THE IMPACT OF BANK RECAPITALISATION POLICIES ON BANKS' PERFORMANCE IN NIGERIA (1984 – 2004)
A STUDY OF SELECTED BANKS

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CERTIFICATION

The Board of Examiners hereby certify that this dissertation is an original work of **Ogechi Uche-Akujobi**, with Reg no: **20024364948**, and that the work has been accepted in partial fulfillment of the requirements for the award of the **Master of Science (M.Sc)** degree in Financial Management Technology of the Federal University of Technology Owerri.

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DEDICATION

This research work titled **THE IMPACT OF BANK RECAPITALIZATION POLICIES ON BANKS' PERFORMANCE IN NIGERIA (1984-2004): A STUDY OF SELECTED BANKS** is hereby dedicated to my darling husband, Mr. R. U. Akujobi and my three children - Chisom, Kemdi and Keside Akujobi.

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TO GOD BE THE GLORY

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ABSTRACT

This study examined the impact of bank recapitalization policy on bank performance, proxied by three main variables, namely, bank gross earnings, profitability and total asset base. Both primary and secondary data were employed and testing the three hypotheses of the study with the student t-test, the study revealed some major findings. Hence, the introduction of bank recapitalization policy exerts significant effects on bank gross earnings, profitability and total asset base. On the basis of these findings, some of our recommendations are that mergers and acquisition should be encouraged as a way of shoring up bank capital base. Also, there is need for the Central Bank of Nigeria to be more proactive in initiating macroeconomic policies so that no key player in the banking industry will be caught unprepared in terms of effective implementation.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Banks through their financial intermediary role, promote the effective functioning of the economy. As intermediaries between an economy's surplus spending units and deficit spending units, they facilitate an increase in the quantum of a nation's savings, investments and volume of national output. By money creation and granting of credits, they influence money supply, which is an important variable in the growth of national income and price levels.

Also, by facilitating the payment mechanisms they encourage national and international trade and investment thereby ensuring smooth economic transaction between those concerned. It is pertinent to note that an efficient and effective banking sector is essential to ensure stability of the system against systematic risk and collapse, maintenance of confidence of stakeholders as well as protection of depositors' funds/ interest. Hence the need to ensure a stable, safe and sound operating system.

According to Ojo (1977:21), Banking in Nigeria dates back to 1892 when the African banking corporation (ABC) based in South Africa, opened a branch office in Lagos. Since then, the banking sector has undergone remarkable and tremendous changes. The number of commercial banks rose from 29 with 1362 branches in 1986 to 64 with 2407 branches in 1997 while that of the merchant banks increased from 12 with 27 branches in 1986 to 51 with 144 branches in 1997. However, following the banking and financial system distress which started in the early 1990s, the number of commercial banks declined progressively from the 1997 figures to 54 with 2193 branches in 2000 while that of merchant banks declined to 38 with 113 branches during the same period. Following the enabling environment that accompanied the return to civil administration in 1999 and the introduction of universal banking which sought to unify both commercial and merchant banks in 2001, the total number of the banks increased to 90 with 2317 branches in 2002. (CBN, 2002).

In Nigeria, banks are the most regulated institution. The essence is to ensure that the monetary payments system of the country is not impaired, depositors' funds are protected and the public confidence which is crucial to the economic stability of the system is not threatened. Despite this, some observers noted that some of the regulations restricted the effectiveness and efficiency of the banks.

Hence in 1986, the federal government liberalized the financial sector by adopting the Structural Adjustment Programme (SAP). Entry requirements (in terms of granting of banking licenses) were relaxed. This led to a dramatic and massive expansion in the number of commercial and merchant banks owned by the private sectors (Anyanwu, 1993: 136).

The increase in the number of banks therefore led to stiff competition which meant the demise of armchair banking as banks were compelled to be aggressive and innovative in order to survive. This led to an improvement in service delivery made possible by the use of modern technology, thereby enhancing automation of banking services. However, the competition /expansion in the industry led to insufficient manpower in the industry as a result, banks resorted to poaching/ employment of staff who lacked the prerequisite banking knowledge and qualification to man sensitive positions which they couldn't have ordinarily occupied when they did. Again, government owned banks suffered from excessive political interference which encouraged the neglect of all known banking principles.

These resulted in fall in standard of professionalism in the industry as mediocrity became the order of the day leading to inefficiency and failure in the system.

Apart from the above, other problematic issues contributed to failure in the industry. Brownbride (1996: 16) noted that policy lending-loans extended to the public sector or to priority sectors in accordance with credit guidelines contributed immensely to building up of extensive non-performing loans in the portfolios of the federal government and state government banks resulting to insolvency. Their financial fragility was concealed by a combination of public subsidy i.e. (dependence on public sector funds) and improper accounting until the late 1980's. It should also be noted that excessive political interference in banks' operations from which the CBN and NDIC are immune, interest rate liberalization, policy instability and inconsistency in the system coupled with unconducive macro economic business climate affected the real sector and contributed in no small way in creating difficulties in the banking sector. Also the reforms in the foreign exchange market, which introduced a managed auction, provided a strong incentive for private investors to set up banks not just for conventional banking operations, but to obtain access to foreign exchange; which was sold at a premium in the parallel market for profit.

Other contributory factors are bank fraud and forgeries, which according to NDIC (1991) was put at 104. 9 million in 1989 and later rose to 388.5million in 1991. This resulted in colossal loss of bank funds and depletion of shareholders' funds. All these and other identified inefficiencies led to failures that rocked the industry between 1986 and 1996 leading to distress of 26 banks in 1995.

Unlike other failures experienced in other industries, failures within the banking industry tend to have a more catastrophic effect on the economy. Depositors are thrown into confusion, other banks are threatened and the integrity of the payment mechanism of the entire economy is undermined.

In 1988, the Decree which established the Nigeria Deposit insurance Corporation (NDIC) was promulgated to complement the regulatory powers of the Central Bank of Nigeria (CBN). The body was empowered to provide deposit insurance covers to depositors funds in banks with insurable limit of N50,000 of a depositor's total deposit in case of bank collapse (Anyanwu, 1993:137).

However, this amount has been under intense criticism with majority of Nigeria bank depositors stating that it is too small relative to the amount of deposit one may have in the bank and current inflationary trend in the country.

Prior to 1994, the federal government through the Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Co-operation (NDIC) designed policies to safeguard the banks from liquidating. However, all the efforts proved abortive as some banks were still unhealthy and technically distressed hence the government changed its policy to ensure adequate sanitation of the industry. It withdrew its "Supportive arm" so that those banks that are terminally ill were allowed to die in order to stem the distress virus to other parts of the industry.

One of the measures adopted to ensure sanitization and restoration of public confidence in the industry is the recapitalization directive.

Over the years, because of the fallen value of money, increase in the volume of work of the banks, Level of risks involved in their operations and bank failures, there has been need to expand the capital base of banks.

The question of capitalization was not given a special attention until the bank failures that necessitated the promulgation of the banking ordinance in 1952.

The ordinance defined a bank as any company carrying on the business of banking or using bank or banking as part of the title under which it carries on business.

The history of the increase in the minimum paid-up capital for banks dates back to 1952 when indigenous banks had N25,000 and expatriate banks N200,000 as minimal paid up capital. In 1958, the requirement for the expatriate banks rose to N400,000 with indigenous remaining the same. 1962 witnessed a drastic rise in figure of the indigenous operators requirement from N25,000 to N500,000 while in 1969 expatriate banks needed N1.5Million with only N600,000 for Indigenous Banks. Ten Yrs later, in 1979. The promulgation of the banking amendment act, saw the introduction of merchant banking in Nigeria with a paid up capital of N2 million. Indigenous commercial banks were allowed N600, 000 while expatriate banks were allowed

N1.5million. Directives concerning the paid up capital requirements of banks continued through 1980’s to the 1990’s.

In February of 1991, there was the promulgation of the banks and other financial institutions Decree (BOFID) 25 of 1991. In this same year, paid up capital of merchant and commercial banks were raised to N40 million and N50 million respectively. However, 1997 set the stage for uniform capital base requirement of N500 million for both types of Banks, heralding the universal banking scheme in 1998.

In the year 2001, capitalization requirement for banks was also revised upwards to 1 billion for existing banks and N2 billion for new entrants until December, 2005 when all banks were required to beef up their capital base to N2 billion. Many banks were still struggling to beat the deadline, when the new CBN Governor, professor Soludo on the 6th of July 2004 came up with what many of the industry operators described as “Disastrous,” creating panic and confusion in the industry that is, the shoring up of the capital base to N25 billion by December,2005.

With recent issues/directive, it is obvious that great attention is accorded the capital adequacy of banking institutions. The reason is that adequate capital acts as a cushion for absorbing possible operational losses resulting from risks associated with the business of banking.

Rogers, (1998:5) observed that: Adequate capital provides added security for depositors and the deposit insurance system”. This also was encapsulated in the camel rating CBN/NDIC (1995:33).Under this system, the regulatory/supervisory authorities accesses a banks performance in five areas, namely, capital adequacy, asset quality, management competence, earnings strength and self sustainability in terms of its liquidity position.

It could be seen that bank's capitalization is subject to constant review to ensure that it has not suffered erosion due to the effects of such economic variables as inflation. The erosion of banks capital base by inflation has seen cited as one of the reasons for the recent recapitalization directive.

Certain strategies have been identified through which banks can meet the new directive. They are
Capitalization of reserves
Debt/ equity swap
Mergers /Acquisition
Private placements
Public issue
Right issue
Or a combination of any of the strategies. The strategy which a bank adopts will depend largely on the circumstances prevailing within it.

1.2 STATEMENT OF THE PROBLEM

Inadequate capitalization has seen identified as a major problem of banking in Nigeria. This problem has been long standing and calls for ratification, as it has been recurrent and persistent. (Ebhordaghe 1991, Umoh 1991, Oloyede 1994, Ekundayo 1994, Rogers 1998 and Soludo 2004). Based on the above findings and recommendations of the above researchers, CBN has consistently taken policy measures to shore up the capital base of banks, which is aimed at solving the problem significantly. For instance in 1988, while the capital base of commercial banks stood at N10million, that for merchant banks was N6million.This was also reviewed upwards to N20million and N10million respectively for commercial and merchant banks. Also in 1991, while commercial banks were to be recapitalized with N50million, merchant banks was put at N40million, until in 1997, when a uniform capital base of N500 million each was stipulated for both the commercial and merchant banks.

However, despite the implementation of all the recommended solutions to the identified problems, It is disappointing that the problem of capital inadequacy of banks has not yet been fully addressed as banks' stability is yet to be significantly achieved hence the severe distress and the eventual liquidation of 26 banks in 1995.This therefore raises doubts as to the level of capital adequacy suitable for Nigerian banks and whether capital adequacy is the most significant factor accounting for banks stability in Nigeria.

The central problem of this study therefore is to evaluate the recapitalization measures adopted by Nigerian banks and also its impact on their performances during the study period from 1984 to 2004.

1.3 OBJECTIVES OF THE STUDY

The central objective of this study is to examine the influence of bank recapitalization policy on bank performance. Specifically, the study sets out to accomplish the following;

(1) To determine the influence of recapitalization policy on bank gross earnings.

(2) To ascertain the effect of recapitalization policy on level of bank profitability.

(3) To examine the influence of bank recapitalization on bank total asset base.

(4) Finally, draw some policy recommendation that will lead to improved bank performance through recapitalization policies.

1.4 RESEARCH QUESTIONS.

With the above stated objectives, we consider the following research questions relevant for the study.

(1) What is the impact of the recapitalization policy on bank performance in Nigeria?

(2) How does the introduction of the bank recapitalization policy affect the level of bank gross earnings?

(3) To what extent has the introduction of bank recapitalization policy affected bank profitability.

(4) How has the introduction of bank recapitalization policy influenced the level of bank total asset base?

(5) What other policy measures are necessary to feel the full positive import of the recapitalization policy in the banking industry?

1.5 HYPOTHESES

The researcher is guided by the following hypotheses which will be tested for the achievement of the objectives of this research work. The null hypotheses are as follows:-

H_{o1}**:** There is no significant relationship between bank recapitalization policy and bank gross earnings.

H_{o2}**:** There is no significant relationship between bank recapitalization policy and bank profitability.

H_{o3}**:** There is no significant relationship between bank recapitalization policy and bank asset base.

1.6 SCOPE AND LIMITATIONS OF THE STUDY

The limitations of this study include such factors as:

Time: The researcher was faced with the problem of apportioning her limited time between writing this thesis and other personal but vital responsibilities.

Funding: The funding of this research was not an easy one and is constrained by limited resource.

Data: The paucity of data in this area was a handicap to the research. This is because information relating to this study is yet to have many publications /researched on.

Scope: The study embraces the activities of the banking industry and Nigeria economy at large.

However, this study is intended to cover five (5) selected banks for the period 1984-2004.

1.7 SIGNIFICANCE OF THE STUDY

The significance of the study is all embracing and cuts across the commercial / merchant banks, CBN and the economy in general.

TO THE BANKS: The bank will increasingly be challenged to become more innovative in their intermediation function and especially to increase financing to the productive sector. Also the banking system will pro-actively be positioned to become sound and reliable catalysts of development.

TO CBN: On the part of the regulatory authority, recapitalization would further structure the regulatory framework and strengthen the supervisory capacity to ensure a sound, stable and efficient banking system.

TO THE ECONOMY: The changes will move the Nigerian economy forward and proactively stimulate the entire productive system. Hence Nigeria as a country will be better positioned to be part of the global economic change.

TO THE BANKING PUBLIC: - Nigerians with money abroad will be encouraged to repatriate their funds back home for investment in banks. It will create investment consciousness amongst the populace especially in the real sector of the economy.

1.8 DEFINITION OF TERMS

Capital Base:	This refers to an entities paid up capital
Capitalization:	This is total shareholders funds
Recapitalization:	This is the process of shoring up the capital base of an entity (enhancement/ improvement of a company's network).
Illiquidity:	A bank is said to be illiquid where it cannot easily meet up the obligations of its customers on demand
Universal Banking:	Is a banking practice that involves investment banking, merchant banking and commercial banking.
Capital Requirement:	The legal stipulated capital outlay to be made by bank proprietors.

Commercial Bank:	Banks engaged in retail banking operations.
Merchant Bank:	Banks engaged in wholesale activities, dealing on large scale deposits and loans.
Central Bank:	An apex banking institution in our financial environment, charged with the responsibility of regulating the monetary system in Nigeria.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

In order to put the study in proper perspective, this chapter is devoted to the review of related literature. The review is undertaken in order to know what pervious researchers have done in the field of banks recapitalization polices. The review will also expose us to the method of study adopted by previous researchers and their recommendations.

This chapter will therefore highlight the core issues in recapitalization policies on banks in Nigeria. It will further seek to address the evolution of banks in Nigeria, a comparative analysis of recapitalization of banks in Nigeria viz-a-viz some other countries of the world. Banking sector polices in Nigeria will be reviewed; impact of bank recapitalization policies in the Nigeria banking system will be highlighted as well as strategies for recapitalization. The chapter will finally seek to review the prospects of banking in line with recapitalization of banks in Nigeria. These issues are taken up in the following sections.

2.1 HISTORICAL BACKROUND OF BANKING IN NIGERIA.

Banking in Nigeria, with its associated activities and functions are multifaceted. They comprise the central bank, commercial, merchant and Development Banks. Each of these play significant role in ensuring that monetary transaction between the surplus and deficit spending units of the economy are in consonance with the economic trend. This study will however X-ray the background of banking in Nigeria Vis-à-vis the expected role of the banks. But in a more specific context, commercial and central banking activities will be most prominent in this study. This is so because for there to be a conducive banking environment, some policy measures has to come into play. But for analytical purposes, there is need to trace the history of banking in Nigeria.

According to Anyanwu (1997:134), Commercial Banks otherwise known as joint stock banks are financial institutions which hold themselves out to the public (individual firms, organizations and government) by accepting deposit and giving out advances as well as performing other services to their customers. He further maintained that the history of commercial banking in Nigeria dates back to August 1891 with the opening of a branch of the African Banking Corporation (ABC). It was thereafter incorporated as the Bank of British West Africa (BBWA) in 1894. The bank later metamorphosed to standard bank of Nigeria and thereafter till date to first Bank of Nigeria Plc. Other banks were established till 1959 when the central Bank of Nigeria (CBN) was established.

Establishment of central Bank of Nigeria at that time was very pertinent due to the absence of regulation for the banks. Hence according to Anyanwu (1997: 135), the central Bank of Nigeria was empowered to effect regulatory activities over banking business in Nigeria. Its establishment thus saw the end of unregulated near-free –for-all era of banking business. As a statutory role, the Central Bank of Nigeria was charged with the responsibility of regulating activities of other banks in the economy. One of the policy measures the Central Bank of Nigeria adopts in regulating and directing the activities of banks is the recapitalization or capital base or Minimum Reserve Requirement (MRR) policy measures. This undoubtedly is the major thrust of this research work.

2.2 COMPARATIVE ANALYSIS OF RECAPITALIZATION POLICIES IN NIGERIA AND SOME OTHER COUNTRIES.

Anaroke (2004:32) in Vanguard Newspapers of July, 11, was of the view that the minimum capital base of banks started even before independence in Nigeria. This was because the colonial masters then, realized that inadequate capitalization of the banks was one of the major reasons for the collapse of a number of banks in the early 1950s.

Prior to the establishment of Central Bank of Nigeria, banking activities was mainly within the indigenous and expatriate banks. Anaroke (2004:32) maintained that a minimum capital requirement was first stipulated for banks operating in Nigeria in 1952 after the promulgation of the Banking Ordinance. As at 1952, minimum capital base for the indigenous banks was N25, 000. While that of an expatriate banks was N200, 000. In 1958, a new measure was introduced which saw to the recapitalization of indigenous banks still at N25, 000 while that for expatriate banks was increased to N400, 000. Shortly after independence, precisely in 1962, the tide changed. While the minimum capital requirement for indigenous banks were N500, 000, that for expatriate banks remained at N400, 000. In 1969, capital base for indigenous banks was put at N600, 000. While that of expatriate banks were increased to N1.5 million.

Notably these indigenous and expatriate banks are made up mainly of commercial banks granted license to operate in Nigeria. With the incursion and overwhelming influence of expatriates (aliens) in the economy especially in the banking sector, a more accommodating measure for citizens of the country was considered. This saw to the promulgation and implementation of the indigenous Enterprises Promotion Decree in 1972.

Anyanwu (1997: 136) posited that the decree was not designed to affect the ownership structure of commercial banks in the country as it excluded enterprises in the banking business. He further maintained that in 1973, the federal government brought the total indigenous ownership of the three biggest commercial banks to 40% of the total share when it acquired some percentage of the shares of these banks in keeping with its policy of bringing the commanding heights of the economy under the ownership and control of Nigerians.

Anaroke (2004: 11) further maintained that a minimum capital base of N2million was approved in 1979 for merchant banks, while that for indigenous and expatriate banks was left at N600,000 and N1.5 million respectively. In 1988, commercial and merchant banks were brought into mainstream of the recapitalization policy. At that time, while commercial banks capital base was N10 million, that for merchant banks was N6 million. In 1989, commercial and merchant banks minimum capital base was reviewed upwards keeping them at N20 million and N10 million respectively. In 1991, while commercial banks were to be recapitalized with N50 million, merchant banks was put at N40 million. In 1997, the Universal banking came into place and both commercial and merchant banks were streamlined into having same capital base of N500 million each. While in 2001, the minimum capital base for commercial banks was put at N1 billion and was subsequently reviewed in 2004 to N2 billion while the banks are expected to recapitalize to the tune of N25 billion with full compliance by December 31, 2005.

2.3 RECAPITALIZATION IN SOUTH AFRICA

Further analysis revealed that there were similar policy guidelines in some other countries of the world. The South African Reserve Bank (SARB) is the central bank of the Republic of South Africa.

Ibironke (2002:6) observed that the South African Reserve Bank (SARB) is the regulatory body for the banks in South Africa. He further maintained that the bank regards its primary goal in the South African Economic system as "the attainment and maintenance of price stability". In line with its statutory functions, the recapitalization of its commercial and associated banks lends credence to its sound and prudent economic policies and principles. Thus Soludo (2004: 6). Maintained that consolidation is taking place in South Africa such that one bank in South Africa- Amalgamated Banks of South Africa (ABSA) has asset base larger than all of Nigerian commercial banks put together. Thus because of high level of capitalization of banks in South Africa, there is stability and growth whereas in Nigeria, 26 Banks failed due to undercapitalization.

2.4 RECAPITALISATION IN SINGAPORE

The Monetary Authority in Singapore (MAS) is the regulator of the financial sector and the de facto central bank of Singapore. Although, currency is issued and controlled by a separate board.

Banking in Singapore, according to MAS annual report (2001:12) is essentially split into an offshore and domestic market. The offshore Asian dollar market is by far the larger of the two with total assets as of march 1998 of S $820 billion (US 7 513 billion) for the offshore market while in the domestic market is S $ 310 billion (US $ 193 billion).

The domestic retail banking market is considered over banked by the Government of Singapore which has imposed a long standing freeze on the number of full or restricted banking licenses. There are currently 34 full licensed banks (12 locally owned and 22 foreign owned), and 13 restricted licensed banks (all foreign owned). Full licensed foreign banks; however do not enjoy the same market access as local banks. But in the core of these banking activities are the capital bases for each category of bank operating in the Singapore economy.

Soludo (2004: 8) reiterated that in Singapore (with about three million people). Banks have consolidated to about six and further moving down to three- with the second largest bank having a capital base of about US $ 67 billion.

2.5 RECAPITALISATION IN MALAYSIA

The operating conditions are similar to that of banks in Malaysia. According to Bank Negara Malaysia. Annual report (1990:12), the banking and financial institutions Act of 1989 provides that no person shall accept deposits without a license as a bank or financial institution. Unlike some other countries, there is no network of small banks in Malaysia. The minimum capital requirement to establish a commercial bank in Malaysia is RM 20 million ($ 8 million). This is however likely to be too high for a Malaysia financial institution (MFI) wishing to establish a commercial bank, or a body wishing to establish a small bank at the local level. While the minimum capital needed to establish a finance company is less at RM 5 million ($ 2million), finance companies are not allowed to accept deposits on current account.

Moreover due to hitherto, number of banks in Malaysia, Bank Negara considers that there are already too may financial institutions in

Malaysia, and is currently not issuing any new licenses for the establishment of either banks or finance companies. However, analytical surveys have shown that it is seeking to encourage existing banks and finance companies to amalgamate.

In his analysis, Soludo (2004: 12) clarified that Malaysia has recently gone through its first round of consolidation whereby about 80 banks shrunk to about 12 within one year. In Malaysia, banks were required to raise their capital base from about $ 70 million to $ 526 million in one year. He further pointed out that the largest bank in Nigeria has a capital base of about US$ 240 million compared to US $ 526 million for the smallest bank in Malaysia.

Considering these analysis, it can be clearly understood that bank recapitalization policies is a global phenomenon. However, in trying to fix the capital base for banks in various countries, so many factors are considered. These are in terms of relativity, global challenge, price stability, macroeconomic objectives etc.

2.6 BANKING SECTOR POLICIES IN NIGERIA

Nwankwo (1980: 14) was of the view that the domination of banking by expatriate banks during the colonial period provoked considerable resentment among Nigerians; including businessmen and politicians. The expatriate banks were perceived as acting solely in the interests of their foreign owners rather than of Nigerians and the Nigerian economy. In particular they were accused of discriminating against indigenous businesses in the allocation of loans and failing to finance the developmental needs of the country, instead concentrating on the provision of short-term trade related finance to foreign companies. Consequently government objectives following independence included securing greater local control over the banking system, and ensuring improved access to credit for indigenous businesses and priority sectors.

As such, during the 1960s the central Bank of Nigeria was given extensive power to regulate the quantity, cost, direction of bank credit as well as recapitalization rates. These powers were used to further monetary control (a priority throughout most of the past independence period because of inflationary pressures in the economy) and the objectives of influencing resource allocation and indigenization. The main instruments of monetary policy were aggregate ceilings on the expansion of banks' credit, while sectoral credit guidelines and interest rate controls were used to influence the direction and cost of credit. From 1969 onwards the controls over the banking system were set out in annual monetary policy circulars issued by the CBN.

Ekundayo (1994:346), Opined that banking regulation was first introduced in Nigeria in the early 1950s in response to the failure of local banks. Specifically, the 1952 Banking ordinance imposed minimum requirements for paid-up capital and the establishment of reserve funds. This was followed by the enactment of the 1958 central Bank Act and the Banking ordinance of 1959. The banking legislation was further strengthened with the enactment of the Banking Decree of 1969. This consolidated previous banking legislation raised minimum paid up capital requirements and empowered the CBN to specify a minimum capital/deposit ratio.

Oloyede (1994: 283) maintained that this legislation also empowered the CBN to impose liquidity ratios and placed restrictions on loan exposure and insider lending. This was aimed at attaining the desired macroeconomic objective level.

Ologun (1994: 314) corroborated that the legislation contained in the 1969 Decree established the regulatory framework for the prudential control of banking for about 22 years. This provided the guideline until it was superceded by the banking and other financial institutions Decree (BOFID) of 1991.

Soludo (2004:7) in his own views posited that “The regulatory authorities on their part would further streamline the regulatory framework and strengthen the supervisory capacity to ensure a sound and efficient system.” Hence in line with the regulatory framework, the minimum capital base for banks was put at N25 billion with full compliance before end-December, 2005.

2.7 THE IMPACT OF BANK RECAPITALIZATION POLICIES IN THE NIGERIAN BANKING SYSTEM.

Having recognized the importance of adequate capital to the effective and efficient functioning of the banks and the fact that capital base for Nigerian banks have consistently been manipulated by monetary policy guidelines, the regulatory authorities instituted the recapitalization exercise as a strategy for banking sector reform. According to Ekundayo (1997:5), recapitalization can be defined as the enhancement and restructuring of the financial resources of an organization with a view to enlarging the size of the long-term funds available to the organization.

Olabisi (1991:36) was of the view that the advent of distress and failure in the Nigerian banking horizon with its underlying liquidity drain led to insolvency, collapse and unsoundness for national and international transactions. Thus it necessitated the adoption of the recapitalization strategy as a policy framework directive or measure.

The recapitalization policy measure was introduced to check the spate of lull inherent in the banking industry. Hence it can be said that the recapitalization policy evolved as a therapy designed to fully sanitize and strengthen the industry against imminent crises/collapse. Therefore some of the short and long run implications and benefits of the recapitalization policy, according to the research are:

(i) A likely reduction in number of operating banks in the country.
(ii) Increased and stiff competition for deposits and business opportunities by the surviving banks.
(iii) Mergers and acquisition occasioned by the recapitalization policy pre-supposes reduction in workforce.
(iv) Ability to finance national and international investments.
(v) The banks would be seen as agents for real economic growth and human development.
(vi) It will foster and promote a good management team within the banking industry.
(vii) Overall, the banks will end up more efficient, innovative, stronger and reliable.

The recapitalization strategy is consistent with the stabilization goal that suggests that given the institutional structure, failure of a bank should be prevented in order to avoid a resultant run on other banks. Thus, the recapitalization policy, if properly implemented would facilitate a restoration of a stable macro-economic environment which will serve as a solid foundation for the resumption of sustainable economic growth and stability of a nation’s economy. On the contrary, Faleye, (2004: 9) expressed concern over the socio-economic implications of job losses, which he said was imminent owing to CBN'S insistence on the N25billion minimum capital base. He also cautioned that if the reform process was not well managed, it could led to massive distress in the banking sector, nothing that presently, the interbank market was already seriously disrupted.

2.8 STRATEGIES FOR RECAPITALIZATION

Orisewezie (2004: 35) was of the view that the implication of the recapitalization exercise on banks depends on the strategy that the banks adopt. In essence therefore, recapitalization will affect the landscape, structure, competition, attitudes and disposition of the banks, its shareholders, regulators and supervisors. This is because there are bound to be noticeable changes which will undoubtedly affect operations in the industry. Hence the strategies for recapitalization and further implications are as outlined below:

(i) Conversion of deposits to shares
(ii) Public issue/offer for subscription
(iii) Mergers and Acquisitions
(iv) Right issue to existing shareholders
(v) Capitalization of appropriate reserves
(vi) Private placement.

These will be discussed in turns:

(i) **CONVERSION OF DEPOSITS TO SHARES**

Here a bank approaches its depositors requesting that they exchange the amount in their accounts with the bank for the bank's shares. This deposit/equity conversion strategy therefore depends on the willingness of a bank's depositors to assent to this exchange arrangement. While this may seem an attractive strategy, depositors most times are not too keen or interested in this kind of transaction or arrangement given the not-so-pleasant-experience of some depositors in the past. Most high net-worth depositors with sizeable deposits have moved their funds “in flight to safety” to the big and stronger banks which are considered safer and sound.

(ii) PUBLIC ISSUE/OFFER FOR SUBSCRIPTION

This is an external arrangement for raising additional funds possibly in line with recapitalization requirements. Thus a bank invites the general public to subscribe to its shares. A successful public offer by a bank therefore depends on the bank’s good will and other market considerations. Discerning investors would be interested in the bank’s track records, management structure, and position in the industry as well as feasibility of projections.

In adopting this strategy, a bank subjects itself to public scrutiny. It is an avenue through which a bank can test its acceptability and strength in the market. Under subscription of a bank’s public issue/offer gives the bank a bad report while over subscription leaves the bank on a better stead.

(iii) MERGERS AND ACQUISITIONS

Odejimi (1992:13) Observed that, “the spate of capital ‘heart failures’ have reached an alarming stage, hence capital reconstruction can be effected through mergers and acquisitions.” This strategy, following the recapitalization directive, has generated serious interest. It is therefore suggested for smaller and weaker banks that find raising funds through the capital market difficult due to competition for investors from the bigger banks and the fact that most of the small banks are still young. Therefore since they most often find it difficult to meet the compulsory three to five year listing requirements of the Nigerian Stock Exchange (NSE), for these banks, mergers and acquisition will be considered an indispensable option.

Onwu (1994:10) observed that a sizeable merger and acquisition will however require approval of shareholders of the acquiring bank if it is a quoted bank. Consequently, CBN approval is required for the merger and acquisition to be truly effective between the banks involved.

As a strategy for recapitalization, the concept of synergy is one of the benefits of mergers and acquisitions. Economists refer to this as the economics of large-scale operations. It is also known as the 3 +3 = 7 effect. Illustrating the concept of synergy; suppose bank “A’ with annual earnings of N10 million mergers with bank “B” with annual earnings of N12 million, their combined earnings would be expected to exceed N22 million, instead it might amount to N25 million. The positive difference of N3 million is attributed to synergistic effect. Hence, by adopting this strategy, the concerned parties are better able to pool their resources together and be able to meet the recapitalization requirements.

In this regard, Soludo (2004: 17) maintained that mergers and acquisitions especially in the banking industry is now a global phenomenon. He stressed that in the United States of America, there had been over 7,000 cases of bank mergers since 1980, while the same trend occurred in the United Kingdom and other European countries. Specifically, in the period 1997 – 1998, 203 bank mergers and acquisitions took place in the Euro area. In 1998, a merger in France resulted in a new bank with a capital base of US $ 688 billion, while the merger of two banks in Germany in the same year created the second largest bank in Germany with a capital base of US $ 541 billion.

(iv) RIGHT ISSUES TO EXISTING SHAREHOLDERS

This is an internal arrangement recommended by the CBN. According to the Security and Exchange Commission (SEC) Decree No. 29 of 1998, it is a strategy open only to private banks and prohibits a right issue for a public bank. Here existing shareholders of the bank are given a first or major option or consideration to subscribe to supplementary issues in proportion to their existing equity shareholding in the bank. The offer price is usually below the market price of the equity in the stock exchange market.

The success or otherwise of this rights issue will depend on the quantum of the short fall as well as the preparedness of the shareholders to undertake additional investment. Oyetan (1997: 32) observed that “Where the shortfall runs into huge amount of money as in the case with some banks, the shareholders may not be in a position to provide the entire requirement.’ Thus, rights issue will only succeed as a recapitalization strategy if existing shareholders believe in the bank’s plan. Progress and activities, whether the bank has had a profitable history and how consistent it has been in dividend payments. Hence in adopting this strategy, a bank avoids floatation costs, time and preserves the relative ownership rights of existing shareholders of the bank. Hence shareholder/ownership structure, by this strategy is undoubtedly preserved.

(v) CAPITALIZATION OF APPROPRIATE RESERVES

This is described as the most straight forward and easy-to-implement recapitalization strategy. It involves no cash injection as it only makes available more permanent funds. Most banks with robust balances in their reserve accounts find this strategy very handy. To adopt this strategy, all a bank requires is to obtain the statutory approval of its shareholders to capitalize their reserve by issuing bonus share to its shareholders in lieu of dividends. However this strategy requires an amendment of the bank's memorandum and Articles of association to reflect the capital base of the bank. Also, banks with some level of reserves may also choose to capitalize so as to reduce the shortfall that would be expected to be raised through one or a combination of other strategies.

Despite the fact that this strategy was recommended by the CBN, it has been strongly criticized. But that notwithstanding, the protagonists are of a different view. They see capitalization of reserves as strategic and prudent as long as the reserves which in most cases are invested are realizable when the need arises otherwise, fresh funds are required. Their representation is that such reserves if not capitalized, should be converted to dividend for shareholders. More so, it is the only strategy that minimizes cost.

(vi) **PRIVATE PLACEMENT.**

This is an external but private arrangement that is adopted by a bank that wishes to source for additional funds. The bank invites prospective high-net-worth private investors to subscribe to the new shares to be issued. This is however offered at a reduced cost to the investors.

2.9 PROSPECT OF BANKS IN LINE WITH RECAPITALIZATION POLICIES IN NIGERIA

Recapitalization as a consolidating strategy for banks is aimed at ensuring macroeconomic coordination. According to Soludo (2004:17) consolidating the banking system will constitute the reforms designed to ensure a diversified, strong and reliable banking sector which will ensure the safety of depositors money, play active developmental role in the Nigeria economy and be competent and competitive players in the African regional and global financial system.

He further posited that the Nigerian banking system remains very marginal relative to its potentials and in comparison to other countries. Hence one of the goals is to ensure that the banks become stronger players, and in a manner that will ensure longevity and hence higher returns to shareholders. Therefore, the prospect of banks in line with recapitalization can be conceptualized within the following, context:

(i) To become stronger players, and in a manner that will ensure longevity and hence higher returns to shareholders over time as well as a greater impact on the Nigerian economy.
(ii) Ensure that bank depositors transact with banks in a manner reminiscent of sound banking transactions.
(iii) To further encourage entrepreneurial Nigerians who have stronger financial system to finance their businesses.
(iv) To become highly competitive in the internationally connected banking practice that would also mobilize international capital for Nigerian development.
(v) To enhance and encourage diversification within the banking industry as well as in other sectors of the economy.

These prospects will to a great extent put paid to some problems plaguing the banking industry, these problems as identified by Soludo (2004:34) can be summarized as follows:

(i) Weak corporate governance evidenced by high turnover in the board and management staff, inaccurate reporting and non compliance with regulatory requirements, falling ethics and de-marketing of other banks in the industry.

(ii) Late or non-publication of annual accounts that obviates the impact of market discipline in ensuring banking soundness.

(iii) Gross insider abuses, resulting in large non-performing insider related credits.

(iv) Insolvency as evidenced by negative capital adequacy ratios and shareholders' funds that had been completely eroded by operating losses.

(v) Weak capital base even for those banks that have met the minimum capital requirements which hitherto cannot be compared with international standards.

2.10 EMPIRICAL AND THEORETICAL REVIEW OF BANK RECAPITALIZATION POLICIES

Onas Anya (2004:20) in vanguard Newspaper posited that the Nigerian banking system has been described severally as weak and self-serving with low capital base. As a consequence, it was observed that this scenario in itself is both a reflection of and a contributor to the macroeconomic problems facing the national economy.

The introduction of minimum capital base as a macroeconomic policy measure brought with it some policy goals and objectives. From inception, Nigeria have been witnessing periods of change in bank recapitalization processes. These has however been contending with challenging factors both locally and internationally.

Uwazuruike (2004:30) in an interview opined that the CBN, under the central bank Act, has the discretion to fix any capital base it wants for a bank as it is believed that the CBN is actually the moderator and regulator of the Nigerian economy. Therefore, recapitalization of banks, even if it can be considered a due process is the prerogative of the central bank.

Making further analysis of bank recapitalization policies with other economies, it can be clearly understood that like other countries of the world, Nigeria tries to fix the capital base of its banks so as to be globally competitive. Nwankwo (1980: 27) in an interview maintained that banks can be adequately capitalized with a certain amount that everybody is comfortable with. Hence it is necessary that banks within the economy should grow the economy, considering issues with South African banks, he clarified that there are four big banks, commercial and investment banks. According to him, National bank of South Africa (NBSA) for example, has a capitalization of N300 billion. Rand

Merchant Bank (RMB) which is the second largest Bank in South Africa has about N300 billion, standard bank which is the biggest of them all has about N450 billion capitalization Ned bank which is the third largest bank has about N380 billion and investment which is actually the largest investment bank in South Africa has about N260 billion.

Hence, Nwankwo (1980:13) posited that when these four banks in South Africa are compared with banks in Nigeria, it becomes imperative for banks in Nigeria to be properly capitalized, since considering the present rate at which banks are capitalized, it pales in comparison. The sordid state of Nigerian banks caused Vanguard newspapers to reveal that the paid-up capital of our four leading banks is not up to that of the tenth-rated bank in South Africa.

Umoh (1989: 17) in his own views opined that there is need to capitalize banks in Nigeria to an appreciable standard. Hence looking at Nigerian Banks over time, and in this era of globalization, it will be glaring that the capital base of Nigerian banks leaves much to be desired. In his concluding analysis, he maintained that the banks do not have pool of funds with which to play the role of banks in an economy which is inter-mediation between surplus and deficit units in an economy.

Due to inadequate planning and regulation of Nigerian banks, both their local and international transaction has been hampered. In the views of Uwazuruike(1997:36), he maintained that if you have a bank that has a solid capital base, they won't be shaking everyday by running to other banks to go and say give me some money to cover up for the day's transaction. Similarly, Nwankwo (1980:42) was of the view that the larger your capital base, the better your ability to take and manage risks. He further maintained that the real sector can be funded because the bigger the banks the more access they have to those unbanked money that is outside the system because they can open more branches, become less expensive and fund the real sector.

Similarly, Okoh (2004:27) in Vanguard Newspaper believed that there should be a change in the culture of banking in Nigeria. He was of the view that the emphasis has always been on corporate banking to the detriment of other aspects of banking like the mortgage, consumer personal and retail banking. He then suggested that if focus is placed on these areas of banking, there is a tendency that they will attract a lot of people and by so doing; it will help in actually enhancing the capital base of most of the banks.

Alternatively, as a multi bank economy, some proponents were of the view that the banks be categorized so as to accommodate all the banks in the economy as regards to recapitalization policies. As Nwankwo (1980: 9) posited, there would also be some differentiation in terms of the capital base for banks. This was in the wake call from many quarters that the banks should be categorized into small, medium and Mega banks, with each category having a specified capital base.

Faleye(2004: 21), in guardian newspapers argued that a proactive reform of banking sector should stratify financial institutions into three broad categories with different capitalization requirement. He explained that a stratification model should be involved with small banks capitals base put at N5 billion, medium sized ones at N10 billion, while large banks be required to have the N25 billion benchmark. Faleye further explained that the CBN should place greater emphasis on the capital adequacy in line with global best practice on bank capitalization.

According to him, globally, banks' capitalization requirements place greater emphasis on capital adequacy ratio with the famous Basel Accord prescribing a minimum ratio of eight per cent.

"Capital adequacy ratio compares the volume of a bank's capital with the size of its transactions. It is a way of ensuring that banks are strong enough not only to meet customers' expectations but also in a position to guarantee minimum risk to depositors," he said.

Though, with mixed reactions and in the advent of the recent pronouncement that Banks in Nigeria should recapitalize to the tune of N25 billion, the upper legislative house in Nigeria called for a review of the CBN Act to make provision for a calibrated capital base for the proposed small, medium and Mega banks.

Reacting, Nkemjika (2004:35) fiercely maintained that it is subversive of governance itself for senators to seek to downgrade a full-fledged government policy to the level of a mere proposal and to falsely make the members of the public to understand that it is holding that policy (recapitalization) in abeyance pending appeasement of private interests opposed to it. In his concluding remarks, he emphasized that the powers of the National Assembly, being no more than that of making laws, does not include that of approving or disapproving policies made by the Executive, as represented by the Central Bank of Nigeria recapitalization policies.

Nkemjika (2004:6) further maintained that though the Senate have the right to invite the CBN governor to clarify issues regarding bank (recapitalization) policies, He said, the senate erred grievously by seeking to treat a government policy as if it were simply a proposal presented to it for approval or disapproval.

Corroborating these views, Sese (2004:35) in his contribution was of a similar notion. According to him, it is quite unfortunate that the upper chamber of the National Assembly seems to have a discordant voice on an issue that is geared towards improving the economy and the lot of the Nigerian masses. Similarly, at the beginning, some notable members of the house sounded confused in their utterances. Sese went further to posit that, the legislators, having tried to tactically and cunningly confuse the Nigerian populace through their discordant outbursts to no avail, they then resorted to an amendment bill for the banks and other financial institutions just to check mate a noble and well meaning programme. It is pertinent on their part to remember that the economy of any nation like trees, must grow or wither; for there is no standing still.

There are other divergent views. Okoh (2004:6) in an interview session was of the view that there is no link between being big and efficient amongst the banks. In the wake of the recent bank recapitalization policy, it should not be forgotten that even when mergers and acquisitions are encouraged, we are going back to what it used to be in the mid- eighties, where Oligopolies emerged and allowed a situation where some banks because they had sound capital base, began to dictate what happens to their customers and the banking public.

In another interview session, Umoh (2004:10) maintained that if you look at the situation of the Nigerian banks, they are not in a position to fund the real sector. Also Uwazuruike (2004:7) maintained that there is this thing America has now, whereby they allow you buy things from their country, and they only ask for guarantee from Nigerian banks. It is while completing the forms that the value of Nigerian banks in dollar term is known. Hence it is the strength of Nigerian banks that will determine whether the man in New York will think of investing in Nigeria or otherwise.

In the views of Soludo (2004:19), consolidation in the banking industry is now a global phenomenon. In many emerging markets, including Argentina, Brazil and Korea, consolidation has also become prominent, as banks strive to become more competitive and resilient to shocks as well as reposition their operations to cope with the challenges of the increasingly globalize banking systems. Specifically, in Korea, for example, the banking system, after recapitalization cum consolidation was left with only eight commercial banks with about 4,500 branches. Faleye (2005:42) in Guardian newspapers while admitting that some banks in the country were indeed weak said that this should not be an exaggerated issue since banks would fit in for merger and acquisitions and as a last resort, liquidation.

He faulted a comparison of banks in Nigeria with those in the developed economies as one of the reasons for the recapitalization figure of N25 billion, stating that factors that should have influenced the decision included size of the economy, its absorptive capacity, level of savings and capital formation.

He further disclosed that while the Gross Domestic Product (GDP) of Nigeria in 2001 was $41 billion, that of South Africa was $ 113 billion, Malaysia $88 billion, Korea $422 billon and UK $ 1.4 trillion. Adding that while per capital income of Nigeria was $300, that of South Africa was $2,820, Malaysia $3, 330, Korea $9,460, United Kingdom $25,120 and United States $34,000.

“All these are indications that it would be improper to benchmark the capital base of Nigeria banks to those in the countries mentioned above. “Faleye said: “There should therefore be a relationship between the capitalization requirement and the value of the output of the economy."

Hence in a bid to encourage Nigerian banks to embrace similar ideas, Nwankwo (2004:9) in an interview quoted CBN as having advised the banks to merge, “I will help you with the mergers, I will provide some consortium and bear some costs”.

As a player in the global market, the CBN came up with some comparative analysis using some countries to measure their policy yardsticks. The Malaysian and Lebanese models was compared. According to Ezegbu, while responding to emerging issues in Vanguard Newspaper (2004: 29) clarified that the Lebanese model achieved its success through a process of “Law change”. The central Bank in Lebanon sought for a change of their existing law in line with recapitalization policy in that country. As a result, decree No. 192 came into existence. Hence banks were allowed to capitalize after so many years of policy pronouncement through the process of law change. Hence a good measure of success was achieved over time.

These therefore are indications that the recapitalization policy is not a comfortable one for banks with negative net worth. In the views of Sobowale (2004 :5), contrary to what the top officials of the Nigerian stock Exchange are saying, the Nigerian capital market is not so deep as to accommodate all the banks needing to source their funds from it and the foreign investor will require even more due diligence than his Nigerian counterpart.

2.11 EVALUATION OF BANK PERFORMANCE

Most bank supervisors have broadly adopted the U.S. CAMEL method of assessing bank performance: viz capital adequacy, asset quality, management quality, earnings and liquidity. The camel method of evaluating bank's performance helps to test the above indices with a view to accessing its strength and weaknesses.

2.11.1 CAPITAL ADEQUACY: - What then is capital adequacy? This is the minimum capital a bank is expected to maintain in order to meet their financial obligations, operate profitably and contribute to promoting a sound financial system. According to Faleye, "capital adequacy ratio compares the volume of a banks capital with the size of its transaction. It is a way of ensuring that banks are strong enough not only to meet customers expectations but also in a position to guarantee minimum risk to depositors,"

Capital adequacy of banks varies from country to country and depends on the monitory policy of the said country. It is for these reasons that the central Bank of Nigeria prescribes minimum capital requirements. This minimum ratio of capital adequacy has seen increased from 6 percent in 1992 to 8.0 percent in 1998. it is further stipulated that at least 50 percent of the component of a bank's capital shall compose paid up capital and reserves, while every bank shall maintain a ratio of not less than one to ten (1-10) between its adjusted capital funds and its total credits. However, when a bank's capital base falls below the prescribed ratio it is an indication that the bank is heading for distress.

Comparatively, Faleye stressed that the fact that presently most Nigeria banking industry average in capital adequacy ratio was 15 percent indicated that most banks operating in the country are healthy.

In his words. “The famous Basal Accord, which is the internationally accepted standard for capital adequacy prescribes a minimum ratio of eight percent of the risk weighted assets of a bank. The current CBN monitory policy circular No 37 of 2004/2005 prescribes a ratio of 10 percent, as against eight percent that obtained in 2003. Based on the CBN 2003 yearly report, majority of Nigerian banks have a capital adequacy ratio of more than 10 percent, which is an indication that most banks operating in Nigeria are in fact healthy, on the score of capitalization. The Nigeria banking industry average is 15 percent.

The quality of capital is only as good as the quality of assets or loss provisioning where asset provisioning is inadequate, high nominal capital-asset ratios are deceptive. Thus the correct cushion against non earning or non performing assets is non-interest bearing liabilities.

A simple rule of thumb to ensure stability is that total core capital (excluding interest- bearing subordinated loans) plus total provisions against non performing loans should at least equal the total stock of non performing loans Sheng (1991: 51)

2.11.2 ASSET QUALITY: - The greatest danger to capital erosion is poor asset quality. Asset quality is based on the quality of credit, evaluation, monitoring and collection within each bank.

The LCCI boss Chief Olusola Faleye opined that capitalization could not be divorced from assets of a bank, cautioning that the efficiency and health of a bank were not measured by its absolute capital but in its assets or the business it did.

The portfolios of assets of the majority of these banks were concentrated on loans and advances; other assets such as treasury securities, investments and cash accounts form a small proportion of their asset portfolio.

(1) The deterioration in the asset quality of a bank can thus be determined by the provisions made on non- performing loan (NDIC 1994 ANNUAL REPORT and statement of Accounts).

(2) Thus the quality of assets in the banking industry is being measured by relating the proportion of classified loans and advances to the total loans and advances granted by banks.

The question that readily comes to mind while evaluating a bank are what assets are at risk? Are assets too concentrated in one geographical or economic sector? Is there connected lending? Are losses hidden in bank subsidiaries and affiliates? Are there unreported fraud losses? Have adequate provisions been made against potential losses in the assets portfolio? These are some of the questions supervisors ask bank management Sheng (1991:51).

2.11.3 MANAGEMENT QUALITY: - The strength and quality of bank's management is measured by its competence and integrity. How competent the management of a bank is, depends on the professional training and experience of its managers, the soundness of its procedure and internal control, its succession plans, and credit quality.

There should be good internal audit and control and timely and accurate information should be provided to management to assess the risk of the banks.

2.11.4 EARNINGS: Earning and profitability is one of the parameters employed in evaluating the performance of banks. A record of appreciable increase in the level of profitability indicates that various earning indices or incomes generated by the bank are rising in comparison with expenses. On the other hand a fall in profitability indicates a decline of the indices of particular importance to bank earnings is the income accruals policy on non-performing loans and the stringency of loan loss provisioning. Supervisors should ensure that minimum standards are followed and that banks do not engage in "cosmetics or creative accounting", such as the elaborate rescheduling of non-performing loans to make the loans appear to be performing.

2.11.5 LIQUDITY: Liquidity is generally not a major problem for sound banks in a reasonable competitive banking system, and weak banks often can replenish liquidity by bidding up interest rates. The liquidity position of the banking industry is measured by the average liquidity ratio, which is

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

The recent banking crises suggest that in many cases liquidity crises have their roots in solvency problems. No international standard exists for measuring liquidity. Since liquidity depends on an individual bank's financial position, the depth of domestic money and capital markets and the willingness of the central bank to supply liquidity to banks.

2.12 MEASUREMENTS OF BANKS' PERFORMANCE

Banking is characterized by certain features which set it apart from other industries and which have important implications for the measurement of bank output.

Banking is a service industry. In the micro-economic theory of the firm, for instance, the same output variable performs many diverse roles. Production of output absorbs factor inputs and is functionally related to cost.

Output is also that item which is sold by the firm, thus making revenue and profits dependent upon output. Hence the performance can be measured viz-a- viz the profitability analysis as reflected in the magnitude of profits earned, profits after tax to assets ratio, profit after tax to capital ratio. Loans and advances to deposits ratio and loans and advances to asset ratio. Agu (1988: 34).

The measurement of the above indices as a bench mark for accessing banks' performance and identification of the impact of recapitalization on these banks over the study period can best be achieved through the use of financial analysis, using financial ratios as a measurement tool.

2.12.1 FINANCIAL ANALYSIS.

Financial analysis is the process by which the financial strengths and weaknesses of an organization is established by accessing the relationship between balance sheet items and profit and loss accounts.

Financial analysis is usually undertaken by stakeholders or interest groups of any organization. In the case of a bank, they include the management, staff of the bank, shareholders, and depositors.

The nature of the analysis undertaken depends on what the analyst wants to achieve. The management and staff of the bank are interested in the long term sustainability, solvency and survival of the bank, thereby ensuring continuous receipt of their salaries and remunerations. Also the management of the bank would be interested in every aspect of the financial analysis. It is therefore their overall responsibility to see that the resources of the bank are utilized most effectively and efficiently and that the banks financial conditions are sound and stable in all spheres.

Shareholders, who contributed long term capital to the bank, are concerned with the banks long term solvency and survival. They analyze the bank's profitability overtime, its ability to generate more income to be able to pay dividends and repay principal and the relationship between various sources of funds, (capital structure relationship). Of utmost importance to them is the analysis of the historical financial statements, but they place more emphasis on the banks projected financial statements to enable full analysis of its future solvency and profitability.

Depositors are interested in the banks ability to meet up their demands at short notice and the safety of their funds kept in the bank as well as interest due to them on such deposit. Hence, their analysis will therefore confer to the evaluation of the banks liquidity position.

Other investors, who have invested their funds in the banks shares, are more concerned about the earnings. They tend to have more confidence in the banks that show steady growth in earnings. As such, they concentrate on the analysis of the banks' present and future profitability. They are also interested in the firm's financial structure to the extent at which it influences the banks earnings ability and risk. Foster G. (1986)

2.12.2 RATIO ANALYSIS

Ratio analysis is a tool used in analyzing the financial statements of any organization, in this case a bank, with the aim of evaluating the financial position and performance of the organization. The accounting figures embedded in the financial statements do not convey any meaning until it is tested with the ratio. It is at this point that you ascertain the financial strength and financial vulnerability of the company.

Hence a ratio could be defined as a quotient of two mathematical expressions as in the relationship between two or more things. An organizations performance cannot be said to be good or bad until the net profit figure is related to the organizations investment. Ratios help to summarize large quantity of financial data and to make qualitative judgment about the organization's financial performance. Thus a ratio could be said to be. A reflection of the quantitative relationship which helps to form a qualitative judgment of the organization position.

2.13 STANDARDS OF COMPARISON

TYPES AND CLASSIFICATION OF RATIOS

Several ratios calculated from the accounting data, can be grouped into various classes according to the financial activities to be evaluated. They are:

1. Liquidity ratios which measures the organization ability to meet current obligations

2. Activity ratios reflects the organizations efficiency in utilizing its assets
3. Profitability ratios measure the overall performance and effectiveness of organization.
4. Leverage ratio measures the proportion of debt and equity in financing the firms assets.

One must stress however, that each individual business must be considered separately, and a ratio that is meaningful for a manufacturing company may be completely meaningless for a financial institution. The key to obtaining meaningful information from ratio analysis is comparison. This may involve comparing ratios over time within some business or similar businesses with a view to ascertainably whether things are improving or on the decline. It has also been stressed that ratio analysis on it's own is not sufficient for interpreting company accounts, and that there are other items of information which should be looked at for example :-

(a) Comments in the chairman's and directors report.
(b) The age and nature of the company's assets.
(c) Current and future developments in the company's markets at home and abroad, recent acquisitions or disposals of a subsidiary by the company.
(d) Extraordinary items in the Profit and loss accounts.
(e) Any other noticeable features of the report and accounts, such as post balance sheet events, contingent liabilities, a qualified auditors' report, the company's taxation position and so on.(mayo :ICAN study text PE 1. Financial ACCOUNTING 2. VOL.1)

2.13.1 LIQUIDITY RATIOS

It is extremely essential for a bank to be able to meet its obligations to its numerous customers as they fall due. Liquidity ratio measures the ability of the firm to meet its current obligations. The analysis of or funds position of an organization needs the preparation of cash budgets and funds flow statements.

A liquidity ratio therefore is established by measuring the relationship between cash and other current assets to current obligations/ liabilities thereby providing a quick assessment of liquidity.

An organization should ensure that it does not suffer from lack of liquidity or excess of it. The failure of a bank to meet its obligations due to insufficient liquidity results in poor credit worthiness of the bank, loss of depositors confidence in the bank and most times can lead to litigations and subsequent liquidation of the said bank in severe cases. A very high degree of liquidity is also not good; as assets idle away without earning anything, and funds end up being tied up in current assets unnecessarily. Thus it is necessary to strike a balance between high liquidity or lack of it.

The ratios under this include(i) current ratio(ii) quick ratio (iii) cash ratio (iv) interval ratios.

2.13.1a CURRENT RATIO:

The current ratio is calculated by dividing current assets with current liabilities.

$$\frac{\text{current assets}}{\text{current liabilities}}$$

Current assets include cash and those assets which can be converted Into cash within one year, such as marketable securities, debtors, inventories, cash and bank balances and also prepaid expenses are included in current asset as they represent the payments that will not be made by the organization in the future.

All obligations maturing within a year are include in current liabilities. Current liabilities includes creditors, bills payable, accrued expenses, short term loans, income tax liability and long term debts maturing in the current year.

A ratio of greater than one means that the organization has more current assets than current claim against them. This relationship is an index or yardstick which permits a quantitative judgment to be formed about the company's ability to meet its current obligation. It measures the company's liquidity. The greater the ratio, the greater the firm's liquidity and vice-verse. This is one of the most important ratios in the banking Industry as it is used to determine the ability of the bank to meet the customers' obligation at any point in time.

LEVERAGE RATIOS

The debt or leverage ratios deals with a firm's long – term financial condition. It also seeks to indicate the ability of the firm to meet long-term obligations as they fall due. Thus two types of ratios come under discussion here

1. The ratio that measures long-term solvency or financial condition of the firm e:g Debt/Equity ratio.
2. The ratios that measure the firm's ability to generate sufficient incomes to meet it's debt obligation e:g Times interest –covered ratio.

Lack of judicious use of debt in the capital structure of a firm usually results in numerous problems for the firm. Hence, the financial analyst takes into consideration the debt ratios in assessing the financial strength of the firm. Nzotta (2002:65)

DEBT/EQUITY RATIO

This measures a firm's long-term solvency. This ratio examines the relationship between the total debt and total equity of the firm. it's total assets.

$$\text{Therefore Debt ratio} = \frac{\text{Total Debts}}{\text{Networth}}$$

DEBT/CAPITALIZATION RATIO

This is another measure of the debt exposure/level of risk in the firm. It measures the long-term leverage position of the firm i.e. the relationship between long term debts and shareholders equity in the business. It is important to note that the level of debt in relation to the capital resources determine the level of gearing in the capital structure. Hence the ratio is calculated thus:

$$\text{DEBT CAPITALIZATION} = \frac{\text{Long – ter debt}}{\text{Total Capitalization}}$$

Total Debt to Total Asset Ratio

The total debt to total assets ratio measures the percentage of total funds provided by debt. This is computed by dividing the total liabilities by the total assets.

$$\text{Total Debt to Total Assets Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

The above is an important determinant of the level of financial risk of the firm. Although the liabilities supply the funds used in the firm's management since the liabilities must be met at maturity or when they fall due. A high debt to total assets ratio indicate that the firm has exceeded its optimal capital structure**.**

Capital Employed To Net Worth Ratio

The capital employed to Net-worth ratio measure the relationship between the funds contributed by lenders and owners relative to the funds contributed by the owners. This ratio is calculated thus:

$$\text{Capital Employed to Net worth Ratio} = \frac{\text{Capital Employed}}{\text{Net worth}}$$

The capital employed consist of the owners net worth plus the borrowed funds (short-term and long-term).

2. 13. 4a PRUDENTIAL GUIDELINE AND SAS 10

One would not discuss the impact of loans and overdrafts in banks without mentioning import of Prudential guidelines in compliance with SAS10 .This was introduced as a result of the following :-

-Inconsistent accounting policies and reporting practices which make comparison of performance difficult in the banking sector.

-Allegedly over-stated profits reported by banks

-survival problems of ‘troubled’ banks

-Resulting need to sustain public confidence in the banking sector.

The statement focuses on three main areas of concern relating to accounting practices followed by banks:

-Income recognition

-Loss recognition

-Balance sheet classification

These were described in the prudential guidelines as:

(i) Performance Credit Risks: Those Debts or credits that were active during the year end.

(ii) Non Performance: Those debts or credits that remain dormant or in-active during the year.

The non-performing Debts are further classified as stated under:

	Substandard Debts	Doubtful Debts	Lost Debts
Remarks	Debt that remain inactive for 90days	Debts inactive for 90-180days	Debts inactive for over 180days
Interest Income	Interest suspended	Interest suspended	Interest suspended
Principal Amt.	10% Provision	50% Provision	100% Provision

In the process of recapitalization, the bad loans are all provided for thereby ensuring a debt free balance sheet. (ICAN STUDY PACK MAY 2000).

2.13.5 THE IMPLICATIONS OF HIGH AND LOW CAPITAL GEARING

Gearing amongst other things attempts to quantify the degree of risk involved in holding equity shares in a company – risk both in terms of the company's ability to remain in business and in term of expected ordinary dividend from the company. The problem with a high-geared company is that by definition there is a lot of debt. Debt generally carries a fixed rate of interest (or fixed rate of dividend if it is in the form of preference shares), hence there is a given (and large) amount to be paid out from profit to holders of debts before arriving at a residue available for distribution to the holder of equity i.e. ordinary share holders. A highly geared company has a large amount of interest to pay annually (assuming the debt is external rather than preference shares). If those borrowing, are ‘secured’ in any way (and debentures in particular are secured, then the holders of the debt are perfectly entitled to force the company to realize assets to pay their interest if funds are not available from other sources.

Clearly the more highly geared a company the more likely this is to occur when and if profits fall. (Mayo: ICAN STUDY TEXT PE 1, F/A 2 VOL.1)

2.13.6 CASH FLOW RATIO:

The cash flow is the ratio of a company’s net cash inflow to its total debts.

a. Net cash inflow is the amount of cash which the company has coming into the business from its operations. A suitable figure for net cash inflow can be obtained from the statement of sources and application of fund.

b. Total debts are short-term and long term creditors, together with provision for liabilities and charges. A distinction can be made between debts payable within one year and other debts and provisions.

Obviously, a company needs to be earning enough cash from operation to be able to meet its foreseeable debts and future commitments, and the cash flow ratio, and changes in the cash flow ratio from one year to the next, provide a useful indicator of a company’s cash position.

PROFITABILITY RATIOS

Profitability ratios are used to measure / evaluate the operating/overall efficiency of the firm and its management over a period of time. They are also called efficiency ratios. Profitability ratios measures the returns generated by a firm generally and assist a financial analyst to assess the capability of the firm in generating profits in the future. Generally, these measures assist the analyst to evaluate the earnings of the firm with respect to sale, the profit in relation to investment or share value, and also profit in relation to assets. Profitability is important to the firm in view of it's role in attracting capital. It is also important to shareholders who ordinarily expect a reasonable return on their investments and to depositors who want interest on their deposits and also safety of the funds.. Profitability is a measure of the level of managerial efficiency and instills confidence in the creditors. This is possible only when the company earns enough profits. Generally, three major types of profitability ratios are

- Profitability in relation to sales (Turnover)
- Profitability in relation to investment
- Profitability in relation to assets Nzotta (2002:53)

PROFITABILITY RATIOS

(a) **Profitability in relation to Sales (Turnover)**

Gross Profit Margin $\dfrac{\text{Gross Profit}}{\text{Sale.}}$ Percentage

Net Profit Margin $\dfrac{\text{Profit after Taxes}}{\text{Total Sales}}$ Percentage

(b) **Profitability in relation to Investments**

Return on Investments $\dfrac{\text{Profit after Taxes}}{\text{Sales}} \text{ X } \dfrac{\text{Sales}}{\text{Total Assets}}$ Percentage

Return on Equity	$\frac{\text{Profit after Taxes}}{\text{Equity (Networth)}}$	Percentage
Earning Per Share	$\frac{\text{Profit after Taxes}}{\text{No of equity stock outstanding}}$	Naira
Dividend Per Share	$\frac{\text{Dividend on Equity stock}}{\text{No of equity stock outstanding}}$	Naira
Price – Earnings Ratio	$\frac{\text{Market Price Per Share}}{\text{Earnings Per Share}}$	Time
Return on Capital Employment	$\frac{\text{Profit before interest and Taxes}}{\text{Net Profit}}$	Percentage

(c) Profitability in relation to Assets

Return on Total Asset	$\frac{\text{Profit after Taxes}}{\text{Capital Employed}}$	Percentage
Return on Net Asset	$\frac{\text{Profit after Taxes}}{\text{Net Assets}}$	Percentage
Return on Fixed Asset	$\frac{\text{Profit after Taxes}}{\text{Net Profit}}$	Percentage

<u>**NOTE**</u> **:-**

Price Earning Ratio (P/E ratio): This is the ratio of the company's current share price to the earnings for share. A high P/E ratio indicates strong shareholders confidence in the company and its future e.g. in profit growth, and a lower P/E ratio indicates lower confidence. It is internationally regarded as a indicator of future preference. Thus the P/E ratio of a company can be compared with P/E ratio of

(a) Other companies in the same business sector

(b) Other companies generally

Earnings per share (EPS)

The profitability of the common shareholders' investment can also be measured by calculating earning per share.

It shows what proportion of profit on ordinary activities for the year that is available for distribution to shareholders has been paid (or proposed) and what proportion will be retained in the business to finance future growth.

The value of an investment in ordinary shares in a listed company is its market value, and so investment ratios must have regard not only to information in the company's published accounts, but also to current price.

2.14 CONCLUSION

Ratios provide information through comparison.

(a) Trends in a company's ratio from one year to the next, indicating an improving or worsening position.

(b) In some case, against a 'norm' or 'standard'

(c) In some cases, against the ratios of other companies, although difference between one company and another should often be expected. (Mayo ICAN STUDY TEXT PE1. F/A 2 vol. 1)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

In this chapter, the research methodology is discussed and outlined. Since the study is on the impact of bank recapitalization strategies, using some banks as case study, the major thrust of the research is to employ relevant methodology. Here, the emphasis is on the methods of data collection analysis and presentation.

3.2 SOURCES AND PROCEDURES FOR DATA COLLECTION PRIMARY METHOD OF DATA COLLECTION

The primary sources include interview schedules using questionnaire and oral discussion.

3.2.1 SECONDARY METHOD OF DATA COLLECTION

The secondary source represent desk research: Related literature which formed the foundation of this research were derived from standard texts, academic and professional journals, annual reports of the central Bank and that of the five (5) selected banks, workshop presentation, Newspaper publications, bulletins as well as other publications of these banks. Further to these were strategic information accessed from the internet and other institutional agencies. Specific data to be collected include- profitability index of banks earnings /liquidity of banks, share capital of the banks during the period of study.

3.3 POPULATION OF STUDY

The number of banks and their branches have varied over the period. However, it is not possible to extend the study to the entire 89 banks and their numerous branches. Therefore, for convenience we depend on the underlisted five banks, which we think is a good representation of the banks in Nigeria.

NAME OF BANK	**GROUP**	**DATE INCORPORATED**	**NO.OF BRANCHES**
First Bank of Nigeria PLC	A	1894	339
United Bank of Africa Plc	B	1961	Over 250
Union Bank of Nigeria Plc	C	1969	302

A total of 250 questionnaires were administered to the banks used as case study.

3.3b SAMPLING TECHNIQUE

Based on the structure of the Banking Industry, stratified simple Random Sampling technique was used to draw up the sample, with the use of interviews, through open-ended questionnaires. The questionnaires were administered randomly on the various group of respondents while adequate opportunities were given for independent responses.

3.4 INFERENTIAL STATISTICS

Inferential statistics such as the test of difference between the means of two independent groups was used to achieve objectives 1, 2and 3. This approach is detailed in Gujarati (1985) and Kontsoyiannis (1986). The method involved the determination of the extent to which loans to participants in the scheme have increased in relation to non-participants.

The comparison of the level of adoption of technology (farm practices) as well as farm-increase of the participants and non-participants respectively.

The null hypothesis of this test (Ho) states that no significant differences exists between the means of two groups “A” and “B”. The test statistic for the testing is the T – ratio which is computed as follows:

$$\text{T – ratio} = \frac{\overline{X}_A - \overline{X}_B}{S^2_A + S^2_A}$$

$$\text{Df;} \quad n_A + n_B - 2 \quad \text{(Bender et al 1989)}$$

Where,

$(n_A+n_B – 2)$ = the degrees of freedom of the test

X_A = means of group A

X_B = mean of group B

S^2_A = variance of group A

S^2_B = variance of group B

n_A = number of observations (Participants)

n_B = number of observation (non-participants)

The t-ratio, can also be re-written as:

$$\text{T – ratio} = \frac{\text{Mean}_A - \text{Mean}_B}{\text{Standard error of the difference b/w mean}_A \text{ and mean}_B}$$

DECISION RULE

If the T-ratio (calculated) as detailed above is greater than the T-ratio from the statistical table at alpha level of probability (5%, 1%) and at ($N_A + N_B - 2$) degrees of freedom, we reject the null hypothesis and accept the alternative hypothesis and thus conclude that a significant differences exists between the means of the independent groups "A" and "B".

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

In this chapter, the data collected through the both the primary and secondary data as detailed in chapter three will be presented and analyzed. The sample size on which the analysis is based comprise mainly of those considered relevant to the banking industry with special emphasis on bank recapitalization policies in Nigeria.

In most cases, tables will be used for clarity, better analysis and understanding of the data presented. Also hypotheses will be stated and analyzed as appropriate.

4.2 DATA PRESENTATION AND ANALYSIS

4.2.1 PRIMARY DATA ANALYSIS

GROUP DISTRIBUTION OF QUESTIONNAIRES ADMINISTERED CUM INTERVIEWS MADE AND THEIR RESPONSE RATES

This is representative of the five (5) commercial banks used in our study viz: Group A is First Bank of Nigeria Plc, B is United Bank of Nigeria plc, C is Union Bank of Nigeria Plc, D is Intercontinental Bank Plc, and E is Guarantee Trust Bank Plc.

Table 1

	Group A	Group B	Group C	Group D	Group E	TOTAL	%
No. Administered	50	50	50	50	50	250	100.0
No. Correctly Answered	46	48	45	43	47	229	91.6
No. Wrongly Answered	4	2	5	7	3	21	8.4

Source: Field Survey: 2005.

For group A (First Bank of Nigeria Plc), our analysis indicates that out of 50 members of the group that were sampled, 46 of them answered the questions asked correctly while 4 of them gave wrong and irrelevant answers to the questions. The 4 wrongly answered questionnaires were therefore, considered as indifferent responses to the research questions.

For Group B (United Bank of Africa plc), 50 persons were interviewed. 48 persons answered correctly while 2 of them were indifferent in their responses.

For Group C (Union Bank of Nigeria plc), 50 persons were interviewed. 45 of the answered correctly while 5 persons answered wrongly.

For Group D (Intercontinental Bank plc), 50 persons were interviewed. 43 of them gave correct and valid responses while 7 of them answered wrongly.

For Group E (Guarantee Trust Bank plc), 50 persons were interviewed. 47 of them answered correctly while 3 persons gave irrelevant responses.

However, the banks selected with interviews made and questionnaires administered were based on random sampling technique. Branch network of the banks was considered and members of staff randomly selected.

Though, from the table and analysis above, we can understand that the response rates was quite impressive except for groups C and D. where greater number of persons were indifferent to the research questions. However, with 91.6% general response rate in the affirmative and a negligible 8.4% wrong and indifferent responses, the individual research questions as well as the research hypothesis will further be analyzed for clearer understanding of the study.

The simple percentage will be used first to analyze responses from the research questions by individual groups. Thereafter, chi-square ($\mathbf{X}^2$) will be used to analyze the stated hypotheses.

RESPONSES BY GROUPS A, B, C, D, E, ON THE QUESTION:

What is recapitalization and how has it impacted on the performance of Banks in the economy?

TABLE 2:

RESPONSE ON WHAT RECAPITALIZATION IS AND HOW IT HAS IMPACTED ON PERFORMANCE OF BANKS IN THE ECONOMY.

RESPONSES	A	B	C	D	E	TOTAL	%
Positively	41	39	42	37	39	198	79.2
Negatively	7	5	7	10	8	37	14.8
Indifferent	2	6	1	3	3	15	6
TOTAL	50	50	50	50	50	250	100

Source: Field Survey, 2005.

The above table represents responses from different groups as to what recapitalization is and how it has impacted on performance of banks in the economy. In group A, a total of 41 respondents answered in the affirmative, 7 of them answered negatively while 2 persons were indifferent to the questions asked.

In group B, 39 respondents answered positively, 5 answered negatively while 6 persons were indifferent in their responses. In group C, 42 persons answered positively, 7 answered negatively while 1 person was indifferent in his response. In group D, 37 persons answered positively, 10 persons answered negatively while 3 persons were indifferent in their responses. And in group E, 39 persons answered positively, 8 persons answered negatively while 3 persons were indifferent in their responses.

From the table and analysis above, it is evidently clear that of the total respondents, 79.2% actually knew what recapitalization is and went ahead to posit that it has impacted positively on the performance of Banks in the economy. 14.8% were of the opposite view while 6% of the respondents were indifferent to the research question.

RESPONSES BY THE GROUPS ON THE QUESTION:

How can the banking system in the 21st century be part of the global change that is strong, competitive and reliable?

TABLE 3:

RESPONSES AS TO HOW THE BANKING SYSTEM IN THE 21ST CENTURY WILL BE PART OF THE GLOBAL CHANGE THAT IS STRONG, COMPETITIVE AND RELIABLE.

RESPONSES	A	B	C	C	E	TOTAL	%
Policy Adaptation	35	39	43	29	30	176	70.4
Improved Manpower& Technology	11	7	6	16	18	58	23.2
Indifferent	4	4	1	5	2	16	6.4
TOTAL	**50**	**50**	**50**	**50**	**50**	**250**	**100**

Source: Field Survey, 2005

The above table represent responses from different groups as to how the banking system, in the 21st century will be part of the global change that is strong, competitive and reliable. In group A, a total of 35 respondents posited that adaptation to monetary policy measures will be a panacea, 11 of the respondents were of the view that improved manpower and technology will be the best option while 4 persons were indifferent in their responses.

In-group B, 39 of the respondents maintained that adaptation to monetary policy measures will be the solution; 7persons maintained that improved technology and manpower will be the solution while 4 persons were indifferent. Group c recorded 43 persons being of the view that adaptation to monetary policy measures will be the solution, 6 persons maintained that improved manpower and technology will make the desired difference while 1 person was indifferent in responding to the question.

In group D, 29 persons were of the view that adaptation to monetary policy measure will be the solution, 16 respondents strongly maintained that improved manpower and technology will be the solution while 5 persons were of the view that adaptation to monetary policy measures will be the solution, 18 persons strongly maintained that improved manpower and technology will be the solution, while 2 persons were indifferent in their responses.

From the table and analysis above, it is very clear that of the total respondents, 70.4% of them believed that for the banking system in the 21st century to be part of the global change that is strong, competitive and reliable, it has to adapt to monetary policy measures, which recapitalization is part of whereas 23.2% of the respondents were of the view that improved manpower and technology will be the solution while 6.4% of the respondents were indifferent to the research question asked.

RESPONSES BY THE GROUPS TO THE QUESTION:

Will Bank recapitalization enhance diversification of ownership of these Banks and address it's management structure?

TABLE 4:

RESPONSE ON WHETHER BANK RECAPITALIZATION WILL ENHANCE DIVERSIFICATION OF OWNERSHIP OF THESE BANKS AND ADDRESS IT'S MANAGEMENT STRUCTURE.

RESPONSES	A	B	C	D	E	TOTAL	%
YES	42	40	40	48	47	217	86.8
NO	5	9	6	2	2	24	9.6
INDIFFERENT	3	1	4	---	1	9	3.6
TOTAL	50	50	50	50	50	250	100

Source: Field Survey, 2005

The above table represents responses from different groups as to whether bank recapitalization will enhance diversification of ownership of these banks and address it's management structure**.** In group A, 42 respondents answered in the affirmative, 5 respondents believed otherwise while 3 respondents were indifferent in their responses.

In group B, 40 respondents answered yes to the question, 9 of the respondents answered No while 1 person was indifferent in his response. In group C, 40 of the respondents answered positively, 6 persons answered No while 4 persons were indifferent in their responses. In group D, there was an overwhelming affirmation that bank recapitalization will enhance diversification of ownership of these banks and address it’s management structure. 2 persons believed otherwise while nobody was indifferent in response.

In group E, 47 persons answered yes, 2 persons answered No while only 1 person was indifferent in his response. From the analysis and table above, it is evidently clear that of the total respondents, 86.8% posited that bank recapitalization will enhance diversification of ownership of these banks and address it’s management structure. 9.6% of the respondents believed that it will not while a negligible 3.6% of the respondents were indifferent to the question asked.

RESPONSES BY THE GROUPS TO THE QUESTION:

Will recapitalization of banks ensure soundness of the banking industry and security of depositor’s funds?

TABLE 5

RESPONSE ON WHETHER RECAPITALIZATION OF BANKS WILL ensure soundness of the banking industry and security of depositor's funds ?

RESPONSES	**A**	**B**	**C**	**D**	**E**	**TOTAL**	**%**
Yes	48	45	47	43	45	228	91.2
No	2	3	2	3	4	14	5.6
INDIFFERENT	---	2	1	4	1	8	3.2
TOTAL	50	50	50	50	50	250	100

Source: Field Survey, 2005

The table above represent responses from different groups as to whether recapitalization of banks will ensure soundness of the banking industry and security of depositor's funds? In group A, a total of 48 respondents' response is representative of near-total support that the banks should be recapitalized. A negligible 2 respondents was of a contrary view while none of the respondents was indifferent.

In group B, 45 respondents answered yes, 3 of the respondents answered No while 2 respondents were indifferent to the question. In group C, 47 respondents answered yes, 2 of the respondents answered No while 1 person was indifferent to the question. In group D, 43 respondents answered yes, 3 of the respondents were indifferent to the question.

From the table and analysis above, it is within acceptable limit to believe that since an overwhelming 91.2% of the total respondents responded in the affirmative, it therefore implies that recapitalization of banks will ensure soundness of the banking industry and security of depositor's funds? 5.6% of the respondents which is rather minute were of a contrary view while 3.2% represent the percentage of the respondents who were indifferent to the research question asked.

4.2.2 SECONDARY DATA PRESENTATION AND ANALYSIS

In the preceding chapter three, the study X-rayed the methodology adopted for carrying out the tests. Here in chapter four, our interest shifts to the actual data presentation, analysis and hypotheses testing in order to derive some policy implications.

Having treated the analysis of the primary data in section 4.2.1 above, under this section, we consider the analysis as it relates to the secondary data and actual hypotheses testing. Therefore, the study makes use of secondary data relating to banks performance, covering such areas as the gross earnings, profit after tax and total asset base. These data were sourced through the Nigerian Stock Exchange factbooks, various years, but specifically covering the period, 1994 – 2004.

In addition, since the study seeks to determine the impact of the introduction of banks recapitalization on bank performance, we reasoned that a comparison of the period before the introduction of bank recapitalization policy and the period after its introduction would be appropriate. Hence, we labeled the period before as pre-era (1994

– 2000) and that after as post-era (2001 – 2004). Perhaps, we need to add again, that the period chosen as the year of introduction (2001), is in fact deliberate and marks the year when the banking industry first hit the one billion Naira (N1bm) mandatory capital base.

TABLE 4.6: BANK GROSS EARNINGS

YEAR PRECAP PBC_t		YEAR POSTCAP PAC_t	
1994	15352	2001	83640
1995	21533	2002	95675
1996	29635	2003	103553
1997	18812	2004	112585
1998	37082		
1999	46756		
2000	45556		

Source: Nigerian Stock Exchange, Various years

TABLE 4.7: BANK PROFIT AFTER TAX

YEAR PRECAP PAT_t		YEAR POSTCAP PAT_t	
1994	1310	2001	10894
1995	1939	2002	10066
1996	3359	2003	19912
1997	2216	2004	23031
1998	4501		
1999	6989		
2000	7234		

Source: Nigerian Stock Exchange, Various years

TABLE 4.8: BANK TOTAL ASSETS

YEAR	PRECAP TA_t	YEAR	POSTCAP TA_t
1994	104387	2001	427786
1995	184495	2002	740230
1996	205532	2003	851156
1997	140736	2004	889094
1998	273529		
1999	356384		
2000	300540		

Source: Nigerian Stock Exchange, Various years

The banks performance figures on gross earnings, profit after tax and total assets, covering the period, 1994 – 2004 are presented respectively on Tables 4.6, 4.7 and 4.8.

4.3 HYPOTHESES TESTING

A number of objectives were stated and some research questions posed which served as beacons for proper evaluation of the impact of recapitalization on the performance of banks, covering the period, 1994 – 2004.

4.3.1 Comparison of the Level of Bank Gross Earnings between the Pre-and Post-Recapitalization Periods

The hypothesis to be tested here states thus:

Ho_1: There is no significant difference in the level of bank gross earnings between the pre-and-post recapitalization eras for the period under investigation.

Table 4.9: Test of Difference between means gross earnings for the Pre-and Post-Recapitalization periods.

Periods	Number	DF	Std. Deviation	Mean	Std. error of difference
$PRECAP_t$	7		12,788.505	30,675.143	
$POSTCAP_t$	4	9	12,277.248	98,863.250	7,910.247

Source: SPSS 13.0 Result

In Table 4.9, is the result of the test of the difference between means for independent periods performed on the data set on bank gross earnings as derived from Table 4.6.

This hypothesis tested could be stated as:

Ho1: $U_A = U_B = 0$: There is no significant difference in bank gross earnings between the pre-and post-recapitalization periods.

Ha1: $U_A \neq U_B \neq 0$: There is a significant different in bank gross earnings between the pre-and post recapitalization periods.

Test Statistics

$$\text{T-ratio calculated} = \frac{\overline{X}_{(A)} - \overline{X}_{(B)}}{\text{Standard error of the difference between means (A) and (B)}}$$

$$= \frac{30{,}675.143 - 98{,}863.250}{7{,}910.247}$$

:. T-ratio (calculated) = 8.62

But t-ratio (tabulated) df (NA+NB-2; 7+4-2=9)

1% = 2.821

5% = 1.8331

DECISION RULE

Since t-cal (3.50) > t-tabulated (2.821, 1.8331) at both the 1% and 5% levels of significance respectively, we reject Ho and accept Ha, to conclude that a significant difference exists between the level of bank gross earnings under the two periods under consideration. Stated differently, this implies that the introduction of recapitalization has actually led to improved level of bank performance, measured by gross earnings.

4.3.2 Hypothesis Two: Comparison of the level of bank profit after tax between the pre-and post-recapitalization eras.

The hypothesis tested states that:

Ho1: There is no significant difference in bank profit after tax with the introduction of recapitalization.

Table 4.11:Test of Difference between mean of profit after tax under the pre-and post-recapitalization periods.

Periods	Number	DF	Std. Deviation	Mean	Std. error of difference
$PRECAP_t$	7		2,404.581	3,935.429	
$POSTCAP_t$	4	9	6,481.254	15,975.750	2,648.623

Source: SPSS 13.0 Result

Table 4.11 above, contains the result of the test of difference between means for the independent periods carried out on the data set on bank profit after tax on Table 4.7. As in the case of hypothesis 1, this test was utilized to evaluate the hypothesis stated in the form:

Ho2: $U_A = U_B = 0$: There is no significant difference in bank profit after tax with the introduction of recapitalization under the two periods.

Ha2: $U_A \neq U_B \neq 0$: There is a significant different in bank profit after tax with the introduction of recapitalization under the two periods.

Test Statistics

$$T = \text{t-ratio (calculated)} = \frac{\overline{X}_{(A)} - \overline{X}_{(B)}}{\text{Standard error of the difference between means (A) and (B)}}$$

$$t = \text{ratio} = \frac{3{,}935.429 - 15{,}975.750}{2{,}648.623}$$

:. t-ratio (cal) = 4.55

However, t-ratio (tabulated);

1% = 2.821

5% = 1.8331

DECISION RULE

Since t-cal (4.55) > t-tabulated (2.821, 1.8331) respectively for 1% and 5% levels of probability, we therefore reject Ho and accept Ha and hence conclude that there is a significant difference in profit after tax between the two periods.

4.3.3 Hypothesis three: Comparison of the level of Bank Total, Asset between the Pre-and Post-Recapitalization Periods

Here, the hypothesis states that:

Ho3: There is no significant difference in the levels of bank total asset base between the two periods.

Table 4.11:Test of Difference between Mean Total Asset base of Pre-and Post-Recapitalization Periods.

Periods	Number	DF	Std. Deviation	Mean	Std. error of difference
$PRECAP_t$	7		90,349.388	223,657.571	
$POSTCAP_t$	4	9	209,279.088	727,066.50	88,731.897

Source: SPSS 13.0 Result

Table 4.12 again, shows the result of the difference between the means of banks' total asset base for the two periods under investigation, while the hypothesis is cast in the form:

Ho3: $U_A = U_B = 0$: There is no significant difference in the level of bank total asset base for the two periods.

Ha2: $U_A \neq U_B \neq 0$: There is a significant difference in the levels of bank total asset base for the two periods.

Test Statistics

T = t-ratio (calculated) = $\frac{\bar{X}_{(A)} - \bar{X}_{(B)}}{\text{Standard error of the difference between means (A) and (B)}}$

$$= \frac{223{,}657.571 - 727{,}066.500}{88{,}731.897}$$

:. t-ratio (cal) = 5.67

But t-ratio (tabulated);

1% = 2.821

5% = 1.8331

DECISION RULE

With t-ratio calculated (2.821, 1.8331) being greater than t-ratio tabulated respectively for 1% and 5%, we reject Ho and accept Ha, and so conclude that a significant difference exists in total asset base of banks between the two periods under investigation.

4.4 DISCUSSION OF RESULTS

This study has been able to determine the impact of recapitalization on bank performance, using bank gross earnings, profit after tax and total asset base as measures of bank performance.

The test of hypotheses on the influence of recapitalization on bank performance revealed that the introduction of recapitalization has actually brought with it some salutary effects on bank performance, especially in the areas of gross earnings, profitability and total asset base. These findings have been corroborated by the 1% alpha level of significance, which is very much in line with our a priori expectation that the higher the bank capital base, the better the leverage on banks to employ asset and shore up general performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

In the study, we investigated the impact of the introduction bank recapitalization on bank performance, covering the period 1994 to 2004. The introduction of bank recapitalization policy is aimed at helping monetary authorities to achieve sanity in the banking industry, and in particular, help commercial banks to improve their general performance. It appeared that this sanity and improved performance has continued to elude the banking industry even as the Central Bank of Nigeria continues to pursue this policy of recapitalization. Hence, the central problem of this study was to empirically investigate the performance of the banking industry in the face of the introduction of the recapitalization policy.

Hence, the study set out to investigate the following three hypotheses:

1. There is no significant difference in the level of bank gross earnings with the introduction of the recapitalization policy

2. The introduction of the recapitalization policy does not significantly influence the level of bank profitability

3. There is no significant difference in the level of bank total asset base with the introduction of the recapitalization policy.

Applying secondary data sourced through the Stock Exchange Factbooks on bank gross earnings, profitability and total asset base, for the period, 1994 – 2004, the following results were arrived at:

1. There is a significant difference in the level of bank gross earnings between the periods before and after the introduction of bank recapitalization policy.

2. There is a significant difference in the level of bank profitability between the pre-and post-recapitalization policy eras.

3. There is a significant difference in the level of bank total asset base between the two periods under investigation.

These results, therefore, inform the following conclusions:

5.2 CONCLUSIONS

1. The introduction of the recapitalization has actually had a statutory effect on bank performance.

2. Therefore, the introduction of bank recapitalization policy exerts a significant positive impact on bank gross earnings.

3. Bank profitability level has actually improved with the introduction of the recapitalization policy.

4. Also, bank asset base has improved with the introduction of the recapitalization policy.

5.3 RECOMMENDATIONS

Therefore, to effectively harness and cushion the macroeconomic imbalances, the following recommendations are proffered:

1. There should be serious encouragement of mergers and acquisition in the banking industry.

2. The regulatory body (CBN) should be proactive in initiating the macroeconomic monetary policy measures such that industry players as well as the banking public will not be victims of poor policy measures.

3. Banks should be encouraged to lend to the real sectors of the economy so as to encourage manufacturing and industrialization. The multiplier effect of this is that the Nigerian economy will be export oriented rather than import-driven.

4. Akin to this, there should be prudent management of liquidity in the economy.

5. The recapitalization policy should be drawn to accommodate similar policy measures as practiced in other countries.

6. There should be enthronement of a sound macroeconomic monetary policy measure in the economy.

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RESEARCH QUESTIONNAIRE

Dear Respondent,

I am a Post Graduate Student of the Department of Financial Management Technology, Federal University of Technology, (FUTO) Owerri. As part of the students' developmental program, I am currently conducting a research on **"THE APPRAISAL OF THE IMPACT OF BANK RECAPITALIZATION POLICIES ON BANKS' PERFORMANCE IN NIGERIA A CASE STUDY OF SELECTED BANKS".** To collect essential information, a questionnaire is attached for your completion. It is my humble request that you provide responses to the issues raised herein.

May I also reassure you that the study is purely for academic reasons and that any information received would be treated as strictly confidential and without liability on your part.

Thanks for your anticipated co-operation.

Yours faithfully,

UCHE – AKUJOBI OGECHI.

QUESTIONNAIRE

GUIDE: TICK OR FILL AS APPROPRIATE

SECTION A

1. Sex: (a) Male ( ) (b) Female ( )
2. Marital Status: (a) Married ( ) (b) Single ( )
3. Age: (a) 18 -25 yrs ( ) (b) 26 –35yrs ( )
   (c) 36 –45yrs ( ) (d) 46 - Above ( )
4. Working/Business experience
   (a) 1 - 5yrs ( ) (b) 6 - 10yrs ( )
   (C) 11 – 20 yrs ( ) (d) 21 yrs – Above ( )
5. Official disposition (for bank officials only)
   (a) Conceptual cadre ( )
   (b) Middle level cadre ( )
   (c) Low level cadre ( )

SECTION B

6. Do you consider banking a worthwhile exercise?
   (a) Yes ( ) (b) No ( ) (c) Indifferent ( )
7. Do you support that banks should be adequately recapitalized?
8. (a) Yes ( ) (b) No ( )
   (c) Indifferent ( )
8. How in your view can the policy guideline for bank recapitalization be initiated ?
   (a) Through Executive directives ( )
   (b) Through legislative deliberation ( )
   (c) Through the banking public ( )
   (d) Indifferent ( )

9. If banks are graduated into small, medium and Mega, which of them would you bank with?

(a) Small ( ) (b) Medium ( ) (c) Mega ( )

10. State reason(s) for your answer in No 9 above; ……………………………………………………………………………

11. Do you think that recapitalization will enhance the capabilities of banks towards financing large developmental projects?

(a) Yes ( ) (b) No ( ) (c) Indifferent ( )

12. Do you think that recapitalization will enhance liquidity position of the banks and also improve lending to the real sector of the economy?

(a) Yes ( ) (b) No ( ) (c) Indifferent ( ).

13. Will Bank recapitalization address the management ability/ competence of the organization and improve it's asset quality?

(a) Yes ( ) (b) No ( ) (c) Indifferent ( )

14. Do you think that capital adequacy of the Banks will ensure soundness of the banking industry and security of depositors' funds?

(a) Yes ( ) (b) No ( ) (c) Indifferent ( )

15. If your answer in 13 above is Yes, to what extent?

(a) Above average ( ) (b) Average ( )

(c) Below average ( )

16. In your assessment, do you think that recapitalization will enhance network of bank branches and address the issue of underbanked economy?

(a) Yes, I agree ( ) (b) No, I disagree ( )

(c) Indifferent ( )

17. With the present industry reforms in line with recapitalization policies, do you think it will affect the level of unemployment ?

(a) Yes ( ) (b) No ( ) (c) Indifferent ( ).

If yes, In what way---

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18. How will mergers and Acquisition impact on the banking industry? (a) Significantly ( ) (b) Insignificantly ( )

(c) Indifferent ( )

19 Considering the global trend, do you think Nigeria will be better off with the present number of its bank or reduce it through merger and Acquisition in line with recapitalization so as to be globally competitive?

(a) Yes ( ) (b) No ( ) (c) Indifferent ( ).

20. Will recapitalization act as a panacea for diversification of ownership structure of banks?

(a) Significantly ( ) (b) Insignificantly ( )

(c) Indifferent ( ).

21. Do you think that recapitalization of these banks will make them stronger, bigger and more reliable?

(a) Yes ( ) (b) No ( ) (c) Indifferent ( ).

22. Will recapitalization enhance growth of the economy, improve bank's market share and it's earning potentials?

(a) Yes ( ) (b) No ( ) (c) Indifferent ( ).

23. How in your view can recapitalization of banks curb distress, to a reasonable extent in the system?

(a) Significantly ( ) (b) Insignificantly ( )

(c) Indifferent ( ).

24. Will banks embrace improved technology for effective and efficient operations and service delivery

(a) Yes ( ) (b) No ( ) (c) Indifferent ( ).

25. Do you think that the Smese programme of the government to small and medium sized enterprises will be better achieved with recapitalization of Banks

    (a) Yes ( ) (b) No ( ) (c) Indifferent ( )

26. In Nigeria, considering the global economic, social and political atmosphere really poised to embrace and support bank consolidation through recapitalization policies ?

    (a) Yes ( ) (b) No ( ) (c) Indifferent ( ).

27. From your viewpoint, can foreign investors be encouraged to invest in Nigerian Banks?

    (a) Yes ( ) (b) No ( ) (c) Indifferent ( ).

28. What informed your answer in No. 26 above

    ……………………………………………………………………

29. What is your over all rating of banking services in Nigeria ?

    (a) 0 – 35% ( ) (b) 36 – 75% ( ) (c) 76 – 100% ( )

30. So far, how can you assess or evaluate the regulatory activities of banks in Nigeria by the CBN ? (a) Partial ( )

    (b) Impartial ( ) (c) Indifferent ( )

31. Are there adverse consequence associated with bank recapitalization policies in Nigeria?

    (a) Yes ( ) (b) No ( ) (c) Indifferent ( ).

32. If your answer above is Yes, specify

    ……………………………………………………………………

33. In few words, what is your general assessment of bank recapitalization policies in Nigeria?

    ………………………………………………………………………

    ………………………………………………………………………

    ……………………………………………………………………

34. How would you assess the researcher's presentation of issues.

(a) Satisfactory ( ) (b) Not satisfactory ( )

(c) Indifferent ( ).

35. In your own view, Do you think that bank recapitalization will enhance competition amongst banks as well as create efficiency in the industry.

(a) Yes ( ) (b) No ( ) (c) Indifferent ( ).

TABLE OF HISTORY OF THE INCREASE IN CAPITAL BASE FOR BANKS

TYPES OF BANKS	1952 N	1958 N	1962 N	1969 N	1979 N	1988 N	1989 N	1991 N	1997 N	2001 N	2004 N	2005 N
INDIGENEOUS	25,000	25,000	500,000	600,000	600,000	-	-	-	-	-	-	-
EXPATRIATE	200,000	400,000	400,000	1.5M	1.5M	-	-	-	-	-	-	-
COMMERCIAL	-	-	-	-	-	10M	20M	50M	500M	1B	2B	?
MERCHANT	-	-	-	-	2M	6M	12M	40M	500M	-	-	-

*South Africa
Current capital base is $ 25m

*USA
Current capital base is $1m

****Culled from vanguard Newspapers of July 11, 2004.**