were not left out as they incorporated state development finance companies. **Nzotta**, further noted that this phase saw the establishment of the financial system review committee, which report altered the face of financial intermediation in Nigeria.

2.1.5 The Post - Okigbo Era (1977 - 1985)

Nzotta (2004), mentioned that the implementation of the recommendations of the Okigbo panel on the review of the financial system was a bold attempt to restructure the financial system to enable it discharge its functions efficiently, including the transformation of the rural economies, elevating the level of banking habits of the populace and the savings mobilization mechanism generally. These views were further reinforced by **Okaro and Onyekwelu** (2003). Specifically, this phase saw the emergence of the rural banking scheme which sought to redress the lopsided nature of branch bank expansion in Nigeria.

2.1.6 The Deregulation Era (1986 - 1992)

This era came into force as a result of the imperfection and failures in the system of credit allocations, the cost of credit and the intermediation process generally. The federal government introduced a wide range of reforms in the banking system from 1986, as part of the general deregulation of the economy (**Nzotta** :2004). These reforms covered namely:

a) Privatization of government interests in various banks.
b) Establishment of more commercial banks as a result of free entry.
c) Increased competition among banks for deposit, leading to improved efficiency.
d) Introduction of unified accounting system.

The reforms generally sought to bridge the information and resource gaps in the system and enhance the level of financial intermediation in the economy. This led to the establishment of the People's bank, community banks and the Nigerian Deposit Insurance Company to curb emerging banking distress.

2.1.7 The Era of Banking Distress (1992 - Date)

Nzotta (2004), noted with displeasure that this era saw the emergence of illiquid and terminally distressed banks in the system. The major cause of this was the high level of non-performing credits of the banks, the insider abuses and high level of fraud in the system e.t.c. The level of financial accommodation to banks by the regulatory bodies increased generally. The regulatory authorities increasingly adopted holding actions as a management option for distressed banks while others included mergers and acquisitions, revocation of banking licenses in 1992, 1994 and 1998. Efforts were also made to reduce the level of non-performing credits, bad lendings, fraud and insider abuses in the banking system through effective use of Nigerian Deposit Insurance company and the Central Bank of Nigeria surveillance departments.

2.2 Theoretical Framework on Bank's Performance Measurement

Performance means achievement of a work given to be done. Performance evaluation is done in order to know whether the expected have been achieved and if any deviation, how it can be corrected.

In evaluating performance of Banks there are some basic indicators that can be used such as the use of ratios and trend analysis, capital adequacy, asset quality earnings and liquidity.

Apart from these quantitative factors above, there are also some qualitative indicators that can be used. Some of these include the quality of management, degree of compliances as well as banking services to the local economy.

2.2.1 Liquidity As a Measure Of Bank Performance

Liquidity is defined by **Nwankwo** (1991) as being able to meet every financial need as at when due, whether it is withdrawal from a current account, maturing Euro or a maturing issue of commercial paper. Adequate liquidity is a sine qua non for banking, thus the need for liquidity planning for the operation of all financial institutions.

2.2.10 Theories of Bank Liquidity

Wood (1967)**, Nwankwo** (1991)**,** identified five theories of Bank liquidity: namely the liquid assets theory, the Commercial bills theory, the Shiftability theory, the anticipated income and liability management theories.

2.2.11 Commercial Loan Theory

According to **Nzotta (2004)**, and **Nwankwo (1991)** this theory is also known as the real bills doctrine. It states that bank funds should principally be invested in short term, self-liquidation loans for working capital purposes, usually confined to financing the movement of goods through the successive states of production Cycle-production, transportation, storage, distribution and consumption.

This theory was accepted for nearly two centuries. Under this, the ideal assets are short term assets, self liquidating loans, granted for working capital purposes. Short term loans were considered the only type of assets appropriate for Banks because Bank raised their capital with demand or near demand commitment. If deposit decreased, maturing loans could be used to meet deposit withdrawals. However, this theory was said to be an illusion as it suffered from a number of serious draw backs such as view point of the economy as a whole, the practice of commercial loan theory intended to accentuate economic collapse by breaking the cash flow cycle to commerce and industry.

2.2.12 Shiftability Theory

Nwankwo (1990) held that shiftability doctrine emphasizes the shiftability, transferability or marketability of bank assets as a more appropriate guide or criterion for investing bank funds. Thus, in contrast to the commercial loan doctrine which emphasized maturity, the degree of shiftability or marketability of loans and investments provided the liquidity base for banks under the shiftability doctrine.

2.2.13 Anticipated Income Theory

This emphasized the earnings power and credit worthiness of the borrower as the ultimate guarantee for earning adequate liquidity-**Nzotta** (2004).

Nwankwo (1991) posits that the anticipated income approach point to the movement towards self – amortizing commitments by banks and stressed that systematic repayment schedules on many types of loans and serial maturity debts could provide an automatic liquidity schedule out of the repayment capabilities of the borrower.

This concept focuses on the fact that the massive flow of funds can be committed to meet reserves deficiency on new loan demands in the future.

This development followed the depression of 1930s.

2.2.14 Liability Management Theory

According to **Nzotta** (2004), this focuses on the liability side of the balance sheet for supplemental liquidity. The theory argues that since large banks can buy all the funds they need, there is no need to store liquidity on the asset side of the balance sheet.

Liability management introduced the concept that a Banker may control the level of liabilities compared to previous theories which assumes a given level of assets and liabilities.

2.3 Measurement of Bank Liquidity

Nwankwo (1991) evaluated a comprehensive measurement criteria for bank liquidity.

Liquidity can be measured either as a stock at a point in time or as a flow. The most widely used measures is derived from the stock approach. Examples are:

A. Loan – Deposit ratios – All Banks loan are lumped together on the basis that they are the most liquid of all Bank assets. They then compare with the total bank deposit as a proxy for liabilities. A rise in this ratio implies a less liquid position and a fall implies a strong liquid position.

B. Loan to Liability Ratio – This has the merit in recognizing liabilities other than deposit, it can represent a potential drain on bank funds.

C. Liquid Assets Ratio – Assets are selected on the basis of their liquidity whether they are loans or investments.

D. Cash Ratio – Ratio of cash to total deposit, liquid assets are related directly to deposit, rather than loans and advances.

2.4 Bank Capital Adequacy

Banks like other Companies require Capital to function effectively. Banks are usually highly regulated and carry more highly risky assets and liabilities. The issue of what constitute adequate capital is a fact of long historical debate.

2.4.1 Measurement of Bank Capital Adequacy

Capital adequacy is measured as a ratio of certain key balance sheet items such as; a) Total Capital/Total deposit (b) Total Capital to risk adjusted Assets. This is in recognition of the fact that capital funds provides cushion for losses arising from the risk in banking (c) Total Capital to total loans and advances (d) Total deposit to total long-term borrowings (e) primary capital to total capital. (f) primary capital to dividend (g) Dividend to profit after tax. (h) Total capital to fixed asset.

2.5 Financial Ratio

Financial ratio is the relationship between two accounting figures. It involves the analysis of financial statement of firms. As noted by **Reed et al** (1980), in dealing with business borrowers in particular, Banks find that historical financial statements, proforma statements, and cash projections provide not only a good basis for evaluating a loan applicant's financial condition and profitability, but also a knowledge of the applicant's ability to generate cash flows for operating proposed business and making loan repayments. **Nwankwo** (1991) is of the view that financial statement and ratio analysis establishes the end and need for loan, as well as the repayment ability, how much is required, for how long, when required and whether the demands conform with existing directives and guidelines, both of the Bank's Head Office and the Central Bank of Nigeria.

2.6 Employee Motivation

According to **Kotler** (2005), leading is the process of influencing people so that they will contribute to Organization and group goals. People assume different roles and there is no average person. While working toward goals, a Manager must take into account the dignity of the whole person.

Motivation is not a simple concept: Instead, motivation pertains to various drives, desires, needs, wishes and other forces. Managers motivate by providing an environment that induces Organization members to contribute. The need-want-satisfaction chain is somewhat over simplified. There are different views and assumptions about human nature. McGregor's sets of assumptions about people in his theory X and Y. Maslow's theory holds that human needs form a hierarchy ranging from the lowest order needs (physiological needs) to the highest-order need for self-actualization. According to Herzberg's Two-Factor theory, there are two sets of motivating factors. In one set are the dissatisfiers, which are related to the job context (circumstances conditions). The absence of these factors results in dissatisfaction. In the other set are the satifiers, or motivators, which are related to the content of the job.

Vroom's Expectancy theory of motivation suggests that people are motivated to reach a goal if they think the goal is worthwhile and can see that their activities will help them achieve the goal. The **Porter** and **Lanler Model** has many variables, essentially, performance is a function of ability, the perception of the task required and effort. Effort is influenced by the value of rewards and the perceived effort-reward probability. Performance accomplishment in turn is related to rewards and satisfaction.

Equity theory refers to an individual's subjective judgement about the fairness of the reward received for inputs in comparison with the rewards of others. Reinforcement theory was developed by skinner, who suggested that people are motivated by praise of desirable behavior; people should participate in setting their goals and should receive regular feedback with recognition and praise – MC Clelland's Theory is based on the need for power, the need for affiliation, and the need for achievement.

Special motivational techniques include using money, encouraging participation and improving the quality of working life (QWL). Job enrichment aims at making jobs challenging and meaningful. Although there have been some success, certain limitations must not over looked.

Basically, performance including financial performance of quoted Banks could be seen as a function of employee motivation.

SECTION THREE

3.0 Research Methodology

This section critically examines the methodology adopted. It deals with the research approach and procedures used in the study detailing the various steps adopted in the research.

3.1 Area of Coverage

The population of study comprises of (3) three quoted banks namely:

(1) First Bank of Nigeria Plc
(2) United Bank for Africa Plc
(3) Zenith Bank Plc

The Research period covers a ten year review of the Banks' financial statements starting from 2001 to 2010. This coverage period was informed by the need to have an extensive and comprehensive analysis of the financial performance of the three quoted Banks.

The choice of the quoted Banks is due to their perceived stability, network of branches, size of workforce, public perception and profitability.

3.2 Types and Sources of Data

Data used in any research is either primary data, secondary data or a combination of both. **Anyanwu** (**1989**) stated that data could be facts, figures etc which have been assembled, analyzed and documented for the purpose of aiding managers in decision making. The type of data used in this work is basically secondary data. The variables used as the secondary data in the analysis include: loans and advances, total deposits/savings, gross earnings, pre tax profits, performing/non performing assets etc. The variables used affect the financial performance of these Banks.

The main sources of the secondary data for this study include the following: Publications of selected Banks Annual audited financial statements, records of government agencies such as the Central Bank of Nigeria, text books, magazines, articles, journals and the Internet.

3.3 Description of Data Analysis Technique

The statistical method to be applied in analyzing the data collected is regression analysis.

According to **Koutsoyonnis (1993)**, it is stated in the following form

$Y = B = B_1 X_1 + B_2 X_2$ where B_1 and B_2 are parameters and are constant figures once estimated. Parameter B is the value of Y when the value of X is zero. It is also the Y intercept while B is the

slope of the regression line or the rate of change of the dependent variables as the independent variables change by one unit. Y is the dependent variable.
A 5% level of significance will be used in the hypothesis testing. The tested hypothesis will be accepted or rejected based on the decision rule which is; accept the null hypothesis and reject the alternative hypothesis. Where the calculated value is less than the tabulated value accept H_O and reject H_A. Reject the null hypothesis and accept the alternative where the calculated value is greater than the tabulated value (reject H_O and accept H_A.)
The Secondary data which forms the major source of data include: Primary capital to total assets, loans and advances overdue by 90 days to total assets, non accruing loans and advances to total assets, renegotiated loans and advances to total assets, net loan charge-offs annualized to total assets, net income annualized to total assets.

3.4 Model Specification

The Risk index is yet another system for rating Banks. It was developed by FDIC from net income and dividends returns of Banks, **Onoh (2002)**.
The Risk index R of a Bank is presented in the following equation form:
$R = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6$
Where x_1 = Primary capital to total assets (%);
X_2 = loans and advances overdue by 90 days to total assets (%)
X_3 = Non accruing loans and advances to total assets (%);
X_4 = Renegotiated loans and advances to total assets (%);
X_5 = Net loan charge offs (annualized) to total assets and
X_6 = Net income (annualized) to total assets (%).
Essentially, the equation rests on the support of 3 core variables, i.e capital adequacy (X_1), loans and advances (X_2-X_5) and asset profitability or return on assets X_6. The loan quality of a Bank is a major determinant of the risk index. A bank will be regarded as healthy if its risk index lies below unity, i.e R<1. A risk index above unity, R>1, indicates a problem. The further away the risk index lies above unity, the greater the problem the particular bank has. With the aid of risk index, Banks are ranked according to the degree of their problems (riskiness). The size of the risk index informs the regulatory authorities of the degree of the problems of each bank, the nature of the problems, the regulatory interference required and the point of time the intervention should take place to save the bank from going under or to liquidate it if the risk index so dictates. Under the risk based insurance premium, the banks adjudged as having very serious risk problems are required to pay high insurance premium.

3.5 MODEL SPECIFICATIONS

This study is to be guided by the following hypotheses.

1. H_{O1}: The asset quality of Banks have no significant impact on the financial performance of quoted Banks.

   H_{A1}: The asset quality of Banks have significant impact on the financial performance of quoted banks.

   $R = a + o + b_2x_2 + 0 + 0 + 0 + 0$ ...... eqn (1) (same eqn for FBN, UBA & ZIB)

   Where $b_1 = b_3 = b_4 = b_5 = 0$

   $R = a + b_2x_2 + N$ .... eqn (2)

   Where N = Error term

2. Ho_2: The Capital adequacy of Banks have no significant impact on financial performance of quoted Banks.

H_{A2}: The Capital adequacy of Banks have significant impact on the financial performance of quoted Banks.

$R = a + b_1x_1 + 0 + 0 + 0 + N$

Where $b_2 = b_3 = b_4 = b_5 = b_6 = 0$, N = Error term

Hence, $R = a + b_1x_1 + N$ .... eqn (3)

3. H_{O3}: Employee motivation has no significant impact on the financial performance of quoted Banks.

H_{A3}: Employee motivation has significant impact on the financial performance of quoted Banks.

$R = a + 0 + 0 + 0 + 0 + 0 + b_6x_6 + N$

Where $b_1 = b_2 = b_3 = b_4 = b_5 = 0$, N = Error term

Hence, $R = a + b_6x_6 + N$ .... eqn (4)

DECISION RULE

We accept the variable as significantly contributing to the stability of the financial system if the calculated t-value is greater than the tabulated.

The level of significance is 5% or 0.05 level.

SECTION FOUR

4.0 PRESENTATION AND ANALYSES OF DATA

TABLE 4.1 –– ASSETS AND CAPTIAL OF FIRST BANK NIGERIA PLC (2001 – 2010)

YEAR	PC N' Million	TA N' Million	LAO N' Million	NALA N' Million	RLA N' Million	NLCO N' Million	NI N' Million
2001	11,320	188,242	58,598	5,166	—	1,552	5,998
2002	19,406	290,593	66,384	9,156	—	2,245	6,172
2003	27,006	409,083	60,439	22,193	—	4,558	14,420
2004	41,605	384,211	83,500	24,307	—	6,886	14,853
2005	48,726	470,839	123,739	43,716	1,283	8,555	16,808
2006	64,277	616,824	177,303	31,851	1,701	10,040	21,833
2007	83,627	911,427	217,995	31,664	3,043	18,357	25,854
2008	351,854	1,528,234	466,096	44,275	10,297	31,569	47,906
2009	337,405	2,009,914	740,397	51,888	11,769	54,908	53,799
2010	340,626	2,305,258	1,143,614	189,350	7,581	53,912	41,299
TOTAL	**1,325,852**	**9,114,625**	**3,138,065**	**453,975**	**35,674**	**192,862**	**248,942**
AVERAGE	**132,585.2**	**911,462.5**	**313,806.5**	**45,397.5**	**3,567.4**	**19,286.2**	**24,894.2**

SOURCE: First Bank Plc, annual reports and accounts 2001 to 2010

NOTES

PC = Primary Capital

TA = Total Assets

LAO = Loans and advances Overdue by 90 days

NALA = Non accruing loans and advances

RLA = Renegotiated loans and advances

NLCO = Net loan charge offs

NI = Net income (used here as a proxy for employee motivation).

COMMENTS:

The above table shows impressive growth in primary capital, total assets, loans and advances and net income over the period 2001 to 2010. This result shows consistency and stability in performance by the bank.

Table 4.2 - ASSES AND CAPITAL OF UNITED BANK FOR AFRICA PLC (2001 – 2010)

YEAR	PC N' Million	TA N' Million	LAO N' Million	NALA N' Million	RLA N' Million	NLCO N' Million	NI N' Million
2001	9,067	188,032	23,106	23,487	1,019	2,542	1,682
2002	10,627	200,196	40,135	19,998	1,017	3,176	2,472
2003	14,901	203,871	46,076	25,579	2,173	3,676	5,128
2004	19,533	212,024	56,136	15,343	3,460	3,107	6,010
2005	19,443	250,783	67,610	4,455	21	3,490	6,520
2006	48,535	884,137	109,896	35,618	21	20,269	12,811
2007	167,719	1,191,042	320,406	44,926	21	28,649	29,525
2008	193,460	1,673,333	431,410	102,436	588	41,355	56,815
2009	181,513	1,548,281	606,616	87,003	9,261	59,659	13,662
2010	176,529	1,617,696	628,811	28,511	10,118	46,969	15,885
TOTAL	**838,327**	**7,969,395**	**2,330,202**	**358,845**	**27,699**	**212,892**	**124,028**
AVERAGE	**83,832.7**	**796,939.5**	**233,020.2**	**35,884.5**	**2,769.9**	**21,289.2**	**12,402.8**

SOURCE: United bank for Africa Plc, annual reports and accounts 2001 to 2010

COMMENTS:

The above table shows successive growth in primary capital, total assets, loans and advances as well as none accruing loans and advances between the periods 2001 to 2010, these would have consequently led to increased profit before tax in the same period.

TABLE 4.3 - ASSES AND CAPITAL OF ZENITH BANK PLC (2001 – 2010)

YEAR	PC N' Million	TA N' Million	LAO N' Million	NALA N' Million	RLA N' Million	NLCO N' Million	NI N' Million
2001	6,725	60,190	12,619	990	187	2,129	2,802
2002	9,305	92,562	20,144	906	360	2,079	3,999
2003	12,651	112,534	27,290	1,310	474	2,289	5,440
2004	15,674	193,321	53,391	3,294	847	3,331	6,404
2005	42,100	330,008	121,626	23,017	841	5,594	9,188
2006	100,662	619,342	202,501	67,087	1,716	10,377	15,590
2007	116,455	927,943	292,814	109,446	2,445	19,039	25,676
2008	346,617	1,787,000	455,324	32,293	4,615	53,294	56,120
2009	337,793	1,659,703	698,326	13,517	5,506	83,957	35,085
2010	361,242	1,895,027	713,285	18,936	13,188	67,166	50,026
TOTAL	1,349,224	7,677,630	2,570,030	270,796	30,179	249,255	210,330
AVERAGE	134,922.4	767,763.0	257,003.0	27,079.6	3,017.9	24,925.5	21,033.3

SOURCE: Zenith bank Plc, annual reports and accounts 2001 to 2010

COMMENTS:

From the above table, noticeable growth could be observed in the primary capital, total assets, loans and advances overdue by 90 days as well as renegotiated loans and advances. These show consistency in performance over the period 2001 to 2010.

TABLE 4.4 –– FIRST BANK NIGERIA PLC – RISK INDEX VARIABLES (2001 – 2010)

YEAR	X_1	X_2	X_3	X_4	X_5	X_6
2001	0.60130	0.31129	0.02744	—	0.00983	0.03186
2002	0.66795	0.22844	0.03150	—	0.00725	0.02123
2003	0.66010	0.14774	0.05425	—	0.01114	0.03524
2004	0.10828	0.21732	0.06326	—	0.01787	0.03865
2005	0.10348	0.26280	0.09284	0.00272	0.01816	0.03569
2006	0.10420	0.28744	0.05163	0.00275	0.01627	0.03539
2007	0.09175	0.23917	0.03474	0.00333	0.02014	0.02836
2008	0.23023	0.30498	0.02897	0.00673	0.00207	0.03134
2009	0.16787	0.36837	0.02581	0.00585	0.02731	0.02676
2010	0.14776	0.49608	0.08213	0.00328	0.02338	0.01791
TOTAL	2.88292	2.86363	0.49257	0.02466	0.15342	0.30243
AVERAGE	0.288292	0.286363	0.049257	0.002466	0.015342	0.030243

SOURCE: First bank Plc, annual reports and accounts 2001 to 2010

NOTES

X_1 = PC / Total Assets

X_2 = LAO / Total assets

X_3 = NALA / Total Assets

X_4 = RLA / Total Assets

X_5 = NLCO / Total Assets

X_6 = NI / Total Assets

TABLE 4.5 – UNITED BANK FOR AFRICA PLC– RISK INDEX VARIABLES (2001 – 2010)

YEAR	X_1	X_2	X_3	X_4	X_5	X_6
2001	0.48220	0.12288	0.12490	0.00541	0.01351	0.00895
2002	0.53080	0.20047	0.99890	0.00508	0.01586	0.01234
2003	0.73090	0.22600	0.12546	0.01065	0.01803	0.02515
2004	0.92120	0.26476	0.07236	0.01631	0.01465	0.02834
2005	0.77520	0.26959	0.01776	0.00008	0.01391	0.02599
2006	0.54890	0.12429	0.04028	0.00002	0.02292	0.01448
2007	0.14081	0.26901	0.03771	0.00001	0.02405	0.02478
2008	0.11561	0.25781	0.06121	0.00035	0.02471	0.03395
2009	0.11723	0.39179	0.05619	0.00598	0.03853	0.00882
2010	0.10912	0.38870	0.01762	0.00625	0.02903	0.00981
TOTAL	4.47197	2.5153	1.55239	0.05014	0.21520	0.19261
AVERAGE	0.44719	0.25153	0.155239	0.005014	0.021520	0.019261

SOURCE: United bank for Africa plc, annual reports and accounts 2001 to 2010

TABLE 4.6 –– ZENITH BANK PLC – RISK INDEX VARIABLES (2001 – 2010)

YEAR	X_1	X_2	X_3	X_4	X_5	X_6
2001	0.1117	0.2096	0.1641	0.0031	0.0353	0.0465
2002	0.1005	0.2176	0.0097	0.0038	0.0224	0.0432
2003	0.1124	0.2425	0.1164	0.0042	0.0203	0.0483
2004	0.0081	0.2761	0.0170	0.0043	0.0172	0.0331
2005	0.1275	0.3685	0.0697	0.0025	0.0169	0.0278
2006	0.1625	0.3269	0.1083	0.0027	0.0167	0.0251
2007	0.1254	0.3155	0.1179	0.0026	0.0205	0.0276
2008	0.1939	0.2547	0.0180	0.0025	0.0298	0.0314
2009	0.2035	0.4207	0.0081	0.0033	0.0505	0.0211
2010	0.1906	0.3763	0.0094	0.0069	0.0334	0.0263
TOTAL	1.3361	3.0084	0.6394	0.0359	0.2630	0.3304
AVERAGE	0.13361	0.30084	0.06394	0.00359	0.02630	0.03304

SOURCE: Zenith bank plc, annual reports and accounts 2001 to 2010

4.1 ANALYSES AND INTERPRETATION OF RESULTS

The test data was processed and tested using the SPSS regressions statistical tool.

RESEARCH QUESTION 1– To what extent does asset quality impact on the financial performance of the quoted banks?

HYPOTHESIS 1

H_0: The asset quality of quoted banks has no significant impact on their financial performance.

H_A: The asset quality of quoted banks has significant impact on the financial performance .

RESULT OF REGRESSION ON ASSET QUALITY

Y_F = 0.042143 + 0.013682X_2 ---------------- Eq.1 (FBN)

(0.838712) (3.082)

Y_U = 0.022776 + 0.07021x_2 ------------------Eq.2 (UBA)

(0.753732) (30244)

Y_Z = 0.019208 + 0.006631x_2 ------------------Eq.3 (ZENITH BANK)

(0.738383) (2.897)

	FBN PLC	UBA PLC	ZENITH BANK PLC
MR	0.83871	0.75373	0.73838
R^2	0.70344	0.56811	0.54521
ADJUSTED R^2	0.62930	0.51413	0.48024
SE	0.05723	0.06377	0.05136
F_C	9.48792	10.52332	8.39172
T_C	3.080	3.244	2.897

DECISION RULE

Accept test as significant if $F_c > F_{t\ 0.05}$

Accept H_A (alternative hypothesis) and reject H_O (null hypothesis)

RESEARCH QUESTION 2 — Do the quoted banks have adequate operating capital and what is its impact on their financial performance?

HYPOTHESIS 2

H_o: The capital adequacy of quoted banks has no significant impact on their financial performance.

H_A: The capital adequacy of quoted banks has significant impact on their financial performance.

RESULT OF REGRESSION ON CAPITAL ADEQUACY

Y_F = 0.15740 + 0.011700x_1---------------------Eq.4 (FBN)

(0.558137) (1.345)

Y_U = –0.072101 + 0.025508x_1-------------------Eq.5 (UBA)

– (0.706880) – (20827)

Y_Z = 0.013797 + 0.006066x1---------------------Eq.6 (ZENITH BANK)

(0.651868) (2.274)

	FBN PLC	UBA PLC	ZENITH BANK PLC
MR	0.55814	0.70688	0.65187
R^2	0.31152	0.49968	0.42493
ADJUSTED R^2	0.13940	0.43714	0.34278
SE	0.04894	0.23169	0.04699
F_C	1.80987	7.98973	5.17248
T_C	1.345	–2.827	2.274

DECISION RULE

Accept test as significant if $F_c > F_{t\ 0.05}$

Accept H_A (Alternative hypothesis) and reject H_O (Null hypothesis)

RESEARCH QUESTION 3 –– Does employee motivation affect financial performance of quoted banks?

HYPOTHESIS 3

H_o: Employee motivation has no significant impact on the financial performance of quoted banks.

H_A: Employee motivation has significant impact on the financial performance of quoted banks.

RESULT OF REGRESSION ON NET INCOME

Y_F = –0.003195 + 0.000761x_6 ---------------------Eq.7 (FBN)

– (0.90278) – (4.198)

Y_U = –0.000282 + 0.000966x_6 ----------------------Eq.8 (UBA)

– (0.102558) – (0.292)

Y_Z = –0.003107 + 0.000387x_6 ---------------------Eq.9 (ZENITH BANK)

– (0.862980) – (4.519)

	FBN PLC	UBA PLC	ZENITH BANK PLC
MR	0.90278	0.10256	0.86298
R^2	0.81501	0.01052	0.74473
ADJUSTED R^2	0.76877	– 0.11317	0.70827
SE	0.00318	0.00877	0.00532
F_C	17.62303	0.008504	20.42247
T_C	4.198	2.92	–4.517

DECISION RULE

Accept test as significant if $F_c > F_{t\ 0.05}$

Accept H_A (Alternative hypothesis) and reject H_O (Null hypothesis)

4.2 Discussion of Findings

The result of these data analyses reveal the following:

1. **Asset Quality**

The result above shows that the impact of asset quality on financial performance of the quoted banks is more highly felt in the financial performance of United Bank For Africa Plc (UBA) having the highest calculated F - statistics of 10.52332 and should be ranked first and followed by First Bank Plc (FBN) with a calculated F - statistic of 9.48792. We have Zenith's Bank Plc with a calculated F – statistic of 8.39172, showing that of the three Banks being evaluated, Zeniths asset quality has the least impact on its financial performance. We therefore reject the null hypothesis and accept the alternative hypothesis and conclude that the Asset quality of Banks has significant impact on their financial performance. While we commend FBN and UBA on asset quality and utilization in generating financial returns, its inherent risks should as well be considered such as high bad loan generation, future loss of profit through loan, loss provisions, etc. This is where Zenith Bank's conservative asset quality utilization initiative should be commended.

2. **Capital Adequacy**

Based on the above result, Zenith Bank Plc has a t- statistic of 2.247 and an actual capitalization of N361.2 Billion, this is closely followed by First Bank Nigeria Plc with a t- statistic of 1.345 and an actual capitalization of N340.63 Billion. United Bank for Africa Plc is ranked third with a negative t – statistic of –2.827, showing a serious under capitalization when compared with the levels of business being carried on. We also reject the null hypothesis and accept the alternative and conclude that capital adequacy has significant impact on the financial performance of these Banks. Hence, UBA plc is strongly advised to pursue fresh capital injection steps or approach to remain strong, stable and relevant in tomorrow's banking world. This possibly accounts for its low capitalization of N176.5 Billion.

3. **Employee Motivation/Net Income**

From the equations (7) to (9), the calculated F – statistics for First Bank Plc and Zenith bank were both greater than their respective table values while only United Bank for Africa Plc F - statistics was less than the table values. Hence, while for First Bank and Zenith Bank Plc we reject their null hypothesis and accept their alternative hypothesis that employee motivation has significant impact on the financial performance of quoted banks; we adopt this position for the entire population since from the sample drawn; we discount the negative result of United bank for Africa in this regard.

The outcome shows that Zenith bank Plc with the highest F- statistic of 20.42247 followed by First bank Nigeria Plc with F – statistic of 17.62303 ranked first and second in that order when it comes to employee motivation and this significantly impacts on the financial performance of quoted banks.

SECTION FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

The title of this paper is "The Determinants of the financial performance of quoted banks in Nigeria: a study of selected Deposit Money Banks (2001 – 2010)"

The objectives of the study are to ascertain the impact of asset quality on the financial performance of quoted banks; to determine if quoted banks trade with adequate capital and ascertain its impact on the financial performances of the quoted banks; to determine if quoted banks are efficient in their operations and asset utilization and to evaluate the impact of employee motivation on the financial performance of such banks.

This study was designed to analyze the variables that affect and truly reflect trends in the financial performances of quoted banks.

The methodology included the collection and analysis of secondary data from various annual reports and accounts covering 2001 to 2010 of three (3) selected banks, namely: (1) First bank Plc, (2) United bank for Africa Plc and Zenith bank Plc since they reflect the financial performance of quoted banks. The variables used include: primary capital to total assets (x_1), loans and advances overdue by 90 days to total assets (x_2), non accruing loans and advances to total assets (x_3), renegotiated loans and advances to total assets (x_4), net loan charge offs to total assets (x_5), net income to total assets (x_6). Data collected were analyzed using regression analysis.

The findings were that, Asset qualities of the reviewed banks showed an appreciable growth and improvement as seen from their annual reports and accounts. That asset quality significantly affected the financial performances of quoted banks as the F- statistics for the selected banks calculated were far greater than their respective tabulated value at 5% level of significance.

Trading capital of banks grew over the period under review and was highest with Zenith bank Plc and First bank Plc. These from our test statistics significantly affect the financial performance of quoted banks.

It was discovered that employee motivation is a key success factor in evaluating the financial performance of selected banks. Banks that provide good and adequate employee motivation tend to perform better and even outperform banks that don't take issues of employee motivation serious. The study recommended that;

Profits should not form the only key criteria for evaluating the financial performance of banks but rather other key factorsshould be introduced which include: capital adequacy tests, basel accord compliance, assets quality evaluation, and employees motivation.
There should be strict and closely monitored supervision by the apex regulatory authorities such as Central Bank of Nigeria (CBN), National Deposit Insurance Corporation (NDIC) and Economic and Financial Crime Commission (EFCC) through their various on-site and offsite examination.
There should be regular training and re training for financial institution employees to enable them acquire the latest skills on their very sensitive job.

5.2 CONCLUSION

In this dynamic and competitive global economic environment, regular and periodic evaluation of the financial performances of quoted banks is very critical to a sound and regularly improving financial performance.

Performance monitoring and control should cover every aspect of a quoted bank's business, in order to forestall distress and institutional decay and outbreak of financial epidemic among financial institutions. It is not enough to use paper profit as the yardstick to measure financial performance in order to prevent systemic distress witnessed in the 1990s and early turn of the century. Proper tools for measuring capital adequacy, asset qualities, net income, sound credit system and adherence to prudential guidelines etc. should be put in place by both the financial institution and the apex regulatory authorities.

5.3 RECOMMENDATIONS

1. Financial institution operating in the country should endeavour to get listed on the floors of the Nigerian stock exchange. This will among other things, make its periodic financial reports to be made available to the public and other stake holders for inspection and evaluation purposes.
2. Profits should not form the only key criteria for evaluating the financial performance of banks but rather other key factors should be introduced which include: capital adequacy tests, basel accord compliance, assets quality evaluation, and employees motivation.
3. There should be strict and closely monitored supervision by the apex regulatory authorities such as Central Bank of Nigeria (CBN), National Deposit Insurance Corporation (NDIC) and Economic and Financial Crime Commission (EFCC) through their various on-site and off site examination.
4. Financial institutions especially quoted banks should be encouraged to render regular and prompt returns to the regulatory authorities.
5. There should be regular training and re training for financial institution employees to enable them acquire the latest skills on their very sensitive job.
6. There should be regular remuneration reviews for all categories of employees in the financial sector to motivate them to perform their best and reduce incidence of fraud.

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