THE IMPACT OF DEREGULATION OF INTEREST RATES ON THE PRICING OF QUOTED BANKS STOCKS

BY

MICHEAL EZRA DIKKI
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JUNE, 1999

DECLARATION

I hereby declare that this project has been written by me and that it is a record of my own research work

It has not been previously presented in any form for a higher degree.

MICHAEL EZRA DIKKI	.....	August 2008
NAME OF STUDENT	SIGNATURE	DATE

CERTIFICATION

This project entitled THE IMPACT OF DEREGULATION OF INTEREST RATES ON THE PRICING OF QUOTED BANK STOCKS BY MICHEAL EZRA DIKKI, meets the regulations governing the award of the degree of MASTERS OF BUSINESS ADMINISTRATION (MBA) of Ahmadu Bello University, Zaria and is approved for the contribution to knowledge and literacy.

Mal. Dahiru Bashir 5/3/99

SUPERVISOR ..... DATE

NAME OF EXTERNAL EXAMINER ..... SIGNATURE ..... DATE

DEPT. OF BUSINESS ADMIN.

Dr Sani Abdullahi 21/10/2003

HOD, BUSINESS ADMINISTRATION ..... DATE

..... 06/11/03

DEAN, POST GRADUATE SCHOOL ..... DATE:

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TO

Emmanuel,

who is always with me.

ACKNOWLEDGEMENT

To begin with, I bow my head before Almighty whose divine hand is always upon me

I express my gratitude to all those who have contributed directly or, indirectly to the writing of this project, whose names cannot be mentioned here.

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ABSTRACT

This is an empirical study on the impact of deregulation of interest rates on the stocks of banks quoted on the stockc exchange. Eight banks were examined, employing ratio analysis. Nine ratios and three trends wer employed. Of the eight banks four were quoted before interest rates were deregulated while four after.

Profitability and shareholder related ratios were applied to determine profitability of banks before and after interest rates were deregulated and how this has influenced the pricing of their stocks on the stock exchange market.

Three hypotheses are tested and rejected by the study. It was discovered that in this study, economic performance of banks does not have a direct relationship to higher share price. Inter alia, higher profitability ratios do not have direct relationship to higher share prices.

It was also discovered that higher deposits io not have direct relationship to profitability and also does not translate to higher share *p*rices.

It was found during the studies that deregulation of interest rates had a profound influence on the behaviour of bank stock quoted on the stock exchange. Also it was noted that when profitability ratio declined during this period, share prices also declined greatly.

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CHAPTER 1

THE IMPACT OF DEREGULATION OF INTEREST RATES ON THE PRICING OF QUOTED BANK STOCKS.

1.1. INTRDOCTUION

Chief Olasoji Peter (1991) cited Professor J. L. Han son in defining a stock Exchange, which is a highly organised market for dealings in stocks and shares. The principle is that only members are admitted and business is transacted according to the prescribed rules.

The subject matter of this project, is to take a closer look at the pricing of those banks stocks/shares that are quoted or listed on the Nigerian Stock Exchange Market during the period interest rates were deregulated and assess the impact of deregulation on the quoted bank shares. The stock Exchange one of the functional arms of the capital market, performs a number of functions, but strictly speaking, serves as a market for existing rather than new securities. (See Chapter II of the project on Stock exchange and Securities).

"The extent to which the Stock Exchange performs this function must however, depend upon the particular circumstances of the exchange its objectives, constitution, organisation, resources (human and materials) as well as the socio-economic cum political environments in which it operates.1

One of the major roles the Stock Exchange performs is the encouragement of free flow of funds into productive uses, through the acquisition of securities. For this reason its most important function is providing a ready market for an investor to liquidate his investment.

It is very important to note that without this avenue, an investor may be unwilling to part with his hard earned savings, without the option of recovering some or all of his investments when he wants. Indeed this is one of the most important factors why business entities seek listing on the Stock Exchange Market.

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Organisations, therefore, become members of the Stock Exchange in order to encourage investors to invest in them, giving access to much needed funds to keep operating and expanding.

With the introduction of the Structural Adjustment Programme (SAP) in 1986, and its attendant deregulation, many business organisations that have hitherto not been quoted, and facing serious threats to their existence resorted to the Stock Exchange to generate needed funds to stay afloat. Peter (1991) agrees when he stated that "as a result of the Structural Adjustment to the economy the, stock brooking industry has witnessed some changes which have affected nearly all companies operating in the country."[2]

Some companies which are under capitalised, required the services of stock brokers to provide long term capital rather than bank borrowings which tend to be on short term basis and costlier.

It is during this period that a lot of Banks sought and obtained quotation on the stock exchange. Prior to 1986, only four (4) were listed on the Nigeria Stock Exchange.

With the deregulation of interest rates in 1987, banking activities became greatly affected, since interest rates were the major factors that influenced activities in this sector. Such changes in economic activities influenced prices of securities as Alile and Anao stated, "Securities prices are extremely sensitive to change in economic conditions and trends which are a reflection of the total psychology or judgement of persons using the stock exchange."[3]

Deregulation, therefore, epitomises this change in economic conditions. Since deregulation itself is an attempt to change economic trends within an economy, especially in an ailing economy, such economic changes often have spiral effects on so many areas of economic activities.

The study ipso-facto is an appraisal of how these changes in economic conditions created by deregulation of interest rates, have affected the quoted banks and the pricing of their stock on the Nigerian Stock Exchange Market.

1.2. STATEMENT OF THE PROBLEM

The competitive environment created by deregulation of interest rates in the banking sector, brought along with it attendant difficulties for both savers and users of the funds.

(i) The Savers were faced with the task of determining where to deposit or invest their savings and how safe are those deposits and investments.

(ii) They were also faced with the task of determining when to invest, when not to invest and when to divest.

(iii) The users (in this case banks) faced the task of attracting more deposits which are the major source of their funds for operations.

The task of determining what interest rate to charge and pay became a nightmare to so many banks. Many of the banks therefore ran to the stock exchange to raise funds especially for capital projects.

This therefore, proliferated the ownership of the banks and brought them to the full glare of market forces. Investors and depositors alike relied therefore on the prices of their shares as an indication of their solvency in order to invest or divest.

The pricing of these shares should then have a major impact on the behaviour of investors towards such organisations. This is so because according to efficient markets theory, an efficient capital market is defined as one where prices fully instantaneously reflect all available information. Therefore, it follows that 'an efficient stock market implies that the complete body of publicly available knowledge about a company's prospects, is interpreted "correctly" in the share prices and that the impact of the arrival of new data is impounded instantaneously into the price. This security prices provide accurate signals for resource allocation." [4]

If this is so, banks that have higher share prices should be able to attract more investors and depositors, since they will expect higher returns on deposits and investments.

The issue, therefore, is to be able to determ ne whether deregulation of interest rates have made quoted banks more profitable to induce hi her share prices and enhance or rather attract more investors and depositors necessitating const nt rise in share prices.

1.3. OBJECTIVES AND RELEVANCE OF THE STUDY

Researchers vary in their reasons for condu cting researches. Some of the reasons, especially in the area of economic activities, are to estal lish trends and basis for predictions and to improve economic activities. Some are to documen phenomena in order to understand the past and have a clearer perspective of the future. The la er reason is more of the focus of this study. In the process of conducting this study, interest rates were re-regulated, this not withstanding, the objectives of this study are still relevant. T his study therefore aims to examine the following: -

(i) To identify whether deregulation o f interest rates have made banks more profitable, at least from the perspective of the sha reholders.

(ii) To determine whether profitability is the major determinant of share prices of quoted banks.

(iii) To examine at the point where high er interest rates are charged, if the quoted banks have become profitable.

RELEVANCE OF THE STUDY

Since most investors use brokers in or er to invest or sell their investment in the stock exchange, and require advice from their stock brokers about when to invest and divest, this study is therefore, relevant to brokers wh o need all the information relevant in helping them make informed judgement about investme nt opportunities and when not to invest in a sector.

This study will also provide an insight nto the performance of banks during the period of interest deregulation especially to those biased towards the stockholders. This is more so because the sample under study can ea ily be adjudged to account for more than 50% of activities in the banking sector.

For those who are interested in the activities of the Nigerian Stock Exchange, this study would provide them more insight into the activities of the Nigerian Stock Exchange and its development. The findings of this study would also provide other researchers the basis for future comparative works, more so when interest rates have been regulated once again. The findings of this study would also be useful to those individuals or corporate investors who may not wish to leave their investment solely to brokers, especially in the banks listed on the Stock Exchange.

This study will also provide to all analyst an insight into the management of banks and the ability to adapt to changing economic conditions and remain afloat, maintain and increase profitability, i.e. which quoted banks have been effectively managed to provide stability, a condition necessary to attract potential investors.

Finally, as not so many researches have been conducted on the various facets of economic activities within the Nigerian Stock Exchange market. This study is an addition to that lean field of researches conducted in this area. We hope that it stimulates more researches into this area that is fast becoming a major force in the determination of economic activities in this country.

1.4 HYPOTHESIS

In an empirical study of this nature where cause and effects relationships are sought to be established, hypothesis becomes necessary to guide the investigator to search through materials and latent possibilities to remain on ones main line of study.

Hypotheses are assumptions, which are tested. They provide a way through which broad problems are reduced to testable forms and provide a framework by which research findings can be interpreted in a very clear and meaningful way. In the light of this, therefore, the following hypotheses are to be tested.

(a) Even though over the years, pricing of shares on the Nigerian Stock Exchange market has been influenced by quite a number of factors, however economic performance of the

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Company; future growth potentials and the areas by which diversification exercise can be carried out, have remained the major influence on pricing of shares on the secondary market. Thus, it is postulated that quoted banks with greater economic performance would attract higher price per share on the stock exchange market.

(b) Since the operators of the Nigeria Stock Exchange are rapidly becoming sophisticated due to increased risk in the economic environment and apply more scientific approaches in assessing company's profitability, it is assumed, therefore, that quoted banks with higher profitability ratios attract higher price per share on the stock exchange.

(c) Recently, it is noticed that capital has been on the rise as source of bank funds, deposits and other liabilities have remained the major source of bank funds. Since interest rates play a major role in attracting deposits and other liabilities, it is assumed therefore, that quoted banks which are able to attract higher deposit through the appropriate manipulation of the interest rates are expected to be more profitable and therefore attract higher price per share on the stock market.

1.5. SCOPE AND LIMITATION OF THE STUDY

Since the study is more a comparative analysis of periods, regulated and deregulated, Statistics for both periods will be compared. For any reasonable comparison to be made, the length of the period to be analysed is of great significance, if trends are to be established. In these regards, therefore 5 years each of the two periods will be analysed with 1 year spaced in between the periods to create a "buffer" like zone.

Therefore, the scope of the study will be between 1982 and 1992. It is based on the published data of the quoted banks and the Central Bank of Nigeria cum published data of the Nigeria Stock Exchange. All conclusions reached, therefore, are based upon the authenticity of these data. This study represents about 68% of the commercial banks deposits of 1992. The results have more far reaching implication for the banking industry.

LIMITATIONS

This study is based on the eight banks selected out of the banks listed on the Nigerian Stock Exchange market (see Chapter III of the project for sample selection). The data used in this study are obtained from the published reports of these banks and published transactions of the Nigeria Stock Exchange and Central bank data. The limitation of authenticity applying to the data also applies to this study.

Reported data, in the case of the banks, are subjected to various reporting polices of various banks and their financial policies. The disharmony in policies creates some limitations in the strength of comparison. In the case of share prices used, for the yearly comparison, because of the volume involved in computing daily pricing list throughout the year, the closing prices for each year are used. This creates some limitations since the fluctuations in prices experienced during the year are not taken into consideration.

However, the pricing rules for daily price movement (see pricing on the exchange floor – chapter II) in operation during this period has made the limitation manageable since there was a controlled appreciation or deprecation of prices. Also it is usually the closing price that is used to calculate the price earning ratio so as to determine investment, since financial performance is reported at the end of each year.

Closing prices may effectively reflect the true position of value attached to the stocks by buyers. Although the profitability of these banks is assessed, the profitability ratios that will be used will be highly limited to those ratios that are shareholder biased. This study does not concern itself with the causes of profitability of banks since it is the belief of the researcher that in which ever way we look at it, more than 80% of banks sources of income are tied to interested rates.

Whether they are investments, loans and advances, secondary resources etc, they revolve around how much interested rates are charged or paid. This seems to be the agreement of DIKKI (1984) when he stated that "interest rates are the banks main area of operations."[5]

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Moreover, macro-economics is moving towards treating money held under precautionary, transactionary and speculative motifs as influenced by both the interest rates and by the level of income."[6]

1.6. STRUCTURE OF THE STUDY

This study is classified into seven chapters; the first chapter is an introduction to the study. The second is a review of related literature and other materials. In the third chapter, research methods for the study are explained and arguments proffered for their selection.

Chapter four is analysis of the profitability of the selected banks through the ratios employed. And Chapter five is the analysis of the pricing trends of the bank stock under analysis to establish trends. Chapter six will be the critical analysis of results of Chapter four and five and the final chapter is a summary of conclusions and recommendations as discovered from the study.

1.7. CONCLUSION

In this chapter, we stated the objectives of the study and listed our working hypothesis. We attempted in general form to provide the direction of the study through a synopsis of the problem, the scope of the study and its limitations. We also highlighted the structure of the study.

In the succeeding chapter a review of the related literature, relevant to the study is done and also certain areas relevant to the study.

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CHAPTER II

REVIEW OF RELATED LITERATURE

2.1. INTRODUCTION

In recent years, the macro-economic environment within the Nigeria economic has left a lot to be desired. Indeed, the following quotation aptly describes the environment succinctly: "In the past few years the Nigerian economy has witnessed serious macro-economic problems, characterised by slow-down in economic activities, low capacity untilisation, growing UN-employment, heavy debt burden, accelerated inflation, intensified exchange rate depreciation as well as high and perverted regime of interest rate."[1] emphasis mine.

This climate necessitated the adopting of deregulation measures in the economy, which saw the introduction of SAP in 1986 and the subsequent deregulation of interest rate in August 1987.

The deregulation of interest rates perhaps gave rise to the "high and perverted regime of interest rates" mentioned above. This has been the recurrent analysis since 1990.

It suffices to mention that the purpose of these measures, are to restore macro-economic stability and the resumption of sustainable growth.

For this study however, our interest is in the deregulation of interest rates. A basic review of the theoretical base of interest rates and its application in achieving certain economic objectives is done. In this chapter also, a review of some studies on bank profitability is undertaken. Also discussed are stock pricing, the Nigeria Stock Exchange, the concept of deregulation especially in the Nigerian context, privatisation and commercialisation, value of money and influence of inflation.

2.2. INTEREST RATES

The role of interest rates in determining trends of economic activities cannot be down played. Indeed directly or indirectly it is a major catalyst to the rate of performance in an economy. "In fact in the Keynesian macro-economics, the rate of interest is the second important determinant of the volume of investment undertaken in any period, the marginal efficiency of capital being the first."[2]

Therefore, we can define rate of interest as the price at which loans of money are made. In essence it is the price of money paid in terms of bonds. This definition takes into cognisance the rates in both short and long term, since all interest rates either short or long are interrelated; it is therefore plausible to include them all in the term rate of interest.

Furthermore, "interest is the difference between purchase price and the maturity value."[3] since the rate of interest is said to be the price of money loans, it therefore, becomes understandable that it is determined by the law of supply and demand.

The rate of interest therefore depends upon the supply of money available to or in the community or macro-economic environment on one hand and on the demand for that money (liquidity preference) on the other hand. "Liquidity preference is our normal desire to hold money rather than near money or other money substitutes."[4]

By and large, therefore, in most economies the size of the money in supply is influenced by the actions of the monetary authorities, exerting influence on the banking system. It is however recognised that monetary policies do have the influence of altering the asset structure of the banking system, rather than the money supply alone. It is necessary to bear this in mind as the study progresses.

However, it suffices to know that monetary policies have the major influence of determining money supply in the economy. Liquidity preference or demand for money especially in the Keynesian system is an independent variable just as the money supply and it is dependent ultimately upon the psychology of the community prevalent in the business environment.

It is generally accepted that demands for money (liquidity preference) and motive for holding money could be split into three, as under-mentioned:

(a) To satisfy the transaction motive
(b) To satisfy the precautionary motive and
(c) To satisfy the speculative motive.

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In trying to show the relationship between demand for money and income plus interest rates. Stonnier and Hague worked on an assump ion that "motive 1 and 2 are dependent upon the level of income while motive 3 is depen lent upon the rate of interest."5 they graphically represented how liquidity preference in the ommunity is influenced by level of income and rate of interest.

In explaining the meaning of demand furth r, they indicated that it is important to note that all money is created by the banking system and all have to be held by someone.
Therefore the total supply of money must be equal to the money held while the amount of money demanded be equal to the amount ac ually supplied.

Using the above assumptions they two co nclusions; (1) that the community will hold more money at lower interest rates than at highe ones if income is constant. (2) That if the rate of interest is given, people hold more money w hen their incomes are higher.

By this assumption therefore, liquidity refe ence is shown to depend upon level of income and rate of interest. Implying that, amount o money demanded rises in exact proportion with income. They concluded in reality that this may not be so, for given the level of income money will be held if the rate of the interest falls.

They went further to state that in practice e en the assumption that motives one and two can be independent of the rate of interest may not b e tenable since we are working on the premises that the substitute for holding money is holdin bonds. Therefore, holding money under the first two motives represent a sacrifice of interes . It has an opportunity cost. In other words money not held can be used to buy bonds and earn interest. They concluded that it is, therefore, likely that if the rate of interest are high, people w ll try to hold less money under the first two motives i.e. invest it.

This is mainly one of the assumptions o this study. That as a result of high interest rate prevalent during the period of deregulati n, people held less money and since the banking system created the money, i.e. being a chan nel through which the money passes to the

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community, the (banks) must have increased their deposits which are their main source of funds, which increases their level of profitable transactions and performances, thereby help to appreciate their share prices in the stock market.

However, even in the speculative motive, cost is involved. People who hold money to speculate changes in rate of interest or bond prices are also sacrificing interest they could otherwise have earned. The higher the interest rates the greater the sacrifice in holding money for speculations. In other words, there is less tendency to hold money for speculative motives, if the interest rate are high. So in all three motives, when the interest rate are high it is less likely that people will hold money. This, therefore, tends to agree with recent observations by economist that money held is some kind of inventory, that there is a cost attached to holding it. Since holding money is precarious during the regime of high interest rates, banks would have increased their deposits and all its attendant benefits to them as assumed above.

It is worthy to note that application of interest rates in the monetary system is to influence the level of money supply in the economy. Therefore, "by making money dearer through increase in interest rates, government in theory discourages borrowing and vice versa, if it makes money cheaper through a fall in interest rates, if borrowing is discouraged then the banks will be less able to create credit and the money supply is stopped from increasing."[6] However, this may not be necessarily be the case in all instances, especially in economies, where alternative sources of funds are limited as the case in Nigeria. High rates of interest may not have necessarily discouraged borrowing since with less borrowing interest rates would have fallen, but reverse was the case in Nigeria until interest rates were regulated again in 1995. Although it has been deregulated again, which makes this study more significant.

Suffice to add, however, that volume of funds in the banks generally influence interest rates in short and long term instruments. Other factors that influence rate of interest are:

(a) Investor's maturity preference due to varying needs. As the case in Nigeria with the advance payment of interest.

(b) Investor's expectations of future interest rates.[7]

For example excess funds in banks to invest, raises rates of short term instruments thereby inducing interest yields as a result of investing it in short term markets, as was observed during the period of deregulation of interest rates in the Nigeria economy.

Inspite of the high interest rates prevalent during this period, much money was said to be in circulation and customers resorted to short term instruments and advance payment of interest rates which indicated that banks were attracting much deposit which agreed with the Stonnier and Hague's postulation that during the periods of high rates of interest people would hold less money. Whether this has made banks more profitable is left to be examined through the study. But it was quite clear that there was so much activity in the banking sector and it was also during this period that quite a number of the banks sought quotation on the Stock Exchange Market perhaps to provide investors with the confidence to make investments/deposits.

2.3.a. **STUDIES ON BANK PERFORMANCE (GENERAL)**

An important work in this area is done by Asabia (1981).[8] He employed such factors as equity structure, gearing and profitability to examine the general performance of banks. Employing a sample group of ten commercial banks and two merchant banks, which he classified, into four groups of large, regional medium and state owned banks.

He applied four ratios for the study viz. profits (before and after tax) on total assets, profit on equity, profit per share and dividend per share. His major concern seemed to be profitability from the shareholders' point of view. This study tends to have a similar interest to Asabia's but it is not particularly interested in the general performance of commercial banks, but how deregulation has impacted banks profitability and whether quotation on the stock exchange have made them more profitable.

However, his conclusions are worthy of mention as they reflect some of the changes that have taken place or are taking place in the banking industry:-

(a) That there is a need to increase commencement equity to ensure capital adequacy and improve profit retention rules to encourage banks to plough back more profit (budget '97 confirms this to be true).

(b) That small banks merge to increase their competitive position (this is imminent, in the situation of many banks to being distressed).

(c) That there is the need for banks to be more profitable.

(d) That there is the need to increase management integrity.

(d) That there is need for better service and efficiency in banking halls and for better trained staff.

(e) That given the improvement in rural presence in recent years, there is need to give attention to urban needs to improve efficiency.

The work of Oshikoya (1983), which evaluated the performance and efficiency of Nigerian banks from the industrial point of view, in terms of mobilisation of private savings, allocation of the savings to various sectors of the economy and the elimination of financial dualism by the growth in number of commercial banks in rural areas, is not in line with this study which intends to compare banks performance during the period of deregulation in relations to their quotation on the stock exchange.

The work of Akingbade (1981) only sets out to proffer techniques of planning and decision making for enhancing bank profitability, which is different from this study.

2,3b. PROFITABILITY STUDIES

A study by Gardner (1980) is worth mentioning. He studied the variations in profitability that existed within the population of minority owned banks in America with aim of identifying and determining relative importance of some selected financial and demographic differences among the least and most profitable minority owned banks for the period of 1976 – 1978.

He employed stepwise regression analysis to relate profitability ratios from the sample banks to some independent variables chosen from previous banking literature. He discovered that relatively few independent variables accounted for disproportionate variations in profitability. This study, of course, is completely different from the Gardner study in focus and approach.

McDermott (1983)[12] in his profit performance of major bank holding companies made use of ratio analysis to assess the performance of bank holding companies. He analysed profit by using the following ratios: return on assets, return on equity, net charge-off to average loans, valuation reserves to loans and non-performing assets to total loans.

He assessed profit performance without specifying possible causes of variations. The McDermott study is different from this study in that we are not looking at holding companies. However, like McDermott our focus is to apply ratio analysis on banks quoted on the Stock Exchange.

In their book "Analysis of bank financial Statements", Wood and Porter (1979)[13] devoted two chapters to the analysis of bank profitability. They anaylsed the performance of insured commercial banks using group averages and classifying the banks into five groups according to size of deposits and size of assets.

They adopted the use of the following ratios to measure differences in profit performance viz., gross profit margin, net profit margin, return on equity, returns on Assets, gross profit margin on assets, net income on assets and returns on various assets.

They also undertook to do profit sensitivity analysis in the hope of determining more accurately cause and effect factors that influence bank profitability. They employed the use of spread analysis where balance sheet and profit and loss account were re-arranged and stated side by side.

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In this, the various earning assets and the respective interest income from them are outlined. The income is then expressed as a yield on each category of earning assets. The total interest income from all earning assets is expressed as a percentage of the total earning assets. Other non-earning assets are outlined, and then the incomes from other sources are added to produce the operating income. Similar treatment is given to liabilities and equity.

The spread is then expressed as the difference between the interest yield (%) on earning assets less the interest expresses (%) on interest bearing liabilities.

He did an empirical study similar to the o es conducted by Wood and Porter 1979 in America and Verghese (1983) in India. He selected eleven banks grouping them into three groups on the basis of size of deposits and loans and adva nces, putting to use ratio analysis.

Like Verghese (1983) he used a set of me asures to determine profitability and another set to establish the causal factors of the profita ility differences. He used the following ratios to determine profitability, interest spread, the ratios of spread to deposits, spread to total assets, gross profit margin, net profit margin, gross yield on total assets and net profit on total assets, to test the hypothesis that larger banks are more profitable than smaller banks. While for the causal measures he employed among other , yield on investment, yield on loans and advances, provision for loans losses to loans and adv nces, interest paid to deposit and the cost structure of the banks.

He discovered that generally, large banks were more profitable than smaller ones; that cost control was more crucial to profitability th n revenue generation ability, that banks depended greatly on non-fund related incomes to decl re a profit and that taxation did not distort the trend of profitability already established.

Most of the studies therefore are either inte ested in the general performance of banks or their profitability. Although this studies will us e ratios to determine profitability, but most of the ratios to be used are those that are biased to vards interest groups i.e. shareholders. This is what necessarily determines the pricing of shares on the stock exchange. This studies will therefore be concerned in knowing how deregulation of interest rates have influenced the performance of quoted banks and how, ipso facto, the pricin ; of these shares are influenced.

At the time Dikki (1983) conducted his studies, only 3 banks were quoted on the stock exchange. A study of this nature was theref ore then not very relevant. However, at the time of this study, more than 15 banks have at one p oint or the other been quoted on the Stock Market.

This study therefore is different from the W ood and Porter (1979), Verghese (1983) and Dikki (1984) in the sense that profit sensitivity ana ysis will not be undertaken, nor profitability causal factors be measured.

The profitability of banks and its relationship to dividend declaration is the interest of this study.

2.4. CAPITAL MARKET (WHAT IT IS)

The capital market, by way of definition is the place where most companies, firms, business organisation go to source large amount of funds, especially when the need is long term.

Indeed, "capital market exists to assist in the transfer of funds from the "excess" units (savers) to the deficit units investment decision makers."[16]

It is through the process of transferring funds from the savers to the users that securities of various types come into existence.

The capital market therefore is the market for long term funds and securities whose tenor extends beyond one year. For example, mortgage bonds, preference stock, ordinary shares, Federal Government bonds etc.

"The Institutions within this market that traditionally play one role or another in the transfer of funds from savers to users include the stock exchange, share registrar, issuing houses, stock brokers and under writers and the security and exchange commission."[17]

The capital market, which is not the major concern of this work, is also known as the new issues market. "It is concerned with the offering of new issues or the initial issuance of securities in the exchange."[18] As earlier mentioned, "the primary capital market does not reside in a single location, it is somewhat nebulous market: in fact any point of contact between a supplier and user of capital is part of the primary capital market."[19] The capital market, is therefore, not a geographical location, but a description of an existing phenomenon in the financial market where savers and users of funds are brought together in a transactional basis. The secondary capital market, on the other hand, is really a market of existing securities. This market is the focus of this study.

It is worthy to note, however, that even tho gh the two markets are distinct in themselves, they are intrinsically inseparable. One cannot n cessarily exist without the other, because potential long term investors will not generally be p repared to take up issues of shares or loan stock, unless the opportunity exists to liquidate the r investment at any time the necessity arises.

"Since it is not practical for firms themselv s to constantly hold cash in readiness to redeem the securities, it is necessary for there to be a se condary capital market where holders may sell their investment."[20] This is very important and r elevant in the sense that this provides the yard stick in the opinion of the researcher to know why individuals and corporate entities invest in marketable securities as a precautionary me asure and as a means of reducing risks of losses and maximisation of gains especially in an u npredictable economic environment such as was prevalent during the period of deregulation in Nigeria. Hence the assumption of more activity in the Nigerian Stock Exchange during this p eriod.

The secondary capital market, therefore, pr perly constitutes the stock exchange because it is a mechanism that gives liquidity to the secu ities listed on the Stock Exchange i.e. It is on the Stock Exchange Market that you can conv rt your securities into cash for possible investment somewhere or settle certain obligation.

Stock Exchange, therefore, is a very imp rtant institution in the capital market, without its existence, long term financing will be alm ost impossible. Indeed, "it is observed that under developed countries are often restrained in t heir industrial and commercial development by lack of an established secondary capital mark t and therefore by lack of long term investment finance."[21]

Therefore, a comparative study of the activ ties of the Nigerian Stock Exchange could possibly be a measurement of the development of N igeria's financial system. Albeit the confidence of investors in the nation's financial system Although the Stock Exchange is not the whole secondary market, it tends to be the m ost important. This therefore necessitates the understanding of what the Stock Exchange s all about.

2.5. THE STOCK EXCHANGE (ITS FUNCTION AND SIGNIFICANCE)

Economic development seems to be the major goal of every nation i.e. whether developed and developing. As observed earlier, some experts believe that the lack of a well-established secondary capital market (stock exchange) is the reason for under development. In other words the presence of a well-established secondary capital market is a symbol of a well-developed financial system and this is an indication of industrial and commercial development.

By inference therefore, a significant increase in the volume of the activities of the stock exchange could be an index of the development of the financial system. If this is so, as is being assumed, that, deregulation has provided that increase; deregulation therefore becomes a catalyst to the development of the financial system.

If this is so, then it will be safe to conclude that deregulation has a positive impact on the operations of the secondary capital market (stock exchange). Which goes further to show that the financial system can be relied upon to hold itself through the tide of changing economic environment.

In consonance therefore, "a stock exchange by way or definition is many things at the same time. First, it is a place where securities (bonds, stock and shares) of varying types are traded openly and where one can purchase or sell any such securities relative easily."[22]

"The Stock Exchange is also an institution which sees to the efficient allocation of available capital funds to the diverse uses in the economy and through its extremely sensitive pricing mechanism."[23] Very significant, especially to this study is that the Stock Exchange can also be a mechanism which can measure any defect, the symptoms of an impending economic boom or decline. Such may have been the case as deregulation sets in. The years closer to the period or inception of deregulation could be very significant here especially in the observed movement of stocks between industries, however this is not the line of this study.

2.5a. ORIGIN OF THE STOCK EXCHANGE

The evolution of the stock exchange as we know has its roots in agricultural and other commodity trade in some major European centres during the Middle Ages.

It is said that traders used to gather at a place on appointed days to strike bargains in commodities. "As trade began to be conducted on credit terms, instruments such as bills of exchange and notes came to be in use as evidence of there credit and as an instrument for effecting settlement. At times these documents began to be traded also or discounted through the process of endorsement and negotiation. The trade in these documents appear to be fore runner of securities."[24]

And this pattern was mostly evident in most European centres at that time. Paris, in the 12th and 13th Centuries, Amsterdam in the 16th century through to the genesis of the New York Stock Exchange in 1972.

This early impetus provided the existence of trade, the development of financial institutions, which came into being to meet growing demands of the expanding volume of trade, themselves needing funds to finance their operations. Such funds could be easily obtained through sale of securities assisted by the Stock Exchange.

The constraints of government to meet its complex and expanded obligations also enhanced the emergence of the stock exchange, itself in dire need of funds, resorted to selling securities via facilities provided by the Stock Exchange. These factors coupled with the reaction of enterprising businessmen to capture the opportunities provided by the emergence of free economic enterprise of the industrial Revolution era, gave the stock exchange the character which has remained up-till today with some modifications here and there depending on the circumstance of the existence of the stock exchange.

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2.5b. ITS SIGNIFICANCE

In the fore going, the economic implications of the stock exchange in a financial system are paramount. It is clear that the absence of a stock exchange in a capitalist set up is synonymous to lack of capital formation. Since investors do not feel motivated to invest where they cannot divest when the need arises and without capital formation no development can necessarily take place. As also seen the stock exchange provide the indices for economic forecasting and predictions in a financial system. Indeed as earlier seen, trends can be predicted in economic activity.

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Therefore, the stock exchange becomes a catalyst in economic growth, through the increase in productivity within the economy as a resul of capital formation.

According to the Nigerian Security Excha ige (1990) the capital market, which the NSE is part of, plays the following roles;

(a) Providing a means for raising finan e to assist companies to expand and modernise;

(b) Providing a means for allocating t ie nation's real financial resources between various industries and companies;

(c) Providing liquidity for investment funds from the standpoint of the individual and the economy;

(d) Serving as a measure of confiden e in the economy and as an important economic barometre.

(e) Through its pricing mechanism, pro viding industrial management with some idea of the current cost of capital – an imp rtant issue in determining the level and rate of investment.

(f) Acting as a reliable medium for b roadening the ownership base from the erstwhile family dominated firms".[26]

By implication, therefore, the Nigerian inc ease in both volume and quality of transactions in the activities of the Nigeria Stock Exchan e indicates the health and virility of the financial system.

It is therefore, necessary for any econom y to have a virile stock exchange with increase continuously in the volume and quality of it transactions.

It is the opinion of this researcher that regulation in an economy does not favour a boom in the activities of the Stock Exchange, since interest rates and exchange rates are regulated, the unpredictability of a competitive environment is absent. Firms rely more on the money market for their sources of funds, since rates are fixed and not influenced by the forces of demand and supply.

When interest rates are low firms prefer borrowing short term as against equity, which is a long-term source of finance which could be costlier. However, long term finance is really needed for expansion and greater productivity, hence development. Since you can't borrow short-term loans for long-term projects, a virile stock exchange, more virile stock exchange, more virile in the possible increase in its volume of activities as a result of the competitive environment it creates, is highly desired. Indeed it is possible for investors in a regulated economy to see equity investment as a fixed income investment because of a possible predictability of dividend payments, which may fail to pay sufficient dividends to cover rate of inflation.

2.6. HISTORY OF NIGERIAN STOCK EXCHANGE

Not much literature exists on the Nigerian stock exchange. However, the book by Alile and Anao titled THE NIGERIAN STOCK MARKET IN OPERATION, is adjudged by **Pius Okigbo** as the most comprehensive one.

A summary of the analysis of the background of the Nigerian Stock Exchange from them suffices here thereto. This also tallies with the synopsis given by Osaze in his book- THE CAPITAL MARKET.

The act which can be said to have given rise to the establishment of the Nigerian Stock Exchange (hereafter referred to as NSE), is the 1946 ten year plan local loan ordinance, which provided for the floatation of 300,000 (N600,000.00) local loan stock bearing interest of 3¾. This was followed by another attempt in 1951 through the creation of loan fund for financing some public utilities.

Some other major influences on the establi hment of the NSE are the 1952 motion of Hon. K. O Mbadiwe, in 1958 Professor BarBack C ommittee to consider ways and means of fostering a shares market in Nigeria. Therefore, whe n in 1959 the CBN floated a Nigeria Development Loan of N4 million on behalf of the gov rnment, and had to put a lot of effort and time to ensure that the stock floated carried with them a reasonable assurance of marketability, and arranged to match buyers and sellers, the ne ed for a formal exchange became paramount.

With the favourable report of Professor E ar Back therefore, the business name "The Lagos Stock Exchange" was registered in March 1960 and was later incorporated in the same year. The Exchange commenced operations on th e 5th of June 1961 and was given a legal backing the same year in the Lagos Exchange Act of 19 1.

Seven companies were first to be listed on he Lagos Stock Exchange by 1961 e.g. John Holt, NTC etc. trading on the exchange was ho wever extremely poor because of the low rate of capital formation. This was clearly seen fro m the fact that between 1962 to 1972 the exchange handled only four new issues of industrial se curities.

The need to promote the growth of the stock market activity engaged the attention of government; therefore this constrained gov rnment to introduce certain legislation which had positive impact on investment and savings. This legislation had tremendous influence on the growth of the stock exchange. Such legisl ation included the Income Tax Management Act 1962, the National Provident Fund Act of 19 2, the Trustee Investment Act 1962 and Insurance Act of 1976.

Apart from these legislation, the indiginisa ion measures of between 1972 and 1979 which culminated in the promulgation of the Nige an Enterprises Acts of 1972 and 1977 raised the number of listed equities from a modest 14 n 1971 to over 90 by the end of 1980. This Act indeed showed it was the most important f ctor that influenced the growth of the Nigerian Stock Market, as it is assumed, that priv tisation and commercialisation necessitated by deregulation must have had on it.

The metamorphosis of the Lagos Exchange into the Nigerian Stock Exchange, which took place on 2nd December 1977, came by the growing dissatisfaction with the nation's financial system in terms of low rate of capital formation, the large chunk of currency in circulation outside the banking system and others.

This led to the setting up by the Federal Government in April 1976 of the Commission headed by *Pius Okigbo to study its structure and system and make recommendations for improvement.*

The commission recommended the decentralisation of the exchange with each being autonomous. The government accepted the principles of decentralisation but opted for a National Stock Exchange with branches in different part of the country. The NSE therefore came into being in 1977 as earlier mentioned with branches in Lagos, Kaduna and Port Harcourt. As of today, there are more branches.

2.7. SYNOPSIS ON STOCK PRICING

Generally, share pricing are of two kinds i.e. the pricing of primary issues (primary market) and the pricing of already existing quoted stocks on the stock exchange (secondary market).
The determination of initial prices for shares is complex because it has to do with values attached to a company, in other words its worth. Determining the worth of a company determines the value attached to its shares. With the inefficiency in markets, it becomes a major task. If firm's shares were traded in active and efficient markets, then market prices will have provided for easier valuation. But majority of firm's shares is not traded as such, so there are no market prices upon which to rely for valuation. How then will values be determined?

Firth and Keane (1986) say that "one widely employed approach is to estimate the value of a firms assets and deduct from sum, the value of firms liabilities." [26] This method is generally refer to as the "net asset" approach. How then are the value of firms assets to be arrived at, since there does not exist efficient market for such assets and in some cases no market exists at all for the assets. Nevertheless it is necessary to value the share of firms.

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This problem has given rise to other models such as the Dividend Valuation Model and the Earning Based Valuation Models, all aimed at providing a more accurate value for firm's shares. The working of these models are not, however, the subject of this work.

However, in the Dividend Valuation Model, the value of the pay off expected from holding a share is the present value of the cash flows anticipated by investors. These cash flows consist of the dividend expected during the planned holding period plus the proceeds anticipated from the sales of the shares at the end of the holding period The present value is then determined by using a discount rate, which is equivalent to the rate of return investors, can expect on other shares of similar risk.

On the other hand, the Earning-based valuation Model however focuses on the fact that shareholders have a right to the earnings of the firms, regardless of their distribution or retention of the dividends for further investment. Unlike the Dividend Valuation Model, which focuses on net cash flow expected by the shareholders.

Promoters of the earning based valuation model argue that dividends are paid from earnings and it is consequently the potential earning power of a firm which is the most important determinant of its market value. The earning-based valuation model therefore distinguishes between the determination of its values. Put in simple terms, the firms existing assets are assumed to generate a constant level of earnings in perpetuity.

In principle the net cash flow available to share holders will be equal to earnings if depreciation, a non-cash expense, is equivalent to the annual replacement investment necessary to maintain the earnings generating capacity of existing assets. Other models have been developed in an attempt to solve the valuation problems, however, for our purpose the foregoing suffices.

In Nigeria, valuation and determining of prices for initial issue were placed on the capital issues commission established in 1973, which metamorphosed into the Securities and Exchange Commission of 1977. The initial prices of securities listed on the board of exchange were determined by these bodies. As AREAGO (1984) puts it, "the securities and exchange

Commission's method of valuation emp oyed the empirical formulae together with their weaknesses of valuation of a company."[27] They use for example, both the earning basis and net assets basis for valuing shares. This proces came under serious attacks as to whether it reflects adequately the true value of ownership of a company.

This process was given further backing by he Security Exchange Commission Decree of 1988 which authorised them to value all public co mpanies and determine the prices their shares are to be offered to the public. However, "during the deregulation period, the issuing houses and the stock exchange, became responsible for th initial pricing offers, which securities Exchange Commission only registers. The quotatio committee of the Nigeria Stock Exchange still approves such offer for listing, using the prospectus (offer document)."[28] In the secondary market, however, stock market daily valuati on of quoted shares are based on the performance and potentials of companies. "Good man gement as shown by good corporate results are rewarded by an appreciation of the compan y's share price on the market and reverse for the poor performing ones. Thus it is in the best interest of quoted companies not only to perform well but also to disclose that fact."[29]

This is so because information determines trend of market posturing in both efficient and inefficient markets. For indeed "an efficien stock market implies that the complete body of publicly available knowledge about a comp any's prospects is interpreted "correctly" in the share price and that the impact of the arrival of new data is impounded instantaneously into the price."[30]

So stockbrokers daily establish prices of se curities on the secondary market during trading sessions. It is however worthy to mention th at brokers valuation of company's security is not usually devoid of emotions, on the basis of r mours and whims of the people making it. This results sometimes in sharp price fluctuations, however it should also be noted that these sharp movements in prices of certain companies are not necessarily in conflict with rational judgement. The basic concept of price moven ent in the secondary market is influenced by the principle of demand and supply.

Thus when demand is more than supply, i.e. when there are more buyers to a security item than are suppliers, and prices are bound to go up and vice versa. This principle is what makes the stock market to be said to be the barometer of the economy.

However, in practice, as earlier said there are both exogenous and endogenous factors that combine to influence investors' reaction to the share of a company. These factors are all factors that are pertinent to a company's profitability. For example, news of a pending merger can influence the prices of shares of both the companies involved.

All these factors are called to bear on the market during call over on the floor of the exchange. Such is the nature of pricing in both the primary and secondary market of the capital market.

"On the aggregate, therefore, price changes tend to reflect general charges in the state of the economy or shift in investors' collective expectation. This happens when there is a change in the general interest rate or when there is a threat of disequilibrium in the social order."[31]

2.7a. PRICING ON THE EXCHANGE FLOOR

In the Nigerian Stock Exchange, price movements have never been left to market forces; that is, it is regulated, as market is, a developing one. One of the rules operating in the stock exchange is that no company share should go below par value if it is making a profit.

In the area of actual movement a number of rules have been operational which includes the following: -

(a) You cannot increase on a particular day more than 10% of the last price:

(b) At one point price movement was pegged to 10 kobo per day later reverted to 20 kobo maximum price movement. This operated till 1996 when people started to advocate percentage rate to replace the maximum 20 kobo price movement. One the whole, there are certain benchmarks used in the exchange presently for price movement (see Chapter V of the project for update). These are;

(i) Market forces

(ii) Range or regulatory authorit·

(iii) Company's results

(iv) Profits/loss driven informatic n

(v) Volume of shares

These benchmarks are significant in this stu dy. It necessitates the bias in the choice of ratios to be applied to the study.

2.8. CONCEPT OF DEREGULATION (NIGI :RIA CONTEXT)

The concept of deregulation is discussed he re under the auspices of the Structural Adjustment Programme (SAP) which was introduced in Nigeria in 1986. "SAP becomes necessary when a country faces a serious economic disequil brium or in balance between domestic aggregate demand and aggregate supply, which inva iably results in a deteriorating external payments position."[32].

These deteriorating conditions were noticed in the Nigerian economy in late 1970's and early 1980's. Such economic problems manifeste d in the form of stagnant growth, rising inflation, unemployment, and food shortages and n ounting external debt. This situation therefore necessitated that economic reforms be und ertaken to reverse this economic disorder, which indeed shows that, if the number of regul ations and controls were enough, the economic predicament wouldn't have arisen.

It soon became apparent that the economic si uation deteriorated further with the introduction of more regulation and control. There arose tl e need to remove policy distortions, which had stalled economic progress. "In particular, pc licy makers began to recognise the adverse effect of exclusive reliance on the set of policy instruments being enforced through cumbersome administrative control and regulations."[33]

It became apparent therefore that refusing t › reform, which will mean deregulating existing policy instruments, was going to jeopardise he long term development interest of the nation. An indication to the eminent boom of the Sto k Exchange.

Economic deregulation which involves appropriate realignment in fiscal, trade, pricing and exchange rate policies were viewed then as a tool of reducing undue government intervention in economic activities and providing the relevant structure of incentive that would put the economy at the path of recovery and growth.

The objectives of economic deregulation under Structural Adjustment Programme therefore were to:-

(a) Restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and on imports;

(b) Achieve fiscal and balance of payments viability during the two years (initial aim)

(c) Lay the basis for a sustainable non inflationary growth and;

(d) Lessen the dominance of unproductive public sector investment, improve its efficiency and expand the growth potential of the private sector.

The successful achievement of this objective was centred around this basic policy instrument: The adoption of a realistic exchange rate policy in conjunction with the liberalisation of external trade and payment system, adoption of appropriate and relevant pricing policies in all sectors with a greater reliance on market forces and reduction in complex administrative control; and further rationalisation and restructuring of public expenditure and custom tariffs. In addition to other measures, deregulation was expected to promote the rationalisation of scarce resources i.e. foreign exchange and promote allocative efficiency, industrial diversification and stimulate domestic production. As catalyst to the attainment of these aims, liberalisation in the form of removal of import and export licensing and exchange control on all current transactions and reduction in prohibited import items.

Monetary policies were tightened to reduce excessive foreign exchange demand. Foreign participation in domestic investment was encouraged especially where it will promote the development of local small-scale industries. Second tier foreign exchange market (SFEM) and

Subsequent modification were adopted for a realistic foreign exchange rate in order to remove distortions in all sectors, reduce imports, stimulate exports, encourage efficient import substitution and capital inflow. In other words, stimulate the capital market and invariably the stock exchange.

Whether this objective has been achieved is not the concern of this study. The concern of this work is the impact of this on the capital market especially in the activities of the stock exchange.

2.9. INFLUENCE OF PRIVATISATION AND COMMERCIALISATION

One of the objectives of deregulation was to lessen the dominance of unproductive public sector investment, improve its efficiency and expand the growth potentials of the private sector.

This necessitated in 1998; government divestment of its interest in a number of companies and commercialised operations of some, including government owned banks.

A similar act in the opinion of this researcher may indeed be very important in recent times, in the further development and increase in the activities of the Nigeria Stock Exchange. Which will provide an indication of the impact of deregulation on the Nigerian Stock Exchange and invariably on the shares quoted on it, in this respect the bank shares.

This assumption is predicated on the fact that with privatisation, a lot of shares will be sold and bought and invariably the ripples will be heard on the stock exchange market. New companies will be quoted including banks.

2.1.1. SYMOPSIS ON VALUE OF MONEY

Money is usually defined in terms of its functions and there are four adduced functions of money. Money can act as: a medium of exchange, a store of value, a unit of account, and a standard for differed payment.

The first two functions are of specific interest here, as they affect investment perception of individuals.

"Money as a medium of exchange retain its function as long as its substance is not lost. Indeed once confidence in the money substance is lost, even if that money substance is deemed legal tender, individuals within the community will either find some alternative money substance or resort to barter. This type of change in people's attitude towards money is usually in modern times as a result of rapid inflation."[34]

This perhaps is a good description of money in the country during deregulation. It must have had great influence on the investment preference of investors. Most likely towards investment in equity, since interest payments may not cover rate of inflation. Equity trade, therefore, may provide a better cushion for inflationary constraints on money, since their values are dictated by market forces. "Since money as a store of value provides the individual with a means of holding and accumulating his wealth in a form which can at anytime be converted immediately into goods and services. Its usefulness as a store of value depends upon the value of money remaining fairly stable or at least not declining too quickly."[35]

Again, the value during deregulation has not been stable; in fact, it was characterised by fast loss of value.

This condition also will have a great influence on the investment habit of investors, perhaps in favour of equity investments. Since in the use of money, delay in using and obtaining money as payment will result in significant loss of purchasing power when purchase is finally made.

2.1.2. INFLATION AND ITS INFLUENCE

"Influence is the process of price increase."[36] This phenomenon has been on the increase even with the inception of deregulation. Galloping inflation has contributed in making the business environment highly unpredictable and therefore investment decision quite cumbersome.

Borrowing has become a nightmare for many a firm especially from the money market. In view of this, many are likely to have resorted to borrowing from the capital market. "Even though this is bound to change the way firms make business, it is a safer option to going bankrupt". "It is expected that more companies will come to the capital market now that the money market is in disarray, coupled with the current hyper inflation in the economy."[37]

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This possible shift is most likely to have some effect on the performance of shares on the Stock Exchange Market.

2.1.3. CONCLUSION

There is therefore, no gain saying that, deregulation either negative or positive, has an influence on economic activity. How far that influence goes depends upon so many variables which needs to be measured.

This study however intends to capture statistics, with a view to finding out through this process the extent of this influence on the activities of banks quoted on the stock exchange market.

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CHPATER III

RESEARCH METHODOLOGY

3.1. INTRODUCTION

In this chapter we would explain to justify the method used in the research work. How the data was collected and type of data collected.

Research approach and sample selection, method and type of data collection and a discussion of the ratio applied and the reasons for their selection are discussed.

3.2. RESEARCH APPROACH AND WHY

This study is an empirical study based on the published financial statements of the banks and extracted data from the transactions of the Nigeria Stock Exchange.

Empirical researches involve going to the field to collect data from the primary source, in this case banks and the stock exchange. Secondary sources were also used to collect supportive data for the research e.g. Central Bank figures and data.

This approach is selected because by the nature of the study, it is social in nature and not scientific, where it will be conducted under a controlled environment. And secondly the events being studied are events which have already taken place but have relevance in the present and the proof of them are only in the documented records of the organisations involved. Most studies that involve human behaviour and reactions are not subject to scientific determination and control, because man has a free will and is capable of choice. Man operates independently of the forces around him. Therefore, much of our knowledge of human behaviour, which ultimately, is the basis for this study, exists at the level of empirical explanation, hence the empirical approach.

3.3. SAMPLE SELECTION:

Osuala (1992) said that "no concept is as fundamental to the conduct of research and the interpretation of its results as in sampling." So, the importance of the sample cannot be over emphasized.

The major function of sampling is to obtain external validity. In addition, sampling serves the practical purpose of making possible the study of problems which otherwise could not be undertaken due to prohibition of cost, time, personnel or scope.

Sampling posses some difficulties, for example how large should the sample be? How representational is the sample?

But it is worthy to note that "the size of the sample is not often times the major source of error."[2] It is often not because the sample is small but because the wrong sample is wrongly studied.

A very small sample is capable of statistically reflecting the trend in a very large population.

For this study the population was established to be all the listed banks on the stock exchange market i.e. 18 commercial and merchant banks. After identifying the population, care had to be taken to select a sample out of this that will be representational.

So Judgemental approach to sampling was adopted. "Judgemental sample is obtained according to the discretion of someone who is familiar with the relevant characteristic of the population."[3]

Two banks although listed on the stock exchange, yet their shares were not active, so they were eliminated. Eight other banks were listed in 993, which was outside the period of study and also the period they were on the exchange does not warrant for meaningful analysis.

So we were left with a population of eight banks whose stock were active and were listed at least 4 years to the period limit of the study.

These groups of eight banks were divided into 2 groups of 4 each. The first group is made up of banks quoted before the deregulation of interest rates while the second group is made of post deregulation listed banks. This is believed to create a greater basis for comparison.

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PRE-DEREGULATION LISTED BANKS

1. Union Bank of Nigeria Plc. (UBN)
2. United Bank for Africa Plc. (UBA)
3. First Bank of Nigeria Plc. (FBN)
4. Savannah Bank of Nigeria Plc. (SBN)

POST DEREGULATION LISTED BANKS

1. Highland Bank Plc. (HB)
2. Lion Bank of Nigeria Plc. (LBN)
3. Progress Bank Plc. (PB)
4. Owena Bank Plc. (OB)

(Source: 1994 Fact Book, the Nigerian Stock Exchange).

These listed banks's financial statements were obtained for analysis in the study. This sample is therefore believed to be a good representation of the population under study to provide a solid basis for generalisation on the outcome of the study.

3.4. METHOD AND TYPE OF DATA COLLECTED

Data method and collections are largely influenced by the nature of the study to be conducted. It is the research design that determines the kind of data to be collected in examining the problem to be solved.

For this study therefore, the documentary method of data collection was adopted since the study is going to apply predominantly ratio analysis of the sample population i.e. listed banks on the stock exchange.

The documentary method therefore involves extracting data from documents kept by the population or sample under study with respect to the problem. In this regard the financial statement of the banks and the pricing list of the stock market. With the exception of interview, which was sparingly used to establish some facts, other methods do not avail themselves to this study. For instance, the use of questionnaire is out of the question because of the cost and time constraints and their high rate of non-response.

The time frame of the study cannot permit the use of observation nor is the possibility of controlling the environment for experimentation. The method therefore is not suitable for the study. Therefore, a combination of both primary and secondary data was collected for the study.

Primary data in the form of the financial statement of banks involved and the pricing list of the stock exchange for the period. Other secondary data not directly used for the research but relevant in throwing more light to the research work were also collected e.g. Central Bank statistics and other statistics in the industry.

So in general the data collected is qualitative in nature.

3.5 RATIOS TO BE USED FOR THE STUDY AND WHY

Generally, financial analysis deals primarily with the evaluation of the firm's financial statement and commonly used are financia ratios.

Financial ratios are measure of relationship between items on the financial statement to give an insight into the condition of a firm.

Most financial ratios are aimed at finding out how well is the firm performing over a period of time (time series analysis) or how it is performing in relation to other firms in the same industry (cross sectional analysis). In other words how profitable is the firm over time or in relation to others in the same field.

Therefore, ratios that help to determine profitability have been developed and used over time to establish firm's operational performance.

There are various groups or interest groups that make use of these profitability measures, depending on their relationship with the following interest groups i.e. creditors (short and long term), investors/stock holders, management, professional analyst and even those employed with the firm. Although, some general profitability ratios were applied in this study, but emphasis

was more on trying to determine profitabi ity that interests the investor/stock holder. Therefore, ratios that are biased towards the share ho ders/investors were applied to the study.

The study does not intend to spend time discussing available ratios that apply to non financial firms or ratios that try to determine the causal difference in profitability of firms, except if it supports in some way the study. As earl er mentioned we are concerned more on profitability that indicates the performance of the bank during the deregulation of interest rates and as relates to its influence on price movements of these share on the stock exchange market. Although most financial ratios in one way or the ot ner are measures of profitability, ratios applied to this study were grouped into three groups. The first group comprises of ratios that the researcher believes bother in some way on general profitability of firms, in this case banks. The second group is made up of ratios believed to be more investor or shareholder biased, and the third group although more of causal determi nants of profitability are applied to test one of the hypotheses in the study.

Ratios applied in the first group are, tren d of operating income, trend of operating margin, net profit margin, gross profit margin, on tota l assets and net income on total assets.

These ratios have been found to be us ful by many scholars in the past among whom are Altaman (1968)$_4$ Verghese (1983)$_5$ Woo l and Porter (1979)$_6$ Dikki (1984)$_7$ who used them to predict trends such as firm failure, profit bility etc. For the second group the ratios applied are, return on equity/earning per share, retur on investment or gross yield on total assets, the time interest earned and price earning ratio.

And the supportive ratios applied in the third group are, deposit trend, loans and advances to deposit.

3.5a. THE RATIOS

(i) OPERATING INCOME TREN D

This was used to establish how b anks made profit during the period under study. Have they progressed or regressed? Th s is good for face value analysis.

(ii) **OPERATING MARGIN TREND**

This ratio indicates management ability to control expenses and generates income earnings and it is calculated as the differences between operating income and operating expenses before tax. This also shows at a glance whether banks have been able to improve their performance from the preceeding years.

(iii) **NET PROFIT MARGIN**

This ratio is used in simple terms, to measure profit on revenue received after all expenses, including taxes, are deducted. This generally reveals management ability to maintain and increase the wealth of a firm. It is calculated thus.

Net Profit Margin:- $\frac{\text{Net Income}}{\text{Operating Income}}$

(iv) **GROSS PROFIT MARGIN**

This ratio indicates, when used, whether over a period of time a firm is maintaining adequate mark up and or rather controlling operating expenses. This indicates management's ability to cut cost and increase the generation of surplus revenue.

It is calculated thus:

$$\text{Gross Profit margin} = \frac{\text{Operating Income-operating expenses}}{\text{Operating Income}}$$

(v) **GROSS PROFIT MARGIN ON TOTAL ASSETS**

This ratio when applied indicates whether management has the ability to generate income, in other words, generate revenue and keep expenses down. Overtime it indicates management's consistency in generating revenue especially for the owners and investors.

It is calculated thus:-

Gross profit margin on total assets: Income before tax-operating expenses / Total Assets.

(vi) NET INCOME ON TOTAL ASSETS

This is indeed the acid test for management's overall ability at profitability and efficiency. It reveals management ability to, not only generate income and control expenses, but also to obtain a conducive and favourable tax status. Indeed the outcome of this ratio overtime should be of higher interest to the shareholder and investors as indicative of the yield on each naira invested. Therefore, banks with higher ratios of this should be able to attract more investors thus higher price per share.

It is calculated as:- Profit After Tax / Total Assets

3.5b. SHAREHOLDER RELATED RATIOS

i. RETURN ON EQUITY (SHAREHOLDERS FUNDS)

This ratio simply tells you how profitable are each naira or funds contributed by the shareholder. This ratio determines the earning per share in this study. As earning available to common stock and net profit after tax are found to be the same in the financial statements of all the banks collected, and no provision for preference shares.

This is also found to be the calculation employed by the Nigeria Stock Exchange in the calculation of earnings per share of the banks quoted. (Nigeria Stock Exchange Fact Book. 1994).

So ROE/earning per share for this study is calculated as:-

$$ROE = \frac{\text{NET INCOME}}{\text{SHARE CAPITAL (Paid up)}}$$

However, any per share in most cases are calculated as net income after preference shares divided by the outstanding number of common stock.

ii. RETURN ON INVESTMENT OR GROSS YIELD ON TOTAL ASSETS

This ratio shows how management is able to generate income to take care of all operating expenses and still generate enough or acceptable surplus. "This ratio is affected by a number of factors when applied to commercial banks. An increase or decrease in assets employed which earn income, changes in portfolio to high or lower yielding assets; an increase or decrease in the general level of interest rates, (important for this study) management's push for higher returns on loans and other assets or an increase or decrease in fees and other income not related to the employment of assets. Changes in this ratio as can be seen is greatly affected by management's behaviour to asset mangement."[8]

It is the believe of this study that although payment or charging of interest rate, is one of the banks predominant business. The use of interest spread is not adopted in the believe that all interest earnings form part of the gross earnings of banks and are taking care of in the ratios applied as it relates or concerns the predominant interest group in this study, viz.; investors and share holders. Since we are not particularly interested in the general bank profitability as in the case of Ekki (1984)

However, it is also believed that the application of times interest earned ratio will indicate a firm's management of interest factor as it affects investors and shareholders, thus.

iii. TIMES INTEREST EARNED

This ratio is often called the firms total interest coverage ratio. It measures the firm's ability to pay its contractual interest payments. In commercial banks especially during the period of interest deregulation, it means the ability of management to manage the interest factor in meeting their obligations to depositors/investor and generate sufficient income to satisfy the shareholders which will in turn, influence their share behaviour in the market.

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It is calculated thus:

$$\text{Time interest earned} = \frac{\text{Operating Income}}{\text{Interest Expenses}}$$

iv. PRICE EARNING RATIO

This ratio establishes the relationship between the market value of a share and its earning per share.

It is calculated thus:

$$\frac{\text{Market Price}}{\text{Earning per Share}}$$

This ratio also reveals if a share is doing well in the market. It is indeed one of the measures to strongly establish the relationship between the influence of deregulation of interest rates on bank profitability and pricing of the bank's shares on the market.

3.5c. **SUPPORTING RTIOS**

As earlier mentioned, this study does not intend to delve into the profitability causal factors, however, deposits are the single most important source of funds for bank's operations and therefore, they must surely have very strong influence on banks profitability. The application of deposits will therefore have some strong influence on bank operations.

This study also seeks to establish relationship between size of deposits and profitability and the relationship between liberal interest rates to the attraction of deposits, which should enhance the ability of banks to make profits. The liberal interest rates operational during deregulation should, therefore, to which we sought to establish in 2.2, attract deposits, which is assumed to enhance bank profitability.

Therefore, the following ratios were adopted for the study.

i. **TREND OF DEPOSIT**

This will be examined to establish how bank deposit have increased or reduced during the period under study. To establish if the percentage increase or reduction is higher during the period of interest deregulation.

ii. **LOANS AND ADVANCES TO DEPOSITS**

This ratio when applied in relationship to investment to deposit will reveal management's posture to risks and its attendant effect on returns. This will also reveal the attitude of management towards maintaining liquidity and its effect on generation of income.

The higher the ratio, it is assumed, that, such banks will post higher profits And in conjunction with the trend of deposits may indicate the influence of deregulation of interest rates on bank profitability.

3.5. CONCLUSION

In this chapter we set out to explain the research adopted for this study and to argue the validity of the approach. We also established how the sample for the study was arrived at and why it was the most appropriate for the study. Explanation was also proffered as to the method and type of data collected.

Finally, the ratios selected for this study and what they hope to achieve for the study were discussed.

In chapter IV, the ratios will be applied to the data collected for this study.

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CHAPTER IV

PROFITABILITY ANALYSIS

4.1. INTRODUCTION

In this chapter, we have applied the selected ratios to the data collected. However, for banks to make profits, the sources and use funds. A brief discussion on the sources and uses of bank funds was undertaken. It is also true that most of the revenue generated by banks are interested based. Therefore, I will discuss lending approaches or policies. There are also, factors considered in determining income to business. This chapter briefly discusses how income is determined.

4.2. SOURCES AND USES OF BANK FUNDS.

4.2a. **SOURCES OF BANK FUNDS:** Primarily, there are three (3) basic ways through which banks source funds, namely, capital, deposits and loans and liabilities.

Although an exhaustive discussion will not be possible here, but it suffice to know that, the sources of funds for a bank has stability and cost implications, thus therefore, determines how they can be put to use.

The actual use of these funds in turn causes liquidity, solvency and profitability consideration. Basically sources and uses of bank funds show from where a bank gets its funds and how these funds are then applied for achieving the goals of the bank i.e. viability and profitability.

CAPTIAL

Capital is simply shareholders funds i.e. the funds contributed by the owners. In Nigeria this includes statutory reserves which are allowed as part of the bank's capital. In some developed economies, capital is the net worth of a bank, which includes in addition to the two above mentioned, undistributed profits general reserve and general provisions. These are not included in Nigeria on the premises that it is subjected to the whims of management and therefore transient.

Generally, even with the review of paid up capital in 1991 to Fifty million naira (₦50m) for commercial banks and Forty million naira (₦40m) for merchant banks, (and of recent to Five hundred million naira (₦500m), capital accounts for approximately 5% of bank funds (see bank Balance Sheet attached – Appendix g-r).

This indicates, that the significance of capital to banks is not in the funds it provides, but in the function it performs. Some postulated functions are:

(a) A cushion for the absorption of unexpected losses.
(b) Preventing bank failure (although debatable)
(c) A "guarantee fund" for ensuring the safety of depositors funds.

In view of the ratio of capital to total funds one wonders if these functions are adequately served.

However, in the debate concerning capital adequacy in relation to serving the above functions, although one will not attempt a detailed discussion of the arguments, it is quite clear that determining what capital is adequate to achieve such functions mentioned above, are subjective and cannot be determined objectively. For how do you determined what amount is adequate to be a cushion against unexpected losses. Again no study has properly established the relationship of bank failure to capital adequacy.

Most bank failures have been attributed to general mis-management. In Nigeria capital adequacy is computed as the ratio of capital to loans and advances which was 1:12 up till 1992 when it was expressed as a percentage, 8% of loans and advances.

Dikki (1984) highlighted four (4) ways in which capital level is controlled in Nigeria. Three provided for in the Banking Act of 1969 and the fourth as a derivation of Central Bank of Nigeria, acting on the powers imposed on it by the Banking Act. Thus, Section 6

(i) Specified minimum paid up capital of ₦600,000 for indigenous banks and ₦1.5 million

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for foreign controlled banks (altho ıgh this has changed as mentioned earlier) see Decree 25 of 1991 section 2, sub-section ٩.

(ii) Section 6 (2) empowers the Cent al Bank to prescribe the minimum ratio of capital to loans and advances. The Central Bank does this through the monetary policy circulars (see section 13 of Decree 25 men ioned above).

(iii) Section 13 (1.a) limits lending t› any one person, to 331/3% of the banks paid and statutory reserves. (See section 2((a) of the Decree mentioned above).

(iv) The weighted risk assets ratio: This method of determining capital adequacy depends on the quality of Banks assets. It relates shareholders funds with the total of risky assets. Banks with a higher risk portfolio of assets will need more capital than a bank with a safe liquid portfolio of assets. Level of capital prescribed, therefore, is in cognisance of assets at risks and liabilities subject to withdrawal. Assets are grouped according to their relative degre › of liquidity and risk. Depending on the degree of liquidity, capital support or cove will vary from zero for cash items to 100% for bank fixed assets. The Central bank h is designed a form for this purpose. The form is used by its bank examiners

There are some factors that also ‹ ompound the problem of capital adequacy e.g. banks growth and inflation.

Pace (1985) suggested methods of improving capital adequacy:-

(1) By a rise in bank's profits
(2) By decreasing dividend an d increasing retained earnings.
(3) By showing bank's growtl rate and
(4) By raising new share capi al.[2]

There could be other methods; all depends upon the variables at the disposal of management.

DEPOSITS

Deposits are important to banks because they constitute about 80% of banks funds. Customers place these funds and they place the obligation on banks to make payments when demanded. Deposits therefore, are the largest single source of bank funds, ipso facto; the management of these deposits are key elements in bank profitability.

Other deposit implication are cost of funds to the bank, money source to the economy and man power needs, all having profit implications to banks. Deposits are only regulated by the application of interest rates during the period of regulation, but were subjected to market forces as interest rates were deregulated (see Appendix 4).

LOANS AND LIABILITIES

These are often supplements to deposits. When the need arises, banks go to other banks to borrow funds in the form of re-discounts, bills payable, acceptances and debentures. This too has profit implications to banks.

4.2b. **USES OF BANK FUNDS**

There are a number of factors that influence how banks put the funds at their disposal into use. It should be noted however that the use of bank funds has a direct relationship to the various types of assets acquired. There are perhaps two major groups that exert pressure on how banks use their funds, viz. shareholders and depositors. The former for profit reason while the later for liquidity purposes.

The drive for profit to satisfy shareholders always runs counter to the liquidity desires of depositors. The challenge is how to strike a balance between high earning assets of loans and advances and low earning assets of liquidity. Because loans and advances create liquidity problems while liquid assets create constraints.

Besides these basic constraints, there are other constraints that arise in the use of bank's funds namely:-

1. Economic environment: The demands of market condition influence portfolio management.

2. Government/Regulatory frame work. Thi came in the form of government development drive and the need for even development. Thi places some restriction on how bank use funds. In Nigeria there is a sectoral allocation of loa ns (see table 4.2 p. 59).

   The Central Bank of Nigeria is charged v ith the responsibility of regulating banks through the monetary policy circulars.

3. Banks mission statements: The goal and objectives, viz-a-viz its philosophy of operations as influenced by management thinking, det rmines how funds are put into use by banks. This thus, influences which sectors of the econ my benefits most in terms of loans and advances and therefore, influence profit.

Finally, an understanding of banks assets structu e, which in essence is how banks have applied funds, give an insight as to how banks have faired wi hin the regulatory frame work. It could also reflect management thinking and direction.

"The understanding of banks assets structure alsc helps to measure capital adequacy, liquidity and give an insight into bank profitability. It is also adva ced, that the use of bank's funds also gives insight to the trade-off between liquidity and profitability and indicates management attitude to risk."[3] Banks assets are basically classified into the followin : liquid assets, loans and advances and investment. They are briefly looked into, as there are regulati ns governing their behaviour, which have implication to bank profitability.

LIQUID ASSETS

These basically, are sub-divided into primary and secondary reserves briefly discussed as follows:

PRIMARY RESERVE

These are cash assets of banks. One major reaso n why banks require this is to ensure solvency. Banks need cash to meet some of these demands, depo itor withdrawals, and demands of customer for loans and advances and investments. In other words, t ey need cash for creditors and debtors. However,

banks may violate the need for liquidity in pursuit of high earning assets like loans and advances and this may create liquidity constraints and lead to depositors loss of confidence and thereby bank failures. This then produces ripple effects in the economy and on profit. This also creates deficiency in cash. See table 4.1 for CBN cash reserve requirements.

TABLE 4.1.

CLASS	CASH RESERVE REQUIREMENT TOTAL DEPOSIT LIABILITIES	RATIO OF CASH TO DEMAND DEPOSITS (%)
A.	₦300 Million or more	5.0
	(₦ 1 Billion or more)	(9.0)
B	₦100 million or more but less than ₦300	4.0
	(₦500 million or more but less than ₦1 billion)	(8.0)
C	₦30 million or more but less than ₦100 million	3.0
	₦100 or more but less than ₦500)	(7.0)
D	Less than ₦30 million	2.0
	(Less than ₦100 million)	(6.0)

Source: CBN Monetary policy guidelines 1982 – 92

1. The figures in parenthesis represent the change introduced in 1990. The requirement between 1982 – 1989 remained the same.

Raymond Kent (1972) proffered four possible ways to remedy cash reserve deficiency:-

a. A bank could purchase the excess reserve of another bank:
b. A bank could recall its outstanding call loans;
c. Secondary reserve assets could be sold and
d. The bank could borrow from the CBN[4] or

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Another alternative is to stem withdrawal; either by restricting loans and advances or investments both.

SECONDARY RESERVE

These are short-term securities that can be easily converted to cash. They are also referred to as marketable securities.

Banks often argue against statutory cash reserve, emphasising that liquidity or solvency can be equally and adequately maintained by holding marketable short-term securities. These securities when needed can readily become cash as well as earn income for the banks.

However, to be classified as a secondary reserve, a security must be backed by high quality credit standing of the issuer. It must be free from default risk and readily marketable. They need also to be short term, to protect them against interest rates and market fluctuation.

Section 6 of the Banks and other Financial Institutions Decree of 1991 stipulates what is considered as liquid assets, which is not really different from the stipulations of Section 12 of the Banking Act of 1969. Liquidity ratio has oscillated between 25% as stipulated in the Banking Act of 1969 to 30% required in 1992. These securities, in reality provides for the channeling of excess liquidity of banks, which take the form of investment in money at call, bills discounted, treasury bills and certificates etc.

Just as in cash reserves, banks can face liquidity problems, which if not rectified, can attract a penalty. To rectify liquidity problems, the points adduced by Kent as quoted earlier are relevant in addition to attracting new deposit, the bank issue money market liabilities and negotiable and non-negotiable certificates of deposits etc.

LOANS AND ADVANCES

Loans and advances form a large chunk of bank assets and indeed the most important and as supposed to have a great influence on bank profitability. This also, influences general bank performances and invariably their standing on the Stock Exchange. This is so because they

provided greater yield on investment that co vers the higher cost incurred in loan administration as against the management of investment pc rtfolios. Without the regulatory frame work banks would have preferred to loan out all availab e funds for maximum profits. Shapiro and Steiner (1956) classified commercial bank loans an advances into four recognised ways:-

a. Classification by form i.e. loans disc ount and overdrafts
b. Classification by maturity i.e. dema d loans and time loans
c. Classification by Security i.e. secur d loans and unsecured loans
d. Classification by borrower i.e. co prises loans to customers or regular deposits to outsiders in open market and to oth r banks or bank's subsidiary.[5]

A fifth classification which in the real sens is covered by the above is classification by use, for example, agricultural loans, construction lc ans etc.

Loans and Advances are also important a s an indication of bank's ability to grant and meet borrower attitude. As earlier mentioned g anting of loans have the most important influence in the development of a nation's economy As resources are allocated to production – this determines what is produced, where it is produced and how it is produced. This necessitates government control on the granting of loa ns and advances as is evidenced in Nigeria. See table 4.2

TABLE 4.2

SECTORAL ALLOCATION OF LOANS AND ADVANCES

	SECTOR	PERCENTAGE ALLOCATION COMMERCIAL BANK	MERCHANT BANK
1.	Priority Sector	50	50
	a. Agricultural production	(15)	(10)
	b. Manufacturing Enterprises (2)	(35)	(40)
	OTHERS	(50)	(50)
	TOTAL (1 + 2)	100	100

Sources: CBN Monetary and policy guidelines 1987-92

1. Banks are to regard allocation to (1a) and (1b) as minimum and that of 2 as maximum.

2. This sub-sector does not include mining , quarry and construction, which were classified under this sub-sector up till 1986.

It may seem however; the banks were caged in running their affairs, prior to 1987 when deregulation was introduced. However, Magen S. D. (1971) postulates "that impression could be misleading as commercial banks are free to grant to customers, compete for small depositors funds or just concentrate on large accounts."[6] Banks operate in the same manner as a business concern and attempts to optimise its returns given the resources at its disposal. This is more so in Nigeria with the introduction of free market operations. Even before, the banks have always been declaring profits. All banks need to do, is develop strategies, policies and objectives unique to themselves for lending within the framework of the seeming regulation.

INVESTMENT

Banks need investment. This is so because there i a need for banks to hold assets that are readily convertible to cash, even though they earn less than loans and advance. Investments are also needed when demand for loans and advances decreases an excess liquidity develops. So investment is the alternative between holding idle cash and loans and advances which earn high interest.

Inspite of banks low interest in investment, it still needs to invest. There is a slight difference between investment and marketable securities, in that, investment tend to have longer maturity periods and less emphasis on marketability. This includes instruments like mortgages, debentures, notes, etc. In Nigeria, investments are also regulated as was contained in section 13 (1h, hi) of the Banking Act of 1969 as repealed, but did not change much in section 20 (2d – g) of Decree 25 of 1991.

We observed from records, that most bank investments are in government securities, mostly government development stock (see Appendix B). How much investment is done by banks, depends on some factors such as

a. Liquidity level of the bank.
b. The prevailing investment environment predicated by market conditions and
c. The level of demand for loans and advances, which can either cause banks to invest or sell off securities. This also is expected to have a lot of influence on bank profitability.

4.3 **LENDING PRINCIPLES AND POLICIES**

The management and administration of bank credit is a very complex matter, requiring the evolution of appropriate lending policies and the institutionalisation of operating procedures and guidelines to ensure smooth flow of work. This is more so in the Nigerian scenario aptly described by Abdullahi (1991) in a paper presented at the Bank Directors Seminar titled GENERAL IMPACT OF DEREGULATION ON BANKING PERFORMANCE CAPITALISATION AND COMPETITION.

He said "the customer himself forced by the competitive circumstances to be more sophisticated and discriminatory in his choice of facilities and services. Accordingly, the cost of the banks

investible funds and the shrinking overall margins indicate a future trend of profitability. The uptimum development and utilisation of all resources, particularly prudence in credit administration and portfolio management has become an even more critical element in Banking."[7] Underlining mine. Since this is important to bank profitability, I will elaborate a little further.

Inspite of the complexity in credit administration experts agree on certain basic consideration in loan policy. These are:-

1. Development of lending policies and ensuring compliance. This should be based on individual bank strategy or ideology taking into consideration liquidity, assets structures, gearing costs, income expectation etc.

2. Credit authorisation. Usually originated from Board of Directors and Senior Managers. Often delegated to credit committees and down the line to lending Officers. Consideration should however, be given to Officers training and experience.

3. Credit approval and reporting: This should specify regulations, channels of reporting and obtaining approval, documentation, collateral, limits credit that can be approved.

4. Pricing/Interest Charges: This should not be done discriminatively or arbitrarily, because it determines bank income, volume and character of the bank's loan portfolio.

5. Lending Strategy/Credit Review: Banks should ensure that all strategies are written down and understood by all loan officers Stating clearly objectives, desirable and undesirable loans and specify sectors targeted for special allocation. It should also specify pricing of loans.

   In credit review, officers should ensure payment schedules are adhered to. Defaulters investigated and reported promptly and recovery drive put in motion.

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6. Verbal communication and precedence: It is dangerous to grant loan on verbal communication. Therefore, a loan ought to be written. The limits to which officers can rely on precedence be spelt out. Appropriate documentation should be ensured and adequate collateral received. However, "the principal lending objectives of a bank is to provide growth, profitability and liquidity, inspite of the socio-political cum economic development objectives."[8]

"Successful lending, therefore, does not only means profit for the banker but also means the creation of new investment, new job opportunities, increase in capacity utilisation for manufacturing companies and in the final analysis the overall economic development of a country."[9] In pursuance of these objectives, a lending officer should have the following considerations in his mind.

(a) The borrower
(b) His Business
(c) His capital resource
(d) Amount required
(e) The purpose of the advance or loan
(f) The source of replacement
(g) Security and profitability.

To ensure a successful lending, the following procedures will be important to the loan's officer. He should answer the following questions:-

(1) How are the loans to be processed?
(2) What documents are required
(3) How should the document be treated;
(4) What report must be sent to Area Manager and Head Office Management

(5) What forms are to accompany the documentation and what returns should accompany the proposal

(6) What are the discretionary powers and levels operating in the establishment?

(7) What recommendations are to be forwarded?

Successful lending, however, depends on the ability of banks to develop strategies to overcome both the internal constraints of deposit base, liquidity requirements, shareholders funds and statutory limits to lending, as earlier stated. And the external constraints of economic climate, government regulation and CBN guidelines, credit ceiling and sectoral allocation of loans and advances, industry performance and political and social considerations. While managing the inherent lending risks of interest, credit, exchange, liquidity, concentration of assets and country.

Finally, "lending policies if properly articulated can provide a guide for safe, sound and profitable activity to a bank. If on the other hand, lending is haphazardly formulated, it can result in frustration and disaster."[10]

4.4 INCOME IN BUSINESS

Income to a lay man can mean profit, wages and or any increase in monetary terms from whatever source. However, that is where the simplicity ends. To the learned, determining income is freight with controversy. There is no one single agreeable mode of determining income acceptable to all.

The aim of this brief discourse is not to proffer all the arguments but to rather highlight that the approach to income determination depends on individual, organisational and indeed national definition of what income is. However, in business determination, there are two conflicting schools of thoughts, the economists and the accounting concepts.

The Economists concept as explained by HICKS (1946) and quoted by DIKKI (1984) define a man's income as "maximum value, which he can consume during a week, and expect to be as well off at the end of the week as he was at the beginning."[11]

This definition, if applied to business, implies the measurement of assets at the beginning and the end of a given or planned period. Income therefore by this position is made up of two

factors: the increase or decrease in net asse s that were the result of operations and the increase or decrease in net assets values that were he result of changes in the expected future value of those assets.

The accounting school, argue that this defi ition poses at least two main problems, viz.; that the determination of future outflows and infl ws which the definition requires, can at best be a subjective exercise with a highly suspect lement of certainty and thus uniformity. This will result in income computation being highl dependent on subjective management judgement. They argue further, that the applicable disc ount factor for present value computation is also not known and is subject to the uncertaintie of future conditions. So they simply reject the economist concept of income determinatio .

The accounting concept of income is simp y stated thus: that income is an increase in assets, an increase in wealth. The accountant believe that basically for income to be income:

1. It should not be a gift, appreciat on in assets value or additional investment in the business.

2. It should not necessarily be cash;

3. It should be the result of an exch ange of the product of business. The accountants further developed tests to aid the determination of income. These are the earning distributability and realisation tests

Their arguments on these tests are that, fo realisation, it attempts to answer the question when is income realised. Is it when it is support d by cash receipts or at order etc? The argument on distributability is that if it is an income or revenue it should be distributed i.e. profit should be out entirely, for it to be real income.

The argument of these positions, is not t e subject of this discourse. However, it suffices to know that with profitability comes the con cept of income. In Nigeria, the concept applied is the

Accounting concept. The variation is that revenue accruing from sales of items that are not the normal products of the enterprise and other transactions of a non-recurring nature are not included in the reporting of income.

To determine what is profit, firms should be able to measure the difference between inflows (revenue) and outflows (expenses). The net effect is profit. Where the inflows and outflows cannot be measured, the timing of recognition of profit is delayed to another period.

In Nigeria, the normal accounting reporting period is one calendar year (not necessarily January to December).

It is however, important to note that the exact measure of profit when the business concern is going on is not possible. Profit of a going concern are always estimates, since determination of exact profit are only possible when the business is liquidated and there are quite a number of interest groups that cannot wait until the business is liquidated. Such as managers to measure performance, owners who want return on investment and government for tax purpose. This is why the concept of accounting period came into existence. This is the concept, accounting period convention. The other concept, important to the recognition of accounting profit, is the matching concept, which requires cost be deducted from current period revenue i.e. cost should be related to revenue realised within a given period.

The concept of income determination is wider and deeper than has been discussed, but the aim here is to give a basic concept as to how income is determined so as to analyse properly the profitability of banks under study. However we should also note that banks render services and cost are incurred in the discharge of these services.

4.5. ANALYSIS OF PROFITABILITY

From the beginning of this Chapter, we set out to establish the scenario in which banks operate in Nigeria and to highlight both the internal and external constraints to bank operations during the period of interest regulation and deregulation, which have implications to profitability. We have also established that some of these constraints are "normal" constraint. Indeed they are safe guards put in place for the continued existence and performance of banks. But above all, it

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is also quite clear that banks can operate an l generate income as any other business within the existing regulatory framework. It all depe ıds upon the managerial skills and competence of management to design unique strategies pec liar to themselves in the generation of income.

It is with this view in mind that we now set ɔut to analyse and see how banks have fared within the two periods.

Whether deregulation has made banks more profitable or not. As earlier mentioned we did not set out to analyse the cause of profitability l ut to determined it and how this has influenced the behaviour of the shares of the banks on the s tock market.

In this section three (3) trends and ratios wil be analysed.

There are two groups of banks to be anal sed. Those quoted before deregulation and those quoted after deregulation. Intra and inter gr ɔup analysis will be done.

4.5a TREND OF OPERATING INCOME

As earlier mentioned profitability comes ɔn the premise of income generation. Here, the assumption is that, a firm that generates l igher income, ceteris peribus, should prove more profitable. However, in business it is hard ɔr all things to be equal. The value of this analysis is observing the growth of income or decr ase in it, which at face value indicates how well a firm, is performing. Two tables are used h ere. Table 4.3. and 4.4. Table 4.3, is compilation before deregulation, while table 4.4 is post deregulation. For table 4.3 1982 is used as based year while 1987 is used as the base for table 4.4

TABLE 4:3

TREND OF OPERATING INCOME

GROUP I

	BANKS	'87	88	%	89	%	90	%	91	%	92	%
1.	UBN	611276	773728	26.58	1059418	73.1	1420778	132.43	1824117	198.41	2699987	341.70
2.	FBN	692723	860274	24.19	1151494	66.3	1433440	106.93	1574711	127.32	2689324	288.23
3.	UBA	569172	641019	12.62	819637	44.1	1145831	101.32	1539910	170.55	2077626	265.03
4.	SBN	117606	210465	78.96	299322	154.1	345166	193.49	567916	382.90	611548	420

GROUP II

5.	PBN	28049	49042	74.84	84207	200.21	128772	359.10	178425	536.12	323766	1054.29
6.	OBN	46088	67481	46.42	80239	74.10	95704	107.66	131420	185.15	220476	378.38
7.	LBN	N/A	9022	-	24885	175.83	53588	493.97	59731	562.06	91606	915.36
8.	HBN.	N/A	2482	-	10425	319.85	15590	527.87	27206	995.69	52694	2022.19

* 1988 as the base year sincere to be mentioned on all tables.

SOURCE: Banks Annual Reports.

TABLE 4.4

TREND OF OPERATING INCOME

GROUP I

	BANKS	'82	'83	%	'84	%	'85	%	'86	%	'87	%
1.	UBN	284838	323178	13.46	378988	33.05	415737	45.96	476762	67.38	611276	114.61
2.	FBN	266024	306771	15.32	379216	42.55	448196	68.50	571484	114.82	692723	160.40
3.	UBA	232195	281387	21.19	285566	22.99	376270	62.05	441965	90.34	569172	145.13
4.	SBN	41529	62742	51.08	77666	87.02	81693	96.71	94614	127.83	117606	183.19

GROUP II

5.	PBN	N/A	601	-	2832	371.2	11069	1741.76	17267	2773.05	28049	4567.65
6.	OBN	N/A	N/A	-	N/A	-	319	-	34406	20.24	46088	46.68
7.	LBN*	N/A	N/A	-	N/A	-	N/A	-	N/A	-	N/A	-
8.	HBN*	N/A	N/A	-	N/A	-	N/A	-	N/A	-	N/A	-

* 1984 as the bas year

* 1985 as the base year.

SOURCE: Banks Annual Reports

Generally for the two groups, income continued to grow both during the period of regulation and deregulation of interest rates. Savannah Bank had the highest growth rate for both the periods in the first group, from 51.08% to 183.19% between 1982 – 1986 and 78.96% between 1987 – 1992.

In the second group only two banks had figures for computation during the period of regulation; progress Bank performed better although Owena Bank had figures for only three years.

However, during the period of deregulation, Highland Bank performed better in the group, with a growth of 509.22% - 1942.56 between 1987 – 1992.

On the whole income rose steadily in all the banks under study for the two periods, which should at face value, be indicative of profitability.

However, the proportion of growth between banks was higher during the period of interest deregulation than during the period interest rates were regulated for both groups.

4.5b. TREND OF OPERATING MARGIN (OPERATING INCOME-OPERATING EXPENSES

This trend establishes bank ability to control expenses and thereby generate income. The significance of this ratio is that it shows whether banks are improving their performance on a yearly basis. For this analysis two tables are also used, viz. 4.5 and 4.6.

TABLE 4.5

TREND OF OPERATING MARGIN

(OPERATING INCOME – OPERATING EXPENSES)

GROUP I

	BANKS	'87	'88	%	'89	%	'90	%	'91	%	'92	%
1.	UBN	83513	112333	34.51	152409	82.50	127492	52.66	14434	(-82.72)	109807	31.49
2.	FBN	106103	124375	17.82	163044	53.80	(145513)	(37.26)	(87313)	(17.64)	376071	254.74
3.	UBN	105891	83992	(-20.68)	101234	(-4.40)	116445	9.97	585	(-99.45)	15385	(-85.47)
4.	SBN	26185	29322	11.98	28219	7.77	19185	(-26.73)	5240	(-79.99)	10240	(-60.89)

GROUP II

5.	PBN	5498	6108	11.10	11671	12.28	16881	207.04	(3757)	(31.67)	4015	(-26.97)
6.	OBN	8830	13840	56.73	13084	48.18	2179	(-75.32)	28863	226.87	12584	42.51
7.	LBN	N/A	1142	-	7190	529.60	21526	996.67	3772	230.29	15942	1295.97
8.	HBN	N/A	618	-	3765	509.22	5636	811.97	3675	494.66	12623	1942.56

* 1988 as the base year

NB: Figures in parenthesis represent either a naira amount loss or a percentage decline over the base year.

SOURCE: Banks Annual Reports.

TABLE 4.5

TREND OF OPERATING MARGIN

(OPERATING INCOME - OPERATING EXPENSES)

GROUP I

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1.	UBN	83513	112333	34.51	152409	82.50	127492	52.66	14434	(-82.72)	109807	31.49
2.	FBN	106103	124375	17.82	163044	53.80	(145513)	(37.26)	(87313)	(17.64)	376071	254.74
3.	UBN	105891	83992	(-20.68)	101234	(-4.40)	116445	9.97	585	(-99.45)	15385	(-85.47)
4.	SBN	26185	29322	11.98	28219	7.77	19185	(-26.73)	5240	(-79.99)	10240	(-60.89)

GROUP II

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8.	HBN	N/A	618	-	3765	509.22	5636	811.97	3675	494.66	12623	1942.56

* 1988 as the base year

NB: Figures in parenthesis represent either a naira amount loss or a percentage decline over the base year.

SOURCE: Banks Annual Reports.

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TABLE 4.6

TREND OF OPERATION MARGIN

GROUP I

	BANK	'82	'83	%	'84	%	'85	%	'86	%	'87	%
1.	UBN	64970	61241	(5.74)	57078	(12.15)	81153	24.91	103777	59.73	83513	28.54
2.	FBN	43953	48297	9.88	49246	12.04	82944	88.71	145848	231.82	106013	141.20
3.	UBA	52410	55969	6.80	56266	7.36	63721	21.58	81904	56.28	105891	102.04
4.	SBN	10465	14658	40.07	15781	50.80	11826	13.01	17721	69.34	26185	150.22

GROUP II

5.	PBN *	N/A	(806)	-	(1523)	(88.96)	2646	228.29	3754	365.76	5498	582.13
6.	OBN **	N/A	N/A	-	N/A	-	4217	-	6761	60.33	8830	107.39
7.	LBN	N/A	N/A	-	N/A	-	N/A	-	N/A	-	N/A	-
8.	HBN	N/A	N/A	-	N/A	-	N/A	-	N/A	-	N/A	-

* 1983 as the base year
** 1985 as the base year

NB: Figures in parenthesis represent either a naira amount loss or a percentage decline over the base year.

SOURCE: Banks Annual Reports.

During the period of interest regulations, Savannah Bank once again showed consistent growth from 40.07% to 150.22% between 1982 - 1986. UBA also experienced a steady growth of between 60.80% to 102.04 in the same period. Union Bank experienced a negative growth in 1983 and 1985 but posted a growth of 24.91 and 59.7% in 1985 and 1986 but experienced a decrease of growth of 31.19% in 1987. First Bank on the other hand posted the highest growth of 231.83% but decrease with 90.62% in the next year. The two banks with figures analysed in the second group experienced steady growth. Progress Bank rose from 88.96% to 582.13 in 1987.

During the period of deregulation all the banks in group I posted negative growth in 1991, with UBA having the highest decline of 99.45%. Only Union Bank and First bank experienced an increase in 1992 of 31.49 and 254.74 respectively. No Bank in this group experienced consistent group. All banks experience at one point in time a decline in operating margin.

The second group however, performed better with Highland Bank experiencing a more consistent growth of between 509.22% to 1942.55% in 1989 – 1992.

Generally performance here was not consistent especially during the period of deregulation and this spells doom for profitability.

However, a worthy point to note is that group II banks did better in 1991 and 1992 than Group I. It should be recalled that stabilisation securities were introduced in 1992 to mop up excess liquidity, this may have hit Group I banks more in view of their deposit based. (See trend of deposit 4.7a). However, it could also mean that Group II banks have managed their expenses than Group I banks in relation to revenue generated.

4.5c. **GROSS PROFIT MARGIN**

(RATIO OF INCOME BEFORE TAXES TO OPERATING INCOME)

This ratio, measure the impact of management in cost control and income generation. It indicates what proportion of operating income is available to cover other expenses like taxation, vice versa, it indicates what proportion operating expenses consumed. This is a litmus test for operating efficiency of banks and management control of operations.

The ratios are compiled on table 4.7.

TABLE 4.7

GROSS PROFIT MARGIN

(PROFIT BEFORE TAX)
(OPERATION INCOME)

GROUP I

	BANKS	'82	'83	'94	'95	'96	'87	'88	'89	'90	'91	'92
1.	U.B.N	0.228	0.190	0.151	0.195	0.218	0.137	0.145	0.144	0.090	.0.008	0.041
2.	F.B.N	0.165	0.157	0.130	0.185	0.255	0.153	0.145	0.142	(0.102)	(0.055)	0.140
3.	U. B. A	0.226	0.199	0.197	0.169	0.185	0.186	0.131	0.124	0.102	0.000	0.007
4.	SBN	0.252	0.234	0.203	0.145	0.187	0.223	0.139	0.94	0.56	0.009	0.017

GROUP II

5.	PBN	N/A	(1.342)	(0.538)	0.239	0.217	0.196	0.125	0.139	0.131	(0.021)	0.012
6.	OBN	N/A	N/A	N/A	0.135	0.197	0.192	0.205	0.163	0.023	0.220	0:057
7.	L B. N	N/A	N/A	N/A	N/A	NA/	N/A	0.127	0.289	0.233	0.063	0.174
8.	H. B. N.	N/A	N/A	N/A	N/A	N/A	N/A	0.249	0.361	0.362	0.135	0.240

NB: Figures in parenthesis represent a decline (loss)

SOURCES: Banks Annual Reports

As is apparent on the table, all groups of banks showed declining ratios. The decline was much sharper in the year after deregulation of interest rates for Group I than for Group II. The worst hit was Savannah Bank, which declined from 0.233 in 1987 to 0.009 in 1992 and only rose to 0.17 in 1992. The highest ratio in group I of 0.255 was by First Bank in 1986 but recorded negative figures in 1990 and 1991. UBA and Union Bank registered better ratios in Group I than Savannah and First bank. However, UBA had higher ratios in the group, but UBA slumped to 0.000 and 0.007 in 1991 and 1992 respectively. General therefore, Union Bank is the best performer in the group which shows better management of operating expenses.

In Group II, Highland Bank posted higher ratios than all others did in the group although computation started in 1988. Progress Bank trailed the rest with lower ratios. In relation to available statistics, Highland Bank is the best performer. However, in view of the declining

ratios over the years, it looks sensible to po: tulate that the management of cost factors left much to be desired within the period of the study. Management control therefore became suspect. Of significance, is the obvious fact that rati s during the period of interest deregulation were seriously worse than the period of inter st rate regulation. It is quite glaring that bank performance under this ratio left much to b desired in the management of banks.

4.5d. **NET PROFIT MARGIN**

This is perhaps one of the most crucial ra os in the determination of profitability. Therefore, banks with higher ratios indicate they are nore profitable. This ratio shows the proportion of the operating income that is available to n anagement to dispose, as they deem fit. It is net of expenses and taxation. Table 4.8 shows th ratio computation.

TAB LE 4.8

NET PRO IT MARGIN

(PROFIT AFTER TAX)
(OPERAT NG INCOME)

GR OUP I

	BANKS	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92
1.	U . B N.	0.115	0.095	0.075	0.010	0.113	0.092	0.091	0.090	0.069	0.004	0.031
2.	F. B. N.	0.095	0.097	0.077	0.119	0.152	0.091	0.086	0.092	(0.143)	(0.020)	0.125
3.	U. B. A.	0.115	0.104	0.110	0.091	0.095	0.129	0.085	0.079	0.065	(0.004)	0.005
4.	S. B. N.	0.153	0.143	0.130	0.108	0.134	0.158	0.098	0.071	0.050	0.006	0.009
						GR OUP II						
5.	P.B.N.	N/A	(1.341)	(0.538)	0.217	0.147	0.124	0.075	0.089	0.083	(0.024)	0.007
6.	O. B. N	N/A	N/A	N/A	0.064	0.118	0.135	0.126	0.108	0.023	0.220	0.057
7.	L. B. N.	N/A	N/A	N/A	N/A	N./A	N/A	0.070	0.152	0.131	0.50	0.127
8.	H. B. N	N/A	NA/	N/A	N/A	N/A	N/A	0.189	0.118	0.246	0.121	0.152

NB: Figure in Parenthesis represent a decline (Loss)

SOURCE: Banks Annual Reports.

A closer look at the outcome of these rat os shows that there is not any much difference in the results as seen in the gross profit marg n ratio. As earlier seen, Savannah Bank was more profitable than all the banks in Group I l efore deregulation but declined sharply. However, in terms of general performance, the per ormance of Savannah and Union Banks are more desirable as they never recorded losses th roughout the period under review. Therefore, they are more profitable.

In Group II, the performance over time f Owena bank is more desirable. However, Highland Bank is the most profitable of the group However, the performance of Group II banks during the period of interest deregulation is mor desirable than Group I Bank performances. But as in the gross profit margin ratio, performanc e during the period of interest regulation is more than the period interest rates were deregulated especially for Group I. UBA however, is the worst hit by taxation in the Group as its ratios sl mped more sharply than other banks. On the whole however, it seems obvious that taxatior does not alter profitability of banks in Nigeria. All banks experienced fluctuations in this rat o.

4.5e. **GROSS PROFIT MARGIN ON TOT L ASSETS**

This ratio shows the efficiency of total ssets in the generation of gross profits of the Banks. This is, besides indicating manageme nt's acumen in generating income and controlling expenses. Analysed in relation to gross yield on total assets reveals the performance of banks using this ratio. For analysis of gross yi ld on total asset see table 4.12.

TA BLE 4.9

GROSS PROFIT MARG IN ON TOTAL ASSETS

(PROFI BEFORE TAX)
(TO AL ASSET)

C ROUP I

BANKS	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92	
1. U.B.N		0.020	0.016	0.014	0.0 9	0.020	0.015	0.018	0.019	0.014	0.001	0.005
2. F. B. N		0.014	0.012	0.010	0.0 6	0.024	0.016	0.026	0.027	(0.017)	(0.008)	0.022
3. U. B. A.		0.019	0.016	0.016	0.0 3	0.026	0.028	0.017	0.016	0.010	0.000	0.001
4. S. B. N.		0.024	0.021	0.019	0.0 4	0.047	0.034	0.032	0.022	0.009	0.002	0.003

GROUP II

5.	P. B. N.	N/A	(0.046)	(0.021)	0.017	0. 26	0.026	0.016	0.017	0.016	(0.003)	0.002
6.	O. B. N.	N/A	N/A	N/A	0.012	0. 16	0.018	0.026	0.028	0.004	0.034	0.013
7.	L. B. N.	NA/	N/A	N/A	N/A	N A	N/A	0.009	0.022	0.038	0.010	0.029
8.	H. B. N.	N/A	N/A	N/A	N/A	N A	N/A	0.021	0.148	0.045	0.014	0.043

NB: Figures in parenthesis indicate a decline (loss)

SOURCE: Banks Annual Reports.

All banks experienced fluctuations in their gross profit margin between 1982 and 1984 and recorded rise in 1985 and 1986. From 1987 most banks experienced decline until 1992. The worst hit is First Bank that recorded loses in 1990 and 1991. Savannah Bank had the most consistent ratios followed by UBA in Group . Savannah Bank also recorded the highest ratio for the group of 0.047 in 1986. Savannah Bank and UBA are therefore more profitable.

In Group II, Highland Bank posted a 0.021 ratio in its first year of operation and had the most profitable ratios of between 0.014 to 0.048 the highest ratio in both groups.

Again Group II performed better during the period of interest deregulation while the Group I banks did better during the period interest rates were regulated.

However, all banks in both groups experienced declining ratios during the period deregulation of interest rates. It is also noticed that Banks in operation prior to deregulation recorded a rise in ratios in 1986 the year before interest rate were deregulated and declined till 1992, with the exception of 1988 and 1992 in some cases. Again management of operating expenses left much to be desired.

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4.5f. NET INCOME ON TOTAL ASSETS

This ratio establishes the relationship between income to total assets after all operating expenses and taxes are taken care of. This is the net income distributed either for expansion or cushion against losses from future operations. This therefore is the ultimate measure of overall bank profitability and the efficiency of management. The measure of gross yield on total asset and gross profit margin are employed to show banks ability to generate income and control

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expenses. Table 4.10 shows the performance of banks under this ratio.

TABLE 4.10

NET INCOME ON TOTAL ASSETS

PROFIT AFTER TAX
TOTAL ASSETS.

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GROUP I

	BANKS	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92
1.	U. B. N.	0.101	0.008	0.007	0.010	0.010	0.010	0.011	0.012	0.011	0.001	0.004
2.	F. B. N.	0.008	0.007	0.006	0.011	0.014	0.010	0.015	0.017	(-0.024)	(0.003)	0.020
3.	U. B. A.	0.009	0.009	0.009	0.007	0.013	0.019	0.011	0.011	0.007	(0.001)	0.001
4.	S. B. N.	0.015	0.013	0.012	0.010	0.034	0.024	0.023	0.017	0.008	0.001	0.001

GROUP II

5.	P. B. N.	N/A	(0.046)	(0.021)	0.016	0.016	0.017	0.010	0.011	0.010	(0.004)	0.001
6.	O. B. N.	N/A	N/A	N/A	0.006	0.009	0.013	0.016	0.018	0.004	0.034	0.013
7.	L. B. N.	N/A	N/A	N/A	N/A	N/A	N/A	0.005	0.011	0.021	0.008	0.021
8.	H. B. N	N/A	N/A	N/A	N/A	N/A	N/A	0.016	0.016	0.030	0.013	0.028

NB: Figures in Parenthesis indicate decline (Loss)

SOURCE: Banks Annual Reports.

Savannah Bank again proved more profitable overall in Group I followed by Union Bank for both groups. Again First bank recorded the worst ratio of (0.024) negative in 1990 (which is a loss).

In Group II, again, Highland Bank recorded the highest ratio of 0.030 in 1990 and the most consistent ratios, signifying it is the most profitable of the group. Progress Bank the worst with a (0.046) negative in 1983. Owena Bank followed Highland Bank as the next most profitable bank in the Group.

Again Banks in Group II, were more profitable during the period of interest deregulation while the Group I banks were more profitable before deregulation of interest rates.

However, all banks in both groups experienced declined in ratios after deregulation came into effect in 1987. So again bank performances were less than satisfactory within that period.

4.6. SHAREDHOLDER RELATED RATIOS

4.6a. **RETURN ON EQUITY:** This ratio tells you how profitable are each Naira contributed by the Shareholders. This ratio determines how much cash a share earns. This is calculated after all expenses and taxes have been taken care of from the operating income. Table 4.11 shows the performance of banks under the ratio.

TABLE 4.11

RETURNS ON EUQITY

PROFIT AFTER TAX
SHARE CAPITAL

GROUP I

	BANKS	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92
1.	U. B. N.	0.599	0.562	0.528	0.763	0.989	0.884	1.108	1.494	1.539	0.010	1.052
2.	F. B. N	0.293	0.347	0.338	0.620	0.939	0.644	0.702	1.002	(1.944)	(0.296)	4.151
3.	U. B. A.	0.409	0.418	0.420	0.456	0.561	0.982	0.730	0.863	0.989	(0.061)	0.100
4.	S. B. A.	0.332	0.370	0.418	0.317	0.453	0.530	0.592	0.606	0.494	0.100	0.100

GROUP II

5.	P. B. N.	N/A	(0.183)	(0.203)	0.320	0.337	0.279	0.147	0.301	0.425	(0.168)	0.093
6.	O. B. N	N/A	N/A	N/A	0.268	0.542	0.692	0.807	0.421	0.070	1.360	0.210
7.	L. B. N.	N/A	N/A	N/A	N/A	N/A	N/A	0.180	0.361	0.434	0.144	0.454
8.	H. B. N.	N/A	N/A	N/A	N/A	N/A	N./A	0.468	0.077	0.192	0.137	0.333

NB: Figures in parenthesis indicate decline (Loss)

SOURCE: Some Banks Annual Reports.

Over the years, Savannah Bank and Union Bank in Group I posted more consistent ratios, ranging from 0.010 in 1991 to 0.989 in 1986 for Union Bank, and 0.100 in 1991 to 0.606 in 1989 for Savannah Bank. UBA would have had the best earning per share until it lost 0.061 per share in 1991.

For all banks in Group I, inspite of some fl ctuations, recorded consistent rise in earning per share until 1990. They fluctuated in 1991 a id rose again in 1992. Generally, the ratios were more consistent during regulation of intere: t rates then during the period of deregulation of interest rates.

In Group II, the bank ratios were fluctuat ve. Nevertheless, Owena Bank posted the most consistent ratios. However, in the case Gro p II, banks performed worse during the period of deregulation of interest rates than Group I l anks, which performed better during the period of interest deregulation and during the period of regulation. However, the figures for regulation period were still better. The results of this atio should have influenced a great deal the prices of shares on the Stock Market (See price earning ration 5.4). Generally the ratios declined during deregulation.

4.6b. GROSS YIELD ON TOTAL ASSETS (R O I)

This ratio measures the management's effi iency in generating income with all the assets at its disposal for the owners and investors. This ratio is affected by a number of factors, viz. changes in income earning assets, chang s in portfolio to higher or lower yielding assets, changes in interest rates, management's p ush for higher yielding loans and other assets and changes in the amount of income earned fi om sources not related to the employment of funds. The movement of this ratio shows the suc ess or failure of management in the channeling of asset at their disposal profitably. (See tal le 4.5 for relationship between this ratio and gross profit margin on total assets). Table 4.12 s ows the trend of this ratio over the years

TAB LE 4.12

GROSS YIELD ON TOTAL ASSETS (ROI)

OPERAT NG INCOME
TOT/ L ASSET

GI OUP I

	BANKS	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92
1.	U. B. N.	0.090	0.086	0.093	0.09	0.090	0.106	0.122	0.133	0.154	0.139	0.113
2.	F. B. N.	0.083	0.074	0.079	0.08	0.095	0.102	0.179	0.189	0.169	0.139	0.158
3.	U. B. A.	0.082	0.083	0.080	0.07	0.040	0.148	0.127	0.133	0.101	0.121	0.112
4.	S. B. N.	0.095	0.091	0.096	0.09	0.251	0.152	0.231	0.144	0.169	0.186	0.150

GROUP II

5.	P. B. N.	N/A	0.035	0.040	0.072	0.118	0.134	0.129	0.125	0.118	0.153	0.190
6.	O. B. N.	N/A	N/A	N/A	0.089	0.079	0.092	0.124	0.170	0.153	0.157	0.218
7.	L. B. N.	N/A	N/A	N/A	N/A	N/A	N/A	0.069	0.075	0.163	0.152	0.167
8.	H. B. N	N/A	N/A	N/A	N/A	N/A	N/A	0.083	0.133	0.123	0.106	0.181

SOURCE: Banks Annual Reports

In Group I, Savannah posted both the highest ratio of 0.251 in 1996 and the most consistent range of ratios of between 0.95 in 1982 to 0.25 in 1986. Union Bank followed with more consistent ratios, indicating they are the more profitable of the group and indeed of the two groups.

In the second Group, Owena bank has highest ratio of 0.218 in 1992. Although, it did not post the most consistent ratios. The most consistent ratios were posted by Highland Bank, indicating its profitability.

However, there are slight variations in the ratios between the ratios of gross profit margin on total assets and this ratio. In that the ratios posted by the banks during the period of deregulation of interest rates were higher and more consistent than those posted during the regulation of interest rates.

This could be indicative of better application of asset base to generating income by the banks during the period of deregulation of interest rates. However, the entire management of operating expenses should still have been better, since results on the gross profit margin were weak.

4.6c. **TIME INTEREST EARNED:**

This ratio is often called the firms total interest coverage ratio. It measures the firm's ability to pay its contractual interest payment and still have enough income to cover operating expenses and taxes and generate income for its owners and investors. This also should influence profitability. The higher the ratios, indicates how well management has controlled the interest factor to generate revenue. Table 4.13 shows the trend of bank performance under this ratio.

TABLE 4.13

TIME INTEREST EARNED

OPERATING INCOME
INTEREST EXPENSES

GROUP I

	BANKS	'82	'83	'84	'85	'96	'87	'88	'89	'90	'91	'92
1.	U. B. N	4.42	3.24	3.05	3.33	3.04	2.57	2.95	2.79	3.77	2.85	3.09
2.	F. B. N	2.90	2.86	2.45	2.44	2.93	2.55	2.57	3.10	2.43	2.81	3.88
3.	U. B. A.	2.70	2.45	2.81	2.32	2.42	2.40	2.36	2.34	2.45	2.66	2.49
4.	S. B. N.	3.46	3.36	3.31	3.08	2.96	3.16	2.38	2.45	2.39	2.32	2.56

GROUP II

5.	P. B. N.	N/A	8.35	4.92	4.79	.41	3.05	2.46	2.65	2.25	1.99	1.85
6.	O.B.N	N/A	N/A	N/A	2.72	.95	2.79	2.81	3.71	2.94	3.60	2.84
7.	L. B. N.	N/A	N/A	N/A	N/A	N/A	N/A	3.21	3.30	2.09	1.79	2.57
8.	H. B. N	N/A	N/A	N/A	N/A	N/A	N/A	3,56	4.64	5.14	2.55	3.36

SOURCE: Banks Annual Reports.

In Group I, Union Bank had the highest interest coverage ratio of 4.42 in 1982 and declined to the lowest of 2.57 in 1987.

Union Bank is followed by Savannah Bank as the most consisted in interest coverage ratios. The interpretation here is, for example Union Bank had 4.42 times more than it paid as interest for the period. All banks in Group I, never at any point held less than 2 times what it paid as interest. This shows that banks generated enough income to cover both interest and expenses.

In Group II, Highland Bank had the most consistent ratio of 2.55 in 1991 to 5.14 in 1990. However, Progress Bank had the highest ratio of 8.35 in 1982 and dropped almost 50% the next year and continued till it dropped to 1.85 below the requirement of 2. So only in group two did any bank record a ratio below 2.

However, once again the interest coverage ratio of all the banks in the two groups, steadily fluctuated except for few exceptions, during the period of deregulation of interest rates.

Although the rates began to drop even before deregulation, the drop was less sharp during regulation period, than its erratic nature during the period of deregulation.

It could also be indicative of the gradual loss of control by management over the interest factor, in that they were paying far more than they were receiving. This may have contributed also to the distress of banks over time being experienced. However, it must be interpreted in relation to other ratios.

4.7. SUPPORTING RATIOS

4.7a. **TREND OF DEPOSITS:** Deposits, as earlier discussed, are the largest source of bank funds. The more deposits the bank attracts, all things being equal, provides the avenue for employing them to profitable ventures thereby generating income, hence greater profitability.

Therefore, a look at the trend of deposits will give us an insight into the availability of funds to banks, which can be employed to profitable means. The higher the deposits the greater the opportunity for profitability. Tables 4.14 and 4.15, shows the trend for both period of regulation and deregulation. Table 4.16 shows trend for all the two periods combined with 1982 as the base year, for comparative analysis.

TABLE 4.14

TREND OF DEPOSIT (PRE DEREGULATION)

GROUP I

	BANKS	'82	83	%	'84	%	85	%	'86	%	'87	%
1.	UBN	2853545	3275801	14.80	3381794	18.51	3380453	18.47	4000249	40.19	4073691	42.76
2.	FBN	2793200	3570313	27.82	4115546	47.34	4134070	48.00	4412745	57.98	5010455	79.38
3.	UBA	2548230	2939911	15.37	3114546	22.22	4319600	69.51	3932789	54.33	4766726	87.06
4.	SBN	390181	631313	61.80	746533	91.33	776867	99.10	816503	109.26	1331191	241.17

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GROUP II

5.	PBN *	N/A	9086		45034	95.64	113667	1151.01	158021	1639.17	183751	1922.35
6.	OBN **	N/A	N/A	N/A	N/A		272502		219791	(19.34)	298875	9.68
7.	LBN	N/A	N/A	N/A	N/A		N/A		N/A		N/A	
8.	HBN	N/A	N/A	N/A	N/A		N/A		N/A		N/A	

NB: 1982 as the base year
* 1983 as base year
* * 1985 as base year

SOURCE: Banks Annual Reports.

TABLE 4.15

TREND OF DEPOSIT (AFTER DEREGULATION)

GROUP I

BANKS	'87	'88	%	'98	%	'90	%	'91	%	'92	%
1. U.B.N	4073691	4876544	19.71	5782832	42.56	6379730	56.61	9739954	139.09	15712902	285.72
2. F.B.N	5010455	5646396	12.69	7958090	58.83	6633666	32.40	8286852	65.39	11965198	138.80
3. U.B.A.	4766726	5872884	23.21	8159295	71.17	9694080	103.37	11894450	149.53	17356193	264.11
4. S.B.N	1331191	1522975	14.41	1913147	43.72	1876341	40.95	2671332	100.67	3511781	163.81

GROUP II

5. P.B.N.	183751	352063	91.60	533133	190.14	873489	375.37	753600	310.12	1210160	558.59
6. O.B.N	298875	394328	31.94	238633	(20.16)	359904	20.42	548526	83.53	689108	130.57
7. L.B.N*	-	122675		317960	159.19	307952	151.03	363372	196.21	514024	319.10
8. H.B.N *	-	19362		31687	63.66	74167	282.05	180803	833.80	165663	755.61

NB: 1987 as the base year.

* 1988 as the base year

SOURCE: Banks Annual Reports.

Table 4.16

TREND OF DEPOSIT (1982 – 1992)

GROUP I

	BANK	'82	%	'83	%	84	%	'85	%	'86	%
1.	U.B.N.	2853545		3275801	14.80	3381794	18.51	3380453	18.47	4000249	40.19
2.	F.B.N	2793200		3570313	27.82	4115546	47.34	4134070	48.00	4412745	57.98
3.	U.B.A	2548230		2939911	15.37	4114546	22.22	4319600	69.51	3932789	54.33
4.	S.B.N	390181		631313	61.80	746533	91.33	776867	99.10	816503	109.26

GROUP II

5.	PBN *	N/A		9086		45034	395.64	113667	1151.01	158021	1639.17
6.	OBN **	N/A		N/A	N/A	N/A		272502		219791	(19.34)
7.	LBN	N/A		N/A	N/A	N/A		N/A		N/A	
8.	HBN	N/A		N/A	N/A	N/A		N/A		N/A	

NB: 1982 as the base year
* 1983 as base year
** 1985 as base year

SOURCE: Banks Annual Reports.

GROUP I

BANKS	'87	%	'88	%	'98	%	'90	%	'91	%	'92	%
1. U.B.N	4073691	42.76	4876544	70.89	5782832	102.65	6379730	123.57	9739954	241.33	15712902	50.64
2. F.B.N	5010455	79.98	5646396	102.15	7958090	184.91	6633666	137.49	8286852	196.68	11965198	328.37
3. U.B.A.	4766726	87.06	5872884	130.47	8159293	220.19	9694080	280.42	11894450	366.77	17356193	581.11
4. S.B.N	1331191	241.17	1522975	290.33	1913147	30.32	1876341	380.89	2671332	584.64	3511781	800.04

GROUP II

5. P.B.N.	183751	1922.35	352063	3774.79	533133	5767.63	873489	9513.57	753600	8194.08	1210160	13218.95
6. O.B.N	298875	9.68	394328	47.71	238633	(12.43)	359904	32.07	548526	101.29	689108	152.88
7. L.B.N	N/A		122675		317960	159.19	307952	151.03	363372	196.21	514024	319.01
8. H.B.N	N/A		19362		31687	63.66	74167	282.05	180803	833.80	65663	755.61

SOURCE: Banks Annual Reports.

In Group I, during the period of interest regulation all banks experienced consistent growth in deposits with the exception of Union Bank in 1985. Savannah Bank led with the highest percentage growth and consistency of between 61.90% in 1983 to 241.17% in 1987.

For Group II, Progress Bank led with both the highest and the most consistent for the group and Owena Bank recorded a decline of 19.34% in 1986 but improved to 9.68 in 1987.

During the period of deregulation, in Group I, UBA led the pack with a range of 23.21% in 1988 to 264.11% in 1992. However, Union Bank recorded the highest percentage of 285.72% in 1992. Only Savannah bank recorded a fall in growth in 1990 of 2.77%.

In Group II, Highland Bank led the pact during the period with a range of growth of 63.66% in 1989 to 233.80% in 1991 with a drop in 1992. The rate of growth for both groups was higher during the period of interest deregulation. The situation is still the same in table 4.16. Ordinarily this ought to have increased the rate of profitability of the banks.

4.7b **LOANS AND ADVANCES TO DEPOSIT RATIO:**

This ratio in conjunction with investment to deposit ratio (I have not used here) are applied to

indicate whether funds have been applied to profitable ventures and its possible degree of influence on bank income.

This will show management's posture towards risks and its attendant effect on profit. Table 4.17 shows the trend over the years of bank performance under this ratio.

TABLE 4.17

LOANS AND ADVANCES TO DEPOSIT RATIOS

GROUP I

	BANKS	1982	1983	1984	1985	1986	987	1988	1989	1990	1991	1992
1.	UNION BANK	0.580	0.469	0.454	0.442	0.462	0.460	0.457	0.412	0.415	0.178	0.240
2.	FIRST BANK	0.534	0.386	0.341	0.357	0.424	0.409	0.399	0.302	0.248	0.197	0.199
3.	U. B. A	0.596	0.551	0.499	0.326	0.374	0.377	0.342	0.373	0.258	0.205	0.210
4.	SAV. BANK	0.828	0.593	0.573	0.579	0.637	0.496	0.485	0.420	0.479	0.239	0.257
	GROUP II											
5.	PROG. BANK	N/A	0.158	0.385	0.438	0.466	0.551	0.371	0.251	0.176	0.108	0.154
6.	OWENA BANK	N/A	N/A	N/A	0.221	0.416	0.440	0.349	0.692	0.535	0.427	0.411
7.	LION BANK	N/A	N/A	N/A	N/A	N/A	N/A	0.114	0.194	0.216	0.129	0.139
8.	HIGL. BANK	N/A	N/A	N/A	N/A	N/A	N/A	0.012	0.173	0.251	0.129	0.313

SOURCE: Banks Annual Reports.

Considering all the restrictions on loans and advances as highlighted earlier and the liquidity demand and statutory requirements, and prior to deregulation of interest rate, Savannah Bank showed less aversion to risk by the highest ratios of 0.239 in 1991 to 0.828 in 1982. However, its ratios between 1982 to 1988 fluctuated and ranged between 0.828 of 1982 to 0.486 in 1988. Union Bank followed with more consistent ratios within the period with the highest ratio in 1982 of 0.580 and lowest of 0.442 in 1985. This shows perhaps that they must have generated more income than other banks during the period interest rates were regulated (see operating income table 4.3). The ratios of all banks slumped consistently except for a few during the period of interest deregulation. However, Savannah bank still posted the highest ratios for

Group I for the period between 1987 and 1992. The ratios fell from 0.496 to 0.239 in 988 although they picked up a little to 0.257 in 1992. Again Union Bank led with more consistent ratios. It shows therefore that Group I, banks applied about 35% of their deposits to loans and advances during interest regulation. While they applied about 25% to 50% of deposit to loans and advances during deregulation, with 1991 and 1992 having the lowest ratios. And that is the height of deregulation of interest rates.

In Group II, the two banks assessed before deregulation, Progress Bank posted higher ratios, However, during the period interest rates were deregulated Owena Bank did better, even better than the Banks in Group I. Her ratios never fell below 0.349 of 1988. She posted the highest ratio in 1989 of 0.692 and consistently posted 0.427 in 1991 and 0.411 in 1992, while Union Bank went as low as 0.129. With the exception of Owena Bank and Highland Bank no bank in the two groups posted a ratio of 0.3 in 1991 and 1992. In applying this ratio, therefore, Savannah Bank and Owena Bank would be said to have more of their deposits to loans and advances in Group I and II respectively.

CONCLUSION:

In this Chapter, we have attempted to briefly discuss the sources and uses of bank funds i.e. how bank receive funds (sources) which they employ to the generation of income (uses). We have, in doing so, highlighted the regulatory framework before and during the deregulation of interest rates within which the banks operated, which we felt have some influence on profitability of banks. We also discussed lending principles and policies, which will aid effective and successful bank lending and attendant constraints. We also discussed briefly how income is determined in business.

Finally, we have applied the ratios which are tabulated, and performed some preliminary analysis. We hope to do some more analysis in chapter VI. However, in the next chapter, we will analyse price earning ratios of the banks understudy.

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CHAPTER V

PRICE EARNING RATIO ANALYSIS

5.1. INTRODUCTION

In chapter two we discussed the history and operation of the Stock Exchange, how shares are valued and how primary and secondary shares are priced (see Section 2.7 and 2.7a in Chapter II) and how daily pricing of stock quoted on the exchange are carried out.

In this chapter, we want to bring to bear the profitability performances of the earning per share ratio and its impact on the market prices of the quoted bank stock.

This chapter therefore, is very crucial to the entire study: since the study set out to see how the deregulation of interest rates had influenced profitability of banks and how they have influenced the pricing of the shares of these banks on the stock exchange market.

As indicated at the beginning of the study, the closing prices are used for the analysis. It is our view that since the depreciation or applications of prices are controlled, variations within the year in price movement are limited. It is also our opinion that the controlled movement of price makes it easier to notice investor loss of confidence in a share. If a share actually depreciates then truly in the eyes of the investors, that share is not performing. We wish however, at this point to give an update on stock market floor.

5.2. PRICING UPDATE

In Section 2.7a of chapter two, we mentioned that there were agitations for price movement to be changed to percentage movement from the 20 kobo daily limit movement up of down.

That change has been effected and implemented. The price movement rules now on the stock market floor, is that at any given day, price movement of share up or down should not exceed 5% daily price. i.e. if a share is priced say, 500k at the opening of the market, its price movement cannot move up or down more than 5% which is 25k.

These posses some constraints on investors in analysing performance of shares as one needs a longer period of time to be able to determine the true performance of a share.

This in some way however brings equity to both highly priced and lowly priced shares.

Worthy of note is also another development on the stock exchange i.e. the introduction of the Clearing House called the Central Securities Clearing System Limited (CSCS).

With the introduction of CSCS Limited, the reign of share certificates have ended, for their issue is no longer required. The transfer of ownership is concluded within 5 days after transaction, unlike before, when it takes weeks. The introduction of the CSCS is aimed at reducing delay, risk and reduction in operational cost while increasing turnover, efficiency and profits for all involved.

5.3. TREND OF PRICES

In this section we are going to analyse the trend of prices for the two periods i.e. before and during deregulation of interest rates. This will show end of year price movement.

Since price movement is controlled, then the share that ended the year with a higher price than the opening price must have steadily appreciated through the year. It is therefore not far from reality to use closing prices which are usually the opening prices to calculate the price earning ratio. Table 5.1, shows the trend of yearly closing prices of the quoted banks.

TABLE 5.1

NSE END OF YEAR CLOSING PRICES

GROUP I

	BANK	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92
1.	UNION BANK	176	216	220	243	337	400	361	85	48	44	79
2.	FIRST BANK	188	209	203	234	339	416	349	176	144	95	96
3.	U. B. A	171	217	219	268	207	375	300	282	207	105	74
4.	SAVANNAH BANK	-	-		95	83	129	140	143	136	84	74

GROUP II

5.	PROGRESS BANK	-	-	-	-	-	-	81	106	89	57	
6.	OWENA BANK	-	-	-	-	-	-	-	75	84	70	53
7.	LION BANK	-	-	-	-	-	-	-	-	80	75	70
8.	HIGHLAND BANK	-	-	-	-	-	-	-	-	105	100	100

Computed from the daily pricing list of the NSE

- NSE (NIGERIAN STOCK EXCHANGE).

For group one, during the period before deregulation of interest rates, Union Bank has the most consistent positive price movement from 176k in 1982 to 400k in 1987. Although First Bank has the highest price per share during the period of 416k in 1987, its share price fluctuated in 1983 from 209k to 203k in 1984. UBA rose from 171k in 1982 to 375k in 1987 but fluctuated to 61k between 1985 and 1986. Savannah Bank quoted in 1985 rose from 95k in 1985 to 129k in 1987 but lost 12k in 1986 from 1985 price.

None of the banks in the second group was quoted during the period. It shows, therefore that if this price movement is a yardstick, the quoted banks performed well during the period before deregulation.

During the period interest rates were deregulated price movement became erratic. Generally price movements were downwards for all banks from 1988 to 1991 with the exception of

Savannah Bank which recorded an upward movement in 1988 and 1989 and went downward for 1990 and 1992.

UBA had the slowest consistent downward movement of 300k in 1988 to 74k in 1992. First Bank and union Bank had sharp drops with union Bank being the worst, dropping from 361k in 1988 to 44k in 1991 and went up with 35k in 1992. First Bank depreciated from 349k in 1988 to 95k in 1991 and appreciated with 1k in 1992.

For Group II, however, with the exception of an appreciation of 81k to 106k between 1989 and 1990 by Progress Bank and 75k to 84k registered by Owena Bank in the same period, all banks recorded decline in price movement.

However, Highland Bank registered the same closing price in 1991 and 1992. The share values of all the banks within the period interest rates were deregulated depreciated. Only Union Bank and First Bank recorded a slight appreciation of price in 1991 to 1992.

Market values of quoted bank stock were higher and grew during the period before interest rates were deregulated than during the period of deregulation.

5.4. PRICE EARNING RATIO

See table 4.11 for earning per share of banks and table 5.1, for prices. These ratios were used for the calculations of the price earning ratios.

The price-earning ratio actually shows the true market value of a firm's share in relation to its earnings. It represent the value investors place on the firm's performance (in this case banks).

Higher ratios here indicate that investors believe the firms are performing well. In this study the banks. It shows the ratio of how much investors are willing to pay to become co-owners of the banks.

As earlier mentioned this indeed is the litmus test, to test the impact of deregulation of interest rate on the pricing of quoted bank stock. Earning per share, results from the effective and

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profitable application of funds at the disposal of banks to general income. And for banks to generate income, the management of interest rates has to be effective and efficient, and as mentioned earlier more than 80% of bank operations are interest based. Hence, the relationship between deregulation of interest rates and share pricing in the stock exchange. Table 5.2, shows the trend of the performance of banks under this ratio.

TABLE 5.2

PRICE EARNING RATIO

MARKET PRICE
EARNING PER SHARE

GROUP I

	BANK	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	92
1.	UNION BANK	2.94	3.84	4.17	3.18	3.41	4.52	3.26	0.57	0.31	4.40	0.75
2.	FIRST BANK	6.42	6.02	6.01	3.77	3.61	6.46	4.97	1.76	(0.74)	(3.24)	0.23
3.	U. B. A.	4.18	5.19	5.21	5.88	3.69	3.82	4.11	3.27	2.09	(17.21)	7.40
4.	SAVANNAH BANK	N/A	N/A	N/A	3.00	1.83	2.43	2.36	2.36	2.75	8.40	7.40

GROUP II

5.	PROGRESS BANK		N/A	N/A	N/A	N/A	N/A	N/A	2.69	2.49	(5.27)	6.13
6.	OWENA BANK	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.78	12.00	0.51	2.52
7.	LION BANK	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.84	5.21	1.54
8.	HIGHLAND BANK		N/A	N/A	N/A	N/A	N/A	N/A	N/A	5.47	7.30	3.00

NB: Earning per share, the same here as in Return on Equity (ROE) (see table 4:11) see also table 5.1 for NSE closing prices used for computations.

* Figures in parenthesis represent loses per share price earning ratio.

SOURCE: Bank Annual Reports and NSE Closing Prices.

For group I, during the period before deregulation, earning per share of all banks were fluctuating. However, with exception of Savannah Bank, which recorded a ratio of 1.83 in 1986, no bank recorded a ratio below 2.43 First Bank had higher ratios and recorded the highest ratio of 6.46 in 1987 and its range of ratio between 1982 – 1987 were 3.61 to 5.88 for the same period.

Union Bank had a range of between 2.94 to 4.52 in the same period. Savannah Bank trailed the pack with a range of 1.83 to 3.00 for the same period, although the bank was quoted in 1985. This may not be too significant since the highest ratio they recorded was in their year of quotation and then declined. So the bank that performed better within the period is First Bank. Banks in the second group were not quoted during the period. It is our opinion, that the difference between any ratio, of earning per share and market prices below 1 represents a bad performance. Because, it means market prices have fallen below its earning per share and this on the long run spells doom for the firms since it will find it difficult to attract investment for development and growth, in the case of banks, deposits. And without deposits, banks cannot be profitable. In view of this therefore, during the period of deregulation, Group I banks performed very poorly in their price-earning ratio. Two banks, UBA and First Bank recorded losses, in 1990 and 1991, on their price-earning ratio. First Bank recorded the lowest ratio of 0.23 in 1992. Union Bank recorded ratios below 1 in 1989, 1990 and 1992. Besides the loss however, in 1991 by UBA it posted higher ratios second only to Savannah Bank with a range of ratios between 2.09 to 7.40 the highest being in 1992.

Savannah Bank however is the leading performer, with a consistent growth of between 2.36 in 1988 to 8.40 in 1991 and 7.40 in 1992. It also recorded the highest ratio of 8.40 for the group. It is therefore, the best performer under this ratio.

Generally, the ratios were much lower in the period between 1988 to 1992, than the period of 1982 to 1987. The trend was fluctuative and erratic. The story is not different from Group II, with Progress bank recording a 5.27 loss in price earning ratio in 1992. Owena Bank recorded the highest ratio of 12.00 in this group in 1990, which is the highest for both groups, but recorded 0.51 the next year to show how erratic the ratios were during the period. This may however, be the true reflection of the operation of market forces in view of the efficient markets theory.

To buttress this further, Union Bank recorded a ratio of 1.84 in 1990, rose sharply to 5.21 in 1991 and dropped sharply to1.54 in 1992.

However, the most consistent performer in this group is Highland Bank with a range of 3.00 to

7.30 even though this was not a consisten growth as they recorded 5.47 ratio in 1990, rose to 7.30 in 1991 and dropped to 3.00 in 199 . The best performers within the two groups were therefore, Savannah Bank and Highland I ank. Generally the performance of the banks were poor during deregulation. This is consiste it with the market prices recorded on table 5.1. The Banks performed badly in the market pla e during the period interest rates were deregulated. This shows the impact deregulation had on the performance of banks.

5.5. CONCLUSION

In this chapter, we discussed the pricing pdate and new development in the Nigerian Stock Exchange. We analysed the trend of price s of the quoted Banks stock using the yearly closing prices and finally analysed the price earnin ratios of the banks quoted.

In the next chapter we will undertake cri ical analyses of the result in Chapter IV and V in relation to the hypothesis and draw some c nclusions.

CHAI TER VI

CRITICAL ANALYSIS IN I ELATION TO HYPOTHESIS

6.1. INTRODUCTION

In the proceeding chapter we analysed the ratios of profitability to determine the banks which were profitable.

In this chapter, we intend to either validate or reject the hypothesis and discuss the findings in relations to the hypothesis.

However, it is necessary to understand tha so many economic changes occurred in the macro economic environment within the period c f this study. It is within this period that austerity measures were introduced in 1982 to c rrect certain economic conditions that were not favourable to economic growth in the count y.

In 1986 Structural Adjustment Progran me (SAP) was introduced by the Babangida administration which subsequently led to th deregulation of interest rates in 1987. Within this period also foreign exchange rates were de egulated. In 1991, capital requirements for banks were changed and increased, which create some operational constraints for banks. In 1992 stablisation securities were introduced to m op up excess liquidity. All these measures were introduced at one point to address the down urn in the economic growth of the nation.

This period was characterised by the followi ng:

1. Decrease in oil (Petroleum) revenue
2. Dependence on import of goods
3. Growth of budget deficit
4. Unhindered growth of inflation rate
5. Rapid acceleration of foreign debts
6. Low capacity utilisation
7. Unemployment growth.

These conditions created economic stress for all business enterprises, including the banks. Certainly all businesses have been affected by this situation. From the ratio observed, we can see that compared to the period when interest rates were regulated, bank performance deteriorated during the period interest rates were deregulated. For example even though banks attracted more deposit, loans and advances decreased. And as earlier stated, loans and advances was in fact the most income generating activity of banks. Generally, the profitability of banks decreased during the period interest rates was deregulated. Considering also the regulatory environment, the burden on banks to make profit was high. It is therefore with this in mind that we will now proceed to test the hypothesis for the study (Refer to section 1.4 for the hypothesis).

6.2. TEST OF HYPOTHESIS

Under hypothesis 1 the most profitable banks or the banks with higher performance ratios during the two periods for the two groups were Savannah Bank and Highland Bank respectively.

For Group I, Savannah Bank led in higher and more consistent ratios in all the ratios except the ratio of time interest earned which was used only to determine the handling of the interest factor by banks. This might have been indicative that bank income during the period was not highly interest based.

For Group II, Highland Bank performed better in the ratios except ratios of returns on equity and loans and advances. However, the bank ranked next in the ratios involved.

Looking at table 5.1, which showed the end of year, Yearly pricing movement, Savannah trailed during the period interests were regulated and also trailed during the period interest rates were deregulated.

Highland Bank was however the leader for Group II with higher and more consistent figures.

It therefore, shows that economic performance is not necessarily the only criteria for higher

share price. This agrees with the concep that all available knowledge about a company's prospect is "correctly" interpreted in share p ice. Factors other than economic performance that can influence a firm's share price are:-

a. Management
b. Programme of the company/informat on about the company
c. Rumours
d. Perception of the broker
e. The stock exchange itself
f. Disaster or unfortunate happenings

It is, therefore, clear that the findings of this study does not validate the hypothesis. Therefore, the hypothesis that quoted companies with greater economic performance will attract higher price per share, is rejected.

Under hypothesis two, the earning per sha e ratio is used to test this hypothesis that quoted banks with higher profitability ratios attra t higher price per share on the stock exchange market. It is our belief that whatever ratio s banks achieve yearly, one way or the other are reflected in their earnings per share ratio. Whatever ratios are posted, the bottom line is how much income per naira was generated. This esult translated into price earning ratio reflects the performance of the shares on the stock excha nge. For Group I, two banks predominantly led in almost all the ratios and these are Savannah a nd Union Banks. For Group II, it is Highland and Owena Banks. The same banks led in the esults of return on equity ratio (see table 4.11 in Chapter IV).

It is therefore, a safe conclusion that quoted banks with higher profitability ratios should return higher ratios in the returns on equity ratio. T herefore, higher profitability has direct relationship to returns on equity.

If this is so, it is assumed that quoted banks with higher profitability ratio will post high ratios on the price-earning ratio.

Looking at table 5.2, this assumption became congruent with the results as the banks mentioned posted higher price earning ratios. It is, therefore, expected that these banks should attract higher price per share on the stock exchange market.

Looking also at table 5.1, although, during period of interest rate regulation, Union Bank recorded higher share prices than all the quoted banks. The Bank recorded the lowest prices during the period interest rates were deregulated. Savannah Bank recorded the next lowest prices for Group I.

For group II however, Highland Bank recorded higher prices per share than all other banks during the period of deregulation but Owena Bank recorded the lowest prices during the same period.

Since the study is on the impact of deregulation, the results of the findings do not support hypothesis II, which says that quoted banks with higher profitability ratios would attract higher prices per share on the stock market.

The hypothesis is, therefore, rejected. It is therefore obvious that higher profitability ratios, do not translate into higher share prices. Other variables have influence on share price movement as well. Under hypothesis III, we sought to establish a relationship between higher deposits and profitability. Since it is established that deposits are the largest single source of bank funds, and since these deposits are used in the activities of generating income, then quoted banks with higher deposits should generate more income and higher income is assumed should lead to higher profitability. Higher profitability, it is considered should translate into higher prices per share on the stock exchange market.

Table 4.14 shows the trend of deposits for the two periods for all the banks under study. Savannah Bank and UBA recorded highest percentage rise in deposits for Group I for the two periods, since the ratio was calculated with 1982 as the base year.

Table 4.3 and 4.4, shows the trend of operating income for both periods of regulation and

deregulation of interest rates. The two periods were separated and each had a separate base year. During the period interest rates were regulated, Savannah Bank and First Bank had the highest percentage growth in Group I, while Progress and Owena Banks led in Group II, being the only banks with available figures in the Group.

During the deregulation of interest rates, Savannah and Union Bank led in Group I, while Highland and Progress banks led in Group II. The two trends agree for period of regulation of interest rates, but do not agree during the period of deregulation. It does show that higher deposits do not mean higher operating income. However, let us look at the trend of operating margin.

Table 4.5 and 4.6, indicated that during the period of regulation, Savannah Bank recorded higher growth rate while Union Bank fell to the last in the group and UBA came in third.

However, for Group I, and during the period of deregulation of interest rates Union Bank recorded higher percentage, while Savannah came last in the Group. On the other hand for group II, progress Bank came last while Highland Bank retained its position.

Table 4.10 shows the ratio of net income to total assets, which indeed is the true test of bank profitability. Savannah led during the period of regulation but was the worst performer during the period interest rates was deregulated. Union Bank had a more consistent performance.

It is quite clear in this study that higher deposits do not lead to profitability. They do not even have direct relationship to trend of income or trend of operating margin. It seems therefore, that they cannot lead to higher prices on the stock exchange market, since Savannah and Union Banks posted the lowest prices during the period interest rates were deregulated.

This goes to say that the results do not validate hypothesis III and it is, therefore, rejected. The entire three hypotheses have been rejected by the findings of the study.

6.3. GENERAL OBSERVATIONS

Although the three hypothesis have been rejected by the findings of the study, it was quite clear that deregulation of interest rates have had a tremendous impact on the general performance of the banks under study.

In all the ratios applied, the results of the ratios during period interest rates were regulated were much more desirable than those recorded during the period interest rates were deregulated. Does this, therefore mean that interest rates deregulation does not enhance bank profitability? We believe this not to be so.

It is our belief that deregulation exposed the true worth of banks in Nigeria by exposing them to the full glare of market forces. We also believe that it brought to the forefront, the way banks were managed and the need to review management approach to bank management in Nigeria.

We believe that regulation of interest rates removes the unpredictability of the market place and made managers complacent and less strategic in their thinking.

There is also the need to recognise that, the profitability of commercial banks in Nigeria was highly influenced by the monetary policy options exercised by the Central Bank of Nigeria during this period.

We also noticed that, all through, bank performance was not the only influence on share prices, even though it was an important factor, as prices on the stock market declined, performance of banks also declined.

One element of surprise, was the fact that, even as bank performances declined and share prices fell, banks were still attracting higher deposits. There are two possible reasons to this; it was either, there was too much money in circulation or the advance interest payment (known as upfront) influenced deposits during the period.

Loans and advances to deposit ratios also appreciated during the period interest rates were deregulated in relation to the ratios when interest rates were regulated, but the ratios of time

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interest earned declined.

Group II banks, were also observed to be more profitable during the period interest rates were deregulated, even though they were smaller banks compared to those banks in Group I. Perhaps the cost factors had profound influence in this regard, as bigger banks usually carry more overhead costs such as personal and administrative costs.

Generally, performance of banks within the period interest rates was deregulated declined.

6.4. CONCLUSION

In this Chapter, we applied the results to critically test the three hypotheses and found that the results have rejected all the hypotheses. We also made general observation from the results of the study.

In the next Chapter, conclusions have been drawn and recommendations made from the results of the study.

CHAPTER VII

CONCLUSIONS, RECOMMENDATIONS AND SUMMARY

7.1. INTRODUCTION

In view of the objective of this study and the hypotheses formulated, though all the hypotheses have been rejected by the findings of the study, we believe that inspite of the rejections, certain conclusions can be drawn from the findings of the study.

Inspite of the limitations of this study, the conclusions drawn could have far reaching impact on the activities of the banking industry in Nigeria.

7.2. CONCLUSIONS

The following conclusions are hereby documented.

1. That deregulation of interest rates, in line with the findings of this study, have made banks less profitable compared to the period before interest rates were deregulated.

2. That high percentage growth or rise in deposits does not necessarily translate into higher profitability ratios and therefore profitability.

3. We also concluded from the study, that higher ratios of operating income did not translate into profitability as the ratios of net income to total assets, indicated in this study. The element of cost control is very important to profitability, as the ratios of gross profit margin on total assets revealed, in relation to operating margin trend.

4. From the results of operating margin, gross profit margin, gross profit margin on total assets and gross yield on total assets, we concluded that poor management of operating expenses was generally responsible for poor profitability ratios observed in this study during the period interest rates were deregulated.

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5. In view of the declining ratios of loans and advances during the period interest rates were deregulated, it is concluded that bank's income did not largely come from fee based activities.

6. From the findings of this study, it was concluded that returns on equity, general performance of the banks, although important, did not translate to higher share prices on the Nigerian Stock Exchange Market. Other factors than the ones mentioned above, must have had greater influence on the behaviour of share prices on the stock exchange.

The general conclusion therefore drawn from this study, was that, the poor profitability ratios recorded during the period interest rates were deregulated centres on the inability of the management of these banks to control the behaviour of operating expenses on profitability.

Finally, we are therefore, left with no option than to conclude that deregulation of interest rates have had a profound influence on the behaviour of bank shares quoted on the stock exchange. In that profitability ratios declined during this period as share prices also declined.

7.3. RECOMMENDATIONS

Based on the findings and conclusions reached from this study, we wish to recommend as follows to improve banks performances:-

a. In view of the conclusion that banks did not rely only on interest income, we recommend that banks should explore more seriously, avenues of generating more income through the exploitation of interest based activities, which is their major area.

b. It was also clear, that poor management of operating expenses contributed immensely to poor profitability during the period interest rates were deregulated. Management therefore, should find ways of cutting costs, so as to generate more income. They should also enhance their revenue base.

c. It was also obvious that good management was the bane of banks. The management of the banks left so much to be desired during the period interest rates was deregulated. It

seems liberality brought with it reck lessness.

Therefore, bank Managers need to be oriented to the need for positive thinking with interest rates liberalisation. Such hinking would have reduced the number of banks distressed during the period.

d. There is also the need for shareh lders/investors enlightenment, in order to protect investors/depositors. This is ne ded because during this period, although bank performance was declining, yet t eir deposits were increasing. Many depositors suffered serious losses due to lack o adequate information.

e. This also highlights the need for the Nigerian Stock Exchange to train and license more stock brokers in order to take care of depositors and investor who are their cause for existence.

f. Inspite of the seeming low performa nce of banks during the period of deregulation, we recommend that interest rate shoul remain deregulated as it encourages competition and will eventually provide the cus omers good and better banking services as banks seek to compete against each othe . This will also encourage more banks to seek quotation on the stock exchange and diversify the ownership of these banks, aiding bank survival on the long run, as pow r diffusion will provide the needed control in management decision making.

.4. SUMMARY

The purpose of this study is to measure th impact, deregulation of interest rates had on the pricing of quoted bank stocks on the Nigeria n Stock Exchange market. This we did through the use of profitability and shareholder ratios an linked them to the stock exchange market through the application of the price-earning ratio.

The results have been analysed in the pr ceeding chapters. To recapitulate, however, in Chapter one we discussed the statement of he problem i.e. why the study needs to be carried out.

We also stated the objectives and the signif cance of the study and gave its scope and limitation.

In chapter two we went ahead to lay a the retical base for the study, and highlighted relevant areas to the study, such as a discussion of in terest rates and its operation, reviewed some studies on profitability. We also discussed the capi al market, the stock exchange and its functions, the Nigerian Stock Exchange, its history and d velopment. We looked at pricing of stock and the concept of deregulation in Nigeria and infl ence of privatisation and commercialsiation. We discussed the value of money and inflation, nd its influence in the economy.

In Chapter three, we laid down the research approach and the reason to adopt it. We explained the criteria used in the sample selection, we highlighted the method of data collection and the types of data collected. We went ahead to a gue the selection of the ratios to be applied to the data in the study.

In Chapter four we gave proper framework a nd understanding of the function and activities of the banks, we discussed the sources and u es of funds and how this is important to bank operations. We then went ahead to discuss ending principles and practices and the need for banks to develop articulated lending policies.

We also discussed how income was detern ined and the concept of income determination operational in Nigeria. We then went furthe to apply the ratios to the items of the balance sheets, to establish the relationship that reve ls, whether banks were performing profitability during the period interest rates were deregula ed and what impact this had on the performance of these bank shares on the stock exchange.

We saw that performance dwindled during thi period. We also established in this study, that bank performance and higher profitability rat os did not have a corresponding high price per share on the stock market.

As banks with higher ratios registered low sha e prices while banks with low ratios registered higher share prices, necessitating us to conc ude that higher profitability ratios during this period did not guarantee high prices of shares i the stock exchange.

In Chapter five, we did a pricing update c n the stock exchange price movement. We analysed the trend of price movement for the banks nd did analyse the price-earning ratio.

In Chapter six we did a critical analysis f findings in relations to formulated hypotheses and found all the hypotheses rejected by the fi dings.

We therefore, highlighted the general bservation from the study. In chapter seven we highlighted our conclusions and made rec mmendations and summarised the study.

It is therefore, our hope that this study wil improve this field of endeavour.

7.5. POSSIBLE RESEARCH AREAS

1. Profitability of small banks during deregulation of interest rates
2. Cost reduction techniques in large rban banks.
3. Analysis of managerial competenc to bank performance
4. Analysis of success of bank issues on the stock exchange.

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APPENDIX A

TABLE 14
SELECTED PREDOMINANT INTEREST RATES (PER CENT), 1970–1992

Rates (%)	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[1]
Minimum Rediscount Rate	4.5	4.5	4.5	4.5	4.5	4.0	3.5	4	5	5.0	6.0	6.0	8.0	8.0	10.0	10.0	10.0	12.8	12.8	18.5	18.5	15.5	17.5
Treasury Bills Rate	4	4	4	4	4	4.0	2.5	3	4	4.0	5.0	5.0	7.0	7.0	8.5	8.5	8.5	11.8	11.8	17.5	18.5	14.5	21.0
Treasury Certificate																							
(a) One-year maturity	4.5	4.5	4.5	4.5	4.5	4.5	3	3.5	4.5	4.5	5.5	5.5	7.5	7.5	9.0	9.0	9.0	12.3	12.3	16.4	18.2	15.5	22.0
(b) Two-year maturity	4.6	4.6	4.6	4.6	4.6	4.6	3.6	3.8	4.8	4.6	6.0	6.0	8.0	8.0	9.5	9.5	9.5	12.8	12.8	17.8	18.5	15.5	22.5
COMMERCIAL BANKS																							
1. DEPOSIT RATES																							
(a) Time																							
(i) 3-months	3	3	3	3	3	3	2.7	2.7	3.4	4.8	5.8	5.5	7.3	7.3	9.8	9.3	9.3	14.9	13.4	18.9	19.8	16.7	
(ii) 3-6 months	3	3	3.5	3.5	3.5	3.3	3.2	2.7	3.6	5.5	6.3	6.5	7.8	7.8	9.8	9.8	9.8	15.8	14.3	21.4	20.9	16.5	22.1
(iii) 6-12 months	4.5	3.5	3.8	3.5	3.8	3.3	3.2	2.7	3.6	5.5	6.3	6.5	7.8	7.8	9.8	9.8	9.8	15.8	14.3	21.2	20.9	16.5	20.5
(iv) Over 12 months	3.5	4	4	4	4	4	3.5	3.5	5.5	5.5	6.5	6.5	8.0	8.0	10.0	10.0	10.0	15.8	14.3	21.2	20.9	16.5	20.5
(b) Savings Rates	3	3	3	3	3	4	4	4	4.5	5.0	6.0	6.0	7.5	7.5	9.5	9.5	9.5	14.0	14.5	16.4	17.8	14.7	16.1
2. LENDING RATES																							
(a) First Class Advances	7	7	7	7	7	6	6	6	7	7.5	7.5	7.8	10.3	10.0	12.5	9.3	10.5	17.5	16.5	26.8	26.8	20.2	29.8
(b) Produce Advances	7.5	9	10	10	10	9	8	6	11	9	8.5	9.8	7.8	9.8	7.0	8.5	10.5	19.0	17.3	25.9	n.a.	n.a.	n.a.
(c) Other Advances	7.7	10	10	10	10	9	10	6	11	11	9.5	10.0	11.8	11.5	13.0	11.8	12.0	19.2	17.6	24.6	26.5	21.0	31.2
Federal Savings Bank[2]	2.5	2.5	4.0	4	4	4.5	5	5	5	5	6	6	8	7.5	9.5	9.5	9.5	14.0	14.5	16.4	17.8	14.7	n.a.

[1] Estimates.
[2] Federal Savings Bank started full commercial banking operation in 1988.

Source: Central Bank of Nigeria.

APPENDIX B

TABLE 15
MONEY AND BANKING STATISTICS, 1970–1992
(₦ ' Million)

	1970–74	1975–79	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[1]
Currency in circulation	463.2	1,988.5	3,569.5	4,347.7	4,728.8	5,299.3	5,347.1	5,375.0	5,696.3	6,854.9	10,210.5	13,110.3	16,212.5	25,331.2	39,199.1
Currency outside Banks	417.5	1,696.7	3,185.9	3,861.9	4,222.4	4,842.8	4,883.5	4,939.9	5,177.9	6,298.6	9,412.3	11,688.4	14,940.6	23,180.2	32,765.9
Demand Deposits	371.0	2,361.1	6,040.9	5,883.0	5,826.2	6,439.6	7,320.6	8,357.9	7,927.1	8,607.3	11,736.3	14,009.2	22,293.1	26,256.3	45,399.1
Money Supply (M1)	788.6	4,063.0	9,226.8	9,744.9	10,048.6	11,282.4	12,204.1	13,267.8	13,105.0	14,905.9	21,148.6	25,697.6	37,233.7	49,364.5	82,165.0
Quasi Money	550.2	2,429.9	5,170.6	5,803.2	6,845.4	8,086.5	9,396.4	10,550.8	11,487.7	15,088.7	21,631.7	20,525.3	27,699.0	36,788.0	53,115.1
Aggregate Credit (Net)	6,008.4	6,285.3	10,780.1	16,261.4	21,899.5	28,178.4	31,136.5	92,680.3	96,820.3	42,082.0	52,060.5	52,320.2	57,675.0	83,823.7	145,516.8
by CBN	1,108.9	4,018.0	1,713.2	5,491.3	8,475.0	11,591.0	10,711.5	10,265.3	16,510.8	16,210.8	22,776.0	19,795.1	24,273.9	32,122.7	86,258.1
by Commercial and Merchant Banks	4,899.5	2,267.3	9,066.9	10,770.1	13,424.7	16,587.4	20,425.0	22,415.0	20,309.5	25,871.2	29,284.5	32,525.1	33,401.1	51,701.0	59,258.7
to Private Sector	1,032.2	1,453.5	7,198.9	9,654.4	11,371.5	12,353.9	12,942.0	13,700.2	17,365.0	19,817.0	25,089.8	30,762.9	36,631.0	45,325.2	59,327.4
to Government	4,976.2	4,831.8	3,589.2	6,607.0	10,528.2	15,824.5	18,194.5	18,980.1	19,455.3	22,265.0	26,970.7	21,557.3	21,043.0	38,498.5	86,189.4
Liquidity ratio of															
Commercial Bank	71.7	54.5	47.6	38.5	40.4	63.4	52.1	[illegible]	[illegible]	[illegible]	39.4	59.8	59.4	36.4	31.4
Merchant Bank	[illegible]	[illegible]	[illegible]	[illegible]	49.1	81.1	82.2	93.7	47.9	39.5	30.4	27.1	30.7	29.6	24.7
CHANGES IN (%)															
Money Supply (M1)	—	441.9	50.1	5.6	3.1	12.3	8.2	17.6	-1.2	13.7	41.9	21.5	44.9	32.6	66.4
Aggregate Credit	—	609.0	21.7	50.8	30.3	33.1	10.5	5.0	12.7	14.3	23.7	1.5	26.8	45.3	73.6
Demand Deposit	—	536.4	59.1	-2.6	-1.0	10.5	13.7	14.2	-5.2	8.6	36.4	19.4	59.1	18.2	72.9
Credit to Government	—	-2.9	4.4	84.1	59.4	50.3	15.0	4.3	2.5	14.4	21.1	-20.1	40.8	82.9	123.9
Credit to Private Sector	—	56.8	32.8	34.3	17.8	8.6	4.8	5.9	26.8	14.1	26.6	22.6	19.1	23.7	30.9

[1] Provisional.

Source: Central Bank of Nigeria.

APPENDIX C

TABLE 12

FOREIGN EXCHANGE BUDGET AND DISBURSEMENT, EXCHANGE RATE AND RATE OF NAIRA DEPRECIATION, 1970–1992

	1970–74	1975–79	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[2]
FOREIGN EXCHANGE INFLOW ($' Million)															
Budget Allocation	2441.00	8953.90	11656.20	20667.50	14261.80	9951.80	10468.00	8964.80	6844.30	4974.00	7140.00	6479.00	7789.00	11855.00	7936.00
Actual Disbursement	1906.00	10171.80	17325.30	25316.0	18879.20	15094.50	11656.90	11724.80	6481.90	5270.30	6306.80	6729.50	9076.90	11347.50	8038.30
Difference Between Budget & Disbursement[1]	535.00	–1217.90	–5669.10	–4648.50	–4617.40	–5142.70	–1188.90	–2760.00	362.40	–296.30	833.20	–250.50	1287.90	507.50	–102.30
F.E.M. TRANSACTIONS															
Demand by Banks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a	n.a	n.a	n.a	2785.00	3259.60	17337.30	20196.60	9452.30	6435.6
Actual Allocation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a	n.a	n.a	n.a	2330.40	2879.00	2248.70	2630.90	3086.80	4045.7
Ratio of allocation/ demand	n.a.	n.a.	n.a.	n.a.	n.a.	n.a	n.a	n.a	n.a	83.68	88.32	12.97	13.03	32.66	62.9
EXCHANGE RATES (₦/$)															
Official	0.6707	0.5469	0.6052	0.6052	0.6733	0.7506	0.7672	0.8924	1.7323	3.9691	4.5367	7.3651	8.0378	9.8650	21.848
Parallel Market	n.a.	n.a.	n.a.	n.a.	n.a.	n.a	n.a	n.a	n.a	4.6008	6.0484	10.7000	9.4990	12.8142	22.243
Bureau de Change	n.a.	n.a.	n.a.	n.a.	n.a.	n.a	n.a	n.a	n.a	n.a	n.a	10.1300	9.5540	12.8104	22.802
RATE OF DEPRECIATION (+)/APPRECIATION (–)		–7.32	3.26	–0.00	–10.08	–10.32	–2.17	–14.03	–48.48	–56.36	–12.50	–38.38	–8.39	–18.57	–54.90

[1] (+) when budget exceeds disbursement and (–) when it falls short of it.
[2] Estimates
n.a. not applicable

Source: Compiled from Central Bank of Nigeria Annual Reports.

APPENDIX D

TABLE 8
INCOME, CONSUMPTION AND INFLATION IN NIGERIA, 1970–1992

	1970–74	1975–79	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[1]
National Income															
GNP Per Capita (₦)	91.8	474.4	700.8	650.1	647.9	734.9	763.2	847.4	863.9	1,114.1	1,492.8	2,019.3	3,155.1	3,321.8	1,059.9
GNP Per Capita (US $)	128.5	573.7	1,281.4	1,074.1	962.6	979.1	997.4	949.4	498.7	280.7	329.0	286.4	392.5	334.5	53.9
Growth Rate (%)															
GNP Per capita (₦)	23.4	22.5	15.2	–7.2	–0.2	18.4	3.8	11.0	1.9	29.0	34.0	35.3	56.2	5.3	–68.1
GNP Per capital (US $)	35.8	30.1	26.4	–16.2	–10.4	1.7	1.9	– 4.8	– 47.5	–43.7	17.2	12.9	37.0	–14.8	–83.9
Growth of Consumption (%)															
General Government	n.a.	n.a.	13.9	n.a.	n.a.	n.a.	n.a.	–3.6	–2.6	–2.6	–2.6	–0.3	10.8	8.1	–8.4
Private	n.a.	n.a.	5.0	n.a.	n.a.	n.a.	n.a.					0.16	1.4	2.2	3.13
Consumer Price Index (1985=100)															
Composite	13.1	29.8	42.3	51.2	55.1	67.9	94.7	100.0	105.4	116.1	181.2	272.7	292.8	330.9	478.4
Urban	—	32.3	44.1	53.2	57.3	68.8	97.1	100.0	110.1	117.8	176.5	270.2	291.9	343.9	514.3
Rural	—	32.0	42.1	50.8	54.8	67.8	94.4	100.0	104.7	115.9	182.2	273.3	293.4	325.3	471.4
Inflation Rate (%)	10.5	19.9	9.9	20.9	7.7	23.2	39.6	5.5	5.4	10.2	38.3	40.9	7.5	13.0	44.6

[1] Estimates.

Source: Central Bank of Nigeria.

KASHIM IBRAHIM LIBR

TABLE 16
MONEY MARKET INSTRUMENTS[1]
(₦' Million)

Instruments	1970–74	1975–79	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Treasury Bills	604.0	971.6	2,119.0	5,782.0	3,782.0	13,476.0	15,476.0	16,976.0	16,976.0	25,226.0	35,476.0	24,126.0	25,476.0	56,728.3	103,317.5
Treasury Certificates	270.0	1,178.0	2,727.6	2,307.6	1,668.6	4,834.4	6,413.1	8,354.1	6,654.7	6,654.1	6,794.6	6,944.6	34,214.6	34,214.6	34,214.6
Bankers Unit Fund	110.5	125.4	19.4	19.4	21.1	18.5	18.5	18.5	17.5	8.6	5.9	—	—	—	—
Certificate of Deposits	70.0	89.2	163.5	168.5	346.2	419.1	260.7	211.7	261.9	1,328.3	1,861.3	1,390.8	1,745.0	1,031.6	1,701.9
Commercial Papers	20.5	24.2	73.0	73.0	110.4	153.3	154.7	[illegible]	[illegible]	496.4	668.9	739.2	953.4	[illegible]	[illegible]
Eligible Development	30.5	32.6	31.7	31.7	93.8	90.5	87.4	26.2	14.6	28.3	38.4	11.6	3.6	0.0	0.0

[1] Value Outstanding as at December.

Source: Central Bank of Nigeria.

TABLE 17
SUMMARY OF FEDERAL GOVERNMENT FINANCES, 1980–1992
(₦ ' Million)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[1]
REVENUE													
Oil Revenue	12353.8	8564.4	7814.9	7253.0	8269.2	10923.7	8107.3	19027.0	19831.7	39130.5	55215.9	60315.5	115382.6
Non-Oil Revenue	2880.2	3615.8	3949.5	3255.7	2922.0	3765.4	4194.7	6027.8	7763.3	8667.8	13362.2	18325.5	23234.4
Total Fed. Collected	15234.0	12180.2	11764.4	10508.7	11191.2	14689.1	12302.0	25099.8	27595.0	47798.3	68578.1	78640.7	138617.0
Total Fed. Retained	12138.7	7269.6	7560.0	6234.1	6996.0	9723.3	7969.4	16129.0	15525.0	25893.6	39033.0	31774.5	63564.8
EXPENDITURE													
Total	23695.7	21[illegible].8	15368.2	11525.0	11686.7	12680.0	16756.8	22018.7	27749.5	41028.9	61149.1	67530.5	107723.3
Recurrent	15300.1	15541.9	7417.9	5636.5	6275.7	7215.3	7680.0	15646.2	19409.4	25994.2	36219.6	38243.5	69270.3
Debt. Service	(839.6)	634.1	874.4	742.0	759.6	980.5	(8902.1)	(7509.2)	(11345.5)	(19307.7)	(39545.1)	(46014.4)	(67359.5)
Capital	8395.6	5696.9	7950.3	5888.5	5412.0	5464.7	9076.8	6372.5	8340.2	15034.0	24929.5	29286.2	38453.0
BUDGET BALANCE													
Current Surplus(+)[2] Deficit (–)	6116.7	1990.8	313.1	1315.8	662.8	2425.0	272.5	483.4	–3884.4	–100.6	2813.4	–6469.0	10723.4
Overall Deficit/Surplus	–1975.2	–3708.5	–6104.1	–5070.7	–2615.1	–3039.7	–8254.3	–5889.1	–12224.5	–15134.3	–22116.1	–35755.9	–44158.5
FINANCING													
External Loans	255.3	464.4	[illegible]	[illegible]	[illegible]	[illegible]	708.1	832.7	1918.7	5719.0	1563.8	278.0	
[illegible]	636.2	352.7	340.2	7376.8	3450.2	2277.0	499.2	8339.4	10240.5	10020.0	27042.0	32107.1	45740.0
Banking System	872.6	2363.6	2989.2	5616.1	289.2	2491.4	498.9	4617.2	7773.9	6581.4	23677.1	31101.8	40922.6
Central Bank	310.1	3187.3	1975.9	3334.9	–646.0	820.5	6106.7	1475.6	9156.7	10708.6	18172.8	32848.5	44042.2
Comm. Bank	562.5	–823.7	1013.3	2291.2	353.8	1670.9	5700.8	3141.6	–1335.3	4013.4	5246.7	–2070.3	–3177.6
Non-Banking System	–236.4	1163.4	412.8	1760.7	558.2	–214.4	–0.3	3519.6	2466.6	3438.6	3364.9	1005.3	4817.4
Other Funding[2]	1083.7	–282.9	2438.6	–3413.7	–2019.6	–283.2	7047.0	–3283.0	1.7	–1390.4	–6923.9	2921.8	
Total Rev./GDP (%)	30.5	25.5	24.8	19.9	19.2	22.2	19.3	23.1	19.0	21.3	25.4	34.4	30.8
Total Oil Rev./GDP (%)	24.7	18.3	16.4	13.8	14.2	16.5	12.7	17.5	13.6	17.4	20.5	20.9	25.6
Total Non-oil Rev./GDP (%)	5.8	7.2	8.4	6.1	5.0	5.7	6.6	5.6	5.4	3.9	4.9	13.5	5.2
Total Expenditure/GDP	47.6	45.0	32.4	21.8	20.0	19.2	26.3	20.2	19.1	18.2	22.7	23.4	23.9
Total Debt Service/GDP	1.6	—	—	—	—	1.5	13.9	6.9	7.8	8.6	14.6	15.9	15.0
Overall Deficit/GDP[3]	4.0	7.9	12.8	9.7	4.5	4.5	13.0	5.4	8.4	6.7	8.2	12.4	9.8

[1] Provisional. [2] Includes Public, Special and Trust Funds, Treasury Clearance Funds. [3] GDP at Current Market Price.
Source: Central Bank of Nigeria Annual Report, various issues and CBN Statistical Bulletin, Vol.1, Nos. 1&2, 1990.

UNION BANK OF NIGERIA LIMITED

BALANCE SHEET
as at

30th September	1985	1984	1983	1982	₦ '000 1981
USE OF FUNDS					
Cash and short-term funds	2,28[illegible]996	2,120,206	1,900,201	1,235,039	771,697
Investments	[illegible]469	3,214	2,964	1,618	1,393
Loans and Advances	1,49[illegible]980	1,534,564	1,536,949	1,654,710	1,395,593
Other Assets	52[illegible]546	370,125	274,390	245,285	367,922
Fixed Assets	6[illegible]062	56,225	52,507	45,574	30,561
Total Assets	4,37[illegible]053	4,084,334	3,767,011	3,182,226	2,567,166
SOURCE OF FUNDS					
Share Capital	54[illegible]432	54,432	54,432	54,432	36,288
Statutory Reserve	66[illegible]137	60,943	53,755	46,102	37,947
Loan Stock Redemption Fund	[illegible]890	4,445	—	—	—
General Reserve	77[illegible]000	53,500	43,000	28,500	10,000
Profit and Loss Account	[illegible]423	177	635	342	20,683
Shareholders' Fund	206[illegible]382	173,497	151,822	129,376	104,918
11¾ Loan Stock 1988/1992	40[illegible]000	40,000	40,000	31,831	—
Deposits	3,380[illegible]153	3,381,794	3,275,801	2,853,545	2,318,280
Taxation, dividends, & Other Liabilities	742[illegible]718	489,043	299,388	167,474	143,968
	4,370[illegible]253	4,084,334	3,767,011	3,182,226	2,567,166
Contingent Liability	456[illegible]099	531,373	460,165	579,764	755,790

PROFIT & LOSS ACCOUNT
for the year ended

30th September	1985	1984	1983	1982	₦ '000 1981
EARNINGS					
Gross Earnings	415[illegible]737	378,988	323,178	284,838	201,817
Less: Interest Paid	124[illegible]764	124,061	99,857	71,999	45,618
Net Earnings	290[illegible]973	254,927	223,321	212,839	156,199
EXPENSES					
Overhead Expenses	139,[illegible]40	131,405	115,638	109,471	76,234
Bad and Doubtful Debts (Prov.)	56,[illegible]27	53,129	34,739	28,955	13,930
Depreciations	14,[illegible]53	13,315	11,703	9,443	5,838
	209,[illegible]20	197,849	162,080	147,869	96,002
Profit Before Taxation	81,[illegible]53	57,078	61,241	64,970	60,197
Taxation	39,[illegible]03	28,327	30,630	32,347	30,396
Profit After Taxation	41,[illegible]50	28,751	30,611	32,623	29,801
Unappropriated Profit b/f	[illegible]77	635	342	20,683	14,864
	41,[illegible]27	29,386	30,953	53,306	44,665
APPROPRIATIONS					
Statutory Reserve	5,1[illegible]4	7,188	7,653	8,155	7,450
Loans Stock Redemption Fund	4,4[illegible]5	4,445	—	—	—
General Reserve	23,5[illegible]0	10,500	14,500	18,500	10,000
Bonus Issue	—	—	—	18,144	—
Proposed Dividend	8,1[illegible]5	7,076	8,165	8,165	6,532
	41,3[illegible]4	29,209	30,318	52,964	23,982
Unappropriated Profit c/f	4[illegible]3	177	635	342	20,683

UNION BANK OF NIGERIA PLC

BALANCE SHEET

as at

September 30th,	1985	1986	1987	1988	N'000 1989
USE OF FUNDS					
Cash & Short Term Funds	2,285,996	099,199	3,311,101	3,452,969	5,183,950
Investments	5,469	5,469	6,469	6,219	8,389
Loans & Advances	1,492,980	845,956	1,872,215	2,228,879	2,380,226
Other Assets	522,546	274,535	456,880	523,074	243,059
Fixed Assets	63,062	73,391	100,916	124,626	170,444
Total Assets	4,370,053	928,550	5,747,581	6,335,767	7,986,068
SOURCE OF FUNDS					
Share Capital	54,432	54,432	63,504	63,504	63,504
Statutory Reserve	66,137	74,254	81,274	90,069	101,927
Loan Stock Redemptn. Fund	8,890	13,335	17,780	22,225	26,670
Exchange Diff. Reserve	0	41,191	44,069	50,579	92,742
Revenue Reserves	77,423	16,503	141,964	186,382	249,069
Shareholders' Fund	206,882	99,715	348,591	412,759	533,912
11 3/4% Loan Stk.('88/92)	40,000	40,000	40,000	32,000	24,000
Deposits	3,380,453	00,249	4,073,691	4,876,544	5,782,832
Tax. Div & Other Liab.	742,718	58,586	1,285,299	1,014,464	1,645,324
	4,370,053	28,550	5,747,581	6,335,767	7,986,068
Contingent Liability	456,099	5,192	511,946	926,625	1,110,760

PROFIT & LOSS ACCOUNT

for the year ended

September 30th,	1985	1986	1987	1988	N'000 1989
EARNINGS					
Gross Earnings	415,737	,762	611,276	773,728	1,059,418
Less: Interest Paid	124,764	,585	238,122	262,141	379,600
Net Earnings	290,973	177	373,154	511,587	679,818
EXPENSES					
Overhead Expenses	139,640	022	212,405	277,997	399,508
Bad/Doubtful Debts (Prov)	56,027	041	60,467	99,896	99,062
Depreciations	14,153	337	16,769	21,361	28,839
	209,820	400	289,641	399,254	527,409
Profit before Taxation	81,153	777	83,513	112,333	152,409
Taxation	39,603	928	27,355	41,974	57,543
Profit after Taxation	41,550	849	56,158	70,359	94,866
NERF Levy	0	(482)	0	0	0
Prior Yr.'s Adjustment.	0	698	0	0	0
Unappropriated Profit b/f	53,677	723	116,503	151,036	195,454
	95,227	888	172,661	221,395	290,320
APPROPRIATIONS					
Statutory Reserve	5,194	631	7,020	8,795	11,858
Loan Stk. Redemption Fund	4,445	445	4,445	4,445	4,445
Bonus Issue	0	0	0	0	0
Proposed Dividend	8,165	809	10,160	12,701	15,876
	17,804	1,885	21,625	25,941	32,179
Unappropriated Profit c/f	77,423	116,103	151,036	195,454	258,141

UNION BANK OF NIGERIA PLC

BALANCE SHEET
as at

N'000

September 30,	1990	1991	1992	1993	1994
USE OF FUNDS					
Cash & Short Term Funds	326,173	947,446	3,012,059	5,434,252	5,331,047
Balances With Other Banks	4,199,569	6,641,100	14,138,113	17,397,421	15,945,847
Investments	17,809	39,815	62,648	77,870	77,973
Loans & Advances	2,650,211	1,736,617	3,773,168	4,218,678	7,105,544
Bills Discounted	1,310,778	1,570,523	110,481	1,237,053	10,433,686
Equipment On Lease	–	10,400	71,810	83,103	114,945
Other Assets	297,864	1,656,808	1,304,869	2,074,805	2,593,483
Fixed Assets	439,165	563,728	1,396,478	1,484,914	1,912,208
Total Assets	9,241,569	13,166,437	23,869,626	32,008,096	43,514,733
SOURCE OF FUNDS					
Share Capital	63,504	79,380	79,380	79,380	158,760
Statutory Reserve	114,139	115,330	127,860	195,715	258,745
Loan Stock Redemption Fund	31,115	31,115	–	0	0
Exchange Difference Reserve	129,785	144,192	401,151	456,119	476,773
'Reserve for Bonus Issue	–	–	–	–	39,690
Revenue Reserves	314,235	298,359	380,629	717,513	860,356
Shareholders' Funds	652,778	668,376	989,020	1,448,727	1,794,324
Assets Revaluation Surplus	–	–	228,675	228,625	228,625
Deposits	6,379,730	9,739,954	15,712,902	20,114,764	28,037,838
Tax, Dividend & Other Liabiliti	2,209,061	2,758,107	6,939,029	10,215,980	13,453,946
	9,241,569	13,166,437	23,869,626	32,008,096	43,514,733
Contingent Liability	1,221,564	1,562,237	2,980,779	2,941,311	4,046,317

PROFIT & LOSS ACCOUNT
for the year ended

N'000

September 30,	1990	1991	1992	1993	1994
EARNINGS					
Gross Earnings	1,420,778	1,824,117	2,699,987	3,937,714	5,794,505
Less: Interest Paid	512,585	641,084	873,916	1,224,806	1,494,175
Net Earnings	908,193	1,183,033	1,826,071	2,712,908	4,300,330
EXPENSES					
Overhead Expenses	573,405	716,490	854,910	1,530,914	2,492,873
Provision for loan losses	152,710	367,610	731,828	352,168	853,640
Depreciations	54,829	84,499	129,526	215,067	352,474
	780,944	1,168,599	1,716,264	2,098,149	3,698,987
Profit before Taxation	127,249	14,434	109,807	614,759	606,309
Taxation	29,550	6,496	26,277	162,392	186,110
Profit after Taxation	97,699	7,938	83,530	452,367	420,199
APPROPRIATIONS					
Statutory Reserve	12,212	1,191	12,530	67,855	63,030
General Reserve	–	–	51,155	336,884	261,913
Proposed Dividend	15,876	6,747	19,845	47,628	95,256
	28,088	7,938	83,530	452,367	420,199

FIRST BANK OF NIGERIA LIMITED

BALANCE SHEET
as at

31st December,	198-	1983	1982	1981	N'000 1980
USE OF FUNDS					
Cash and short-term funds	2,413,811	1,658,364	1,052,426	755,092	935,467
Investments	162,305	227,280	217,304	205,029	392,976
Loans and Advances	1,402,456	1,376,705	1,490,132	1,339,420	1,039,239
Other Assets	698,103	783,469	356,507	280,097	195,621
Fixed Assets	104,359	89,526	73,874	61,909	47,584
Total Assets	4,781,034	4,135,344	3,190,243	2,641,547	2,610,887
SOURCE OF FUNDS					
Share Capital	86,136	86,136	86,136	86,136	55,578
Share premium	—	—	—	—	1,158
Statutory Reserve	62,900	55,600	48,100	41,700	34,500
Preference Shares Redemption Fund	8,750	6,250	3,750	1,250	—
Profit and Loss Account	30,289	22,365	15,769	12,690	8,142
Shareholders' Fund	188,075	170,351	153,755	141,776	99,378
Deposits	4,115,546	3,570,313	2,793,200	2,262,066	2,141,980
Taxation, dividends & other liabilities	477,413	394,680	243,288	237,705	369,529
	4,781,034	4,135,344	3,190,243	2,641,547	2,610,887
Contingent Liability	361,001	303,342	364,989	306,300	247,573

PROFIT & LOSS ACCOUNT
for the year ended

31st December,	1984	1983	1982	1981	N'000 1980*
EARNINGS					
Gross Earnings	379,216	306,771	266,024	209,598	126,633
Less: Interest Paid	154,530	107,418	91,837	54,884	36,068
Net Earnings	224,686	199,353	174,187	154,714	90,565
Expenses					
Overhead Expenses	138,326	124,085	108,658	91,868	53,865
Bad and Doubtful Debts (Prov)	30,315	21,319	16,864	8,011	3,759
Depreciations	6,799	5,652	4,712	4,131	1,934
	175,440	151,056	130,234	104,010	59,558
Profit before Taxation	49,246	48,297	43,953	50,704	31,007
Taxation	20,102	18,447	18,720	22,302	13,040
Profit after Taxation	29,144	29,850	25,233	28,402	17,967
Unappropriated profit b/f	22,365	15,769	12,690	8,142	10,659
	51,509	45,619	37,923	36,544	28,626
Appropriations					
Statutory Reserve	7,300	7,500	6,400	7,200	4,500
Preference Shares Redemption Fund	2,500	2,500	2,500	1,250	—
Bonus Issue	—	—	—	4,400	5,230
Proposed Dividend	11,420	13,254	13,254	11,004	10,754
	21,220	23,254	22,154	23,854	20,484
Unappropriated profit c/f	30,289	22,365	15,769	12,690	8,142

FIRST BANK OF NIGERIA PLC

BALANCE SHEET

as at

December 31st,	1985	1986	1987	1988	N'000 1989
USE OF FUNDS					
Cash & Short Term Funds	845,917	2,645,195	3,248,201	3,286,885	3,954,975
Investments	114,507	119,438	130,562	88,815	83,775
Other Assets	501,904	1,219,899	1,183,770	1,238,204	1,756,761
Fixed Assets	116,125	141,788	167,228	204,515	293,886
Loans & Advances	474,541	1,869,452	2,047,113	2,253,388	2,402,943
Total Assets	052,994	5,995,772	6,776,874	4,818,419	6,089,397
SOURCE OF FUNDS					
Share Capital	86,136	92,249	105,699	105,699	105,699
Statutory Reserve	76,260	97,917	114,920	124,323	137,843
Pref.Shares Redemp. Fund	11,250	13,750	16,250	18,750	21,250
Amount for Bonus Issue	6,114	13,450	0	0	0
General Reserve	46,674	72,436	102,773	141,055	204,521
Exchange Diff. Reserve	0	21,446	33,821	44,791	64,917
Shareholders' Fund	26,434	311,248	373,463	434,618	534,230
Deposits	34,070	4,412,745	5,010,455	5,646,396	7,958,090
Tax.Div. & Other Liab.	92,490	1,271,769	1,392,956	990,793	
	052,994	5,995,762	6,776,874	7,071,807	8,492,320
Contingent Liability	72,839	1,001,818	605,337	814,288	1,342,554

PROFIT & LOSS ACCOUNT

for the year ended

December 31st,	1985	1986	1987	1988	N'000 1989
EARNINGS					
Gross Earnings	8,196	571,484	692,723	860,274	1,151,494
Less: Interest Paid	3,580	194,980	271,652	334,210	371,997
Net Earnings	4,616	376,504	421,071	526,064	779,497
EXPENSES					
Overhead Expenses	5,026	171,844	234,061	304,053	511,354
Bad/Doubtful Debts (Provisior	9,574	48,941	60,853	66,934	72,594
Prov.on Pre-SFEM Trans.	0	0	7,000	15,000	0
Depreciations	7,072	9,871	13,144	15,702	32,505
Profit before Taxation	,672	230,656	315,058	401,689	616,453
Taxation	,944	145,848	106,013	124,375	163,044
Profit after Taxation	,540	59,223	38,000	50,151	57,098
NIERF Levy	,404	86,625	68,013	74,224	105,946
Unappropriated Prof b/f	,790)	(6,211)	5,866	0	0
	,289	46,674	72,436	102,773	102,773
	,903	127,088	146,315	176,997	208,719
APPROPRIATIONS					
Statutory Reserve	,360	21,657	17,003	9,403	13,520
General Reserve	0	0	0	141,055	63,466
Pref.Shares Redemp. Fund	,500	2,500	2,500	2,500	2,500
Bonus Issue	,114	13,450	0	0	0
Proposed Dividend	,255	17,045	24,039	24,039	26,460
	,229	54,652	43,542	176,997	105,946
Unappropriated Pro c/f	674	72,436	102,773	0	102,773

FIRST BANK O F NIGERIA PLC

BALANC E SHEET

as t

N'000

December 31,	1990	1991	1992	1993	1994
USE OF FUNDS					
Cash & Short Term Funds	4,549,535	,114,046	11,316,515	16,949,451	22,531,930
Investments	86,302	83,013	93,120	90,967	115,178
Other Assets	1,817,996	,925,607	2,527,073	2,587,857	4,225,444
Equipment On Lease	–	–	–	–	34,480
Fixed Assets	376,265	561,530	670,809	851,337	1,106,902
Loans & Advances	– 1,651,481	634,900	2,378,792	3,072,636	5,940,626
Total Assets	8,481,579	1 319,096	16,986,309	23,552,248	33,954,560
SOURCE OF FUNDS					
Share Capital	105,699	105,699	80,699	107,599	215,198
Statutory Reserve	137,843	137,843	188,047	275,722	358,751
Pref.Shares Redemption Fund	21,250	21,250	25,000	–	–
Amount for Bonus Issue	–	–	–	–	–
Asset Revaluation Reserve	–	95,145	330,768	448,152	448,152
General Reserve	(7,192)	38,487)	175,440	519,728	667,429
Exchange Difference Reserve	42,737	35,063	155,648	142,510	140,855
Shareholders' Funds	300,337	56,513	955,602	1,493,711	1,830,385
Deposits	– 6,633,666	8, 6,852	11,965,198	16,438,652	23,275,471
Tax, Dividend & Other Liabilities	1,547,576	2, 5,731	4,065,509	5,619,885	8,848,704
	8,481,579	11, 9,096	16,986,309	23,552,248	33,954,560
Contingent Liability	762,476	5,042	288,929	274,947	1,851,278

PROFIT & LOSS ACCOUNT

for the year ended

N' 000

December 31,	1990	991	1992	1993	1994
EARNINGS					
Gross Earnings	1,433,440	1,57 ,711	2,689,324	4,308,535	5,354,996
Less: Interest Paid	590,282	56 993	692,234	813,756	1,206,768
Net Earnings	843,158	1,01 718	1,997,090	3,494,779	4,148,228
EXPENSES					
Overhead Expenses	653,398	70 581	1,098,286	2,233,778	3,062,848
Provision for loan losses	335,273	394 150	522,733	169	211,853
	988,671	1,101 31	1,621,019	2,362,947	3,274,701
Profit before Taxation	– (145,513)	(87 13)	376,071	931,832	873,527
Taxation	205,528	31 95	31,273	347,330	320,000
Profit/Loss after Taxation	(205,428)	(31 95)	334,960	584,502	553,527
	(102,773)	(339, 96)	(370,791)	859,009	270,757
	(308,201)	(370, 91)	(35,831)	859,009	859,009
APPROPRIATIONS					
Statutory Reserve	–	-	50,000	87,675	83,029
General Reserve	–	(31, 95)	213,927	346,188	255,300
Pref. Shares Redemption Fund	–	-	3,750	3,750	–
Bonus Issue	–		–	–	–
Proposed Dividend	31,295	31. 5	31,295	150,639	215,198
	31,295	2	298,972	588,252	553,527
Unappropriated Profit/loss c/f	(339,496)	(370,7 1)	(334,803)	270,757	305,482

KASHIM IBRAHIM LIBRARY

APPENDIX 'I'

UNITED BANK FOR AFRICA LIMITED

BALANCE SHEET
as at

N'000

31st March,	1985	1984	1983	1982	1981
USE OF FUNDS					
Cash and short-term funds	2,987,546	1,669,947	1,450,495	1,079,823	1,150,379
Investments	72,744	68,366	83,399	79,210	82,314
Loans and Advances	1,409,137	1,553,263	1,619,691	1,519,426	1,161,294
Other Assets	271,696	219,574	210,448	110,214	92,656
Fixed Assets	61,759	56,195	45,671	38,262	32,334
Total Assets	4,802,882	3,567,345	3,409,704	2,826,935	2,518,970
SOURCE OF FUNDS					
Share Capital	75,000	75,000	70,000	65,000	30,000
Statutory Reserve	60,601	52,053	44,183	36,863	30,213
Capital Reserve	22,875	15,750	8,625	1,500	–
General Reserve	50,322	41,521	39,771	39,771	33,771
Profit and Loss Account	295	276	239	105	328
Shareholders' Fund	209,093	184,600	162,818	143,239	94,312
Deposits	4,319,600	3,114,546	2,939,911	2,548,230	2,407,218
Taxation, dividends & other liabilities	274,189	268,199	306,975	135,466	17,440
	4,802,882	3,567,345	3,409,704	2,826,935	2,518,970
Contingent Liability	910,626	740,411	749,960	976,650	918,348

PROFIT & LOSS ACCOUNT
for the year ended

N'000

475867

31st March,	1985	1984	1983	1982	1981
EARNINGS					
Gross Earnings	376,270	285,566	281,387	232,195	176,835
Less: Interest Paid	162,173	101,502	114,731	85,881	63,541
Net Earnings	214,097	184,064	166,656	146,314	113,294
Expenses					
Overhead Expenses	112,075	98,071	85,313	73,032	58,424
Bad and Doubtful Debts (Prov)	29,082	1,700	17,997	14,812	6,073
Depreciations	9,219	8,027	7,377	6,060	5,932
	150,376	117,798	110,687	93,904	70,429
Profit Before Taxation	63,721	66,266	55,969	52,410	42,865
Taxation	29,528	31,784	26,690	25,808	20,150
Profit After Taxation	34,193	34,482	29,279	26,602	22,715
Unappropriated Profit b/f	276	239	105	328	389
	34,469	34,721	29,384	26,930	23,104
Appropriations					
Statutory Reserve	8,548	8,870	7,320	6,650	5,776
General Reserve	8,801	6,750	5,000	11,000	11,000
Preference Share Redemption	7,125	7,125	7,125	1,500	–
Proposed Dividend	9,700	9,700	9,700	7,675	6,000
	34,174	34,445	29,145	26,825	22,776
Unappropriated Profit c/f	295	276	239	105	328

UNITED BANK FOR AFRICA PLC

BALANCE SHEET

as at

N'000

March 31st	1985	1986	1987	1988	1989
USE OF FUNDS					
Cash & Short Term Funds	2,987,546	680,502	2,828,109	3,820,413	4,428,076
Investments	72,744	217,669	319,432	329,415	302,995
Other Assets	271,696	280,835	624,971	763,718	1,251,763
Fixed Assets	61,759	67,219	85,572	139,420	178,465
Loans & Advances	-1,409,137	171,419	1,798,628	2,008,138	3,044,131
Total Assets	3,393,745	1,446,225	3,858,084	5,052,966	6,161,299
SOURCE OF FUNDS					
Share Capital	75,000	75,000	75,000	75,000	75,000
Statutory Reserve	60,601	71,121	89,535	96,381	104,481
Capital Reserve	22,875	30,000	0	0	0
General Reserve	50,322	62,322	101,121	131,021	168,921
Exchange Diff'ce Reserve	0	0	19,725	25,523	67,796
Profit & Loss Account	295	396	523	543	557
Shareholders' Fund	209,093	238,839	285,904	328,468	416,755
Deposits	- 4,319,600	1,132,789	4,766,726	5,872,884	8,159,295
Tax. Div & Other Liab.	274,189	246,016	604,082	859,752	629,380
	4,802,882	1,417,644	5,656,712	7,061,104	9,205,430
Contingent Liability	910,626	664,290	923,024	1,434,782	1,807,678

PROFIT & LOSS ACCOUNT

for the year ended

N'000

March 31st	1985	1986	1987	1988	1989
EARNINGS					
Gross Earnings	376,270	441,965	569,172	641,019	819,637
Less: Interest Paid	162,173	182,896	236,924	271,387	350,211
Net Earnings	214,097	259,069	332,248	369,632	469,426
EXPENSES					
Overhead Expenses	112,075	128,517	155,914	214,363	308,808
Bad/Doubtful Debts (Prov)	29,082	38,633	57,793	52,042	34,655
Depreciations	9,219	10,015	12,650	19,235	24,729
	150,376	177,165	226,357	285,640	368,192
Profit before Taxation	63,721	81,904	105,891	83,992	101,234
Taxation	(29,528)	(39,823)	(32,238)	(29,226)	(36,470)
Profit after Taxation	34,193	42,081	73,653	54,766	64,764
NBRP Levy	0	(2,635)	0	0	0
Prior Year Adjustment	0	0	26	0	0
Unappropriated Profit b/f	276	295	396	523	543
	34,469	39,741	74,075	55,289	65,307
APPROPRIATIONS					
Statuory Reserve	8,548	10,520	18,413	6,846	8,100
General Reserve	8,801	12,000	38,800	29,900	37,900
Pref. Share Redemption	7,125	7,125	0	0	0
Proposed Dividend	9,700	9,700	16,339	18,000	18,750
	34,174	39,345	73,552	54,746	64,750
Unappropriated Profit c/f	295	396	523	543	557

UNITED BANK FOR AFRICA PLC

BALANCE SHEET

as at

March 31,	19 0	1991	1992	1993	N'000 1994
USE OF FUNDS					
Cash & Short Term Funds	6,144,6	7,001,675	10,362,633	10,126,201	12,064,101
Investments	8,8	22,409	44,914	74,256	868,201
Other Assets	2,411,7	2,729,369	3,644,558	6,203,155	5,449,063
Fixed Assets	280,1	495,561	908,559	1,117,393	1,545,446
Loans & Advances	−2,505,4	2,435,482	3,650,186	5,428,590	4,317,846
Total Assets	11,350,8	12,684,496	18,610,850	22,949,595	24,244,657
SOURCE OF FUNDS					
Share Capital	75,0(	100,000	100,000	100,000	100,000
Statutory Reserve	113,74	113,749	115,249	153,361	173,278
General Reserve	210,92	185,921	185,921	361,122	422,982
Exchange Diff'ce Reserve	71,49	83,874	102,427	106,397	864,411
Profit & Loss Account	93	931	931	1,700	2,700
Shareholders' Fund	472,09	484,475	504,528	722,580	1,563,371
Deposits	9,694,08	11,894,450	17,356,193	18,627,500	18,353,987
Tax, Dividend & Other Liabilities	1,184,69	305,571	750,129	3,599,515	4,327,299
	11,350,87	12,684,496	18,610,850	22,949,595	24,244,657
Contingent Liability	1,953,38	1,631,737	2,137,386	3,903,745	3,273,000

PROFIT & LOSS ACCOUNT

for the year ended

March 31,	1990	1991	1992	1993	N'000 1994
EARNINGS					
Gross Earnings	1,145,831	1,539,910	2,077,626	2,908,394	3,629,066
Less: Interest Paid	467,578	579,108	835,719	789,533	813,456
Net Earnings	678,253	960,802	1,241,907	2,118,861	2,815,610
EXPENSES					
Overhead Expenses	462,926	519,037	689,879	1,061,132	1,009,210
Provision for loan losses	69,500	390,526	455,123	741,403	456,167
Depreciations	29,382	50,654	59,904	61,352	76,254
	561,808	960,217	1,204,906	1,863,887	1,541,631
Profit before Taxation	− 116,445	585	15,385	349,985	212,507
Taxation	42,303	6,667	5,385	95,903	79,730
Profit after Taxation	74,142	(6,082)	10,000	254,082	132,777
Prior Year Adjustment	—	16,667	—	—	—
Unappropriated Profit b/f	557	931	931	931	1,700
	74,699	11,516	10,931	255,013	134,477
APPROPRIATIONS					
Statutory Reserve	9,268	—	1,500	38,112	19,917
Bonus Issue Reserve	25,000	—	—	—	—
General Reserve	17,000	—	—	175,201	61,860
Proposed Dividend	22,500	10,000	8,500	40,000	50,000
	73,768	10,000	10,000	253,313	131,777
Unappropriated Profit c/f	931	931	931	1,700	2,700

APPENDIX 'J'

SAVANNAH BANK OF NIGERIA LIMITED

BALANCE SHEET
as at

N'000

31st March	198	1984	1983	1982	1981
USE OF FUNDS					
Cash and short-term funds	270,103	240,747	245,629	52,444	108,608
Investments	1,509	509	759	–	–
Loans and Advances	449,625	427,364	374,645	323,026	208,770
Other Assets	91,836	108,233	42,280	35,379	24,508
Fixed Assets	38,934	36,064	26,217	24,608	20,704
Total Assets	852,007	812,917	689,530	435,459	362,590
SOURCE OF FUNDS					
Share Capital	27,937	24,187	24,187	19,200	10,000
Share Premium	2,700	–	–	–	–
Statutory Reserve	15,300	13,090	10,565	8,325	6,734
Profit and Loss Account	13,445	9,608	4,451	2,839	3,066
Shareholders' Fund	59,382	46,885	39,203	30,364	19,800
Debenture Stock	2,143	4,286	6,428	7,500	7,500
Deposits	776,867	746,533	631,313	390,181	333,118
Taxation, dividends & other liabilities	13,615	15,213	12,586	7,414	2,172
	852,007	812,917	689,530	435,459	362,590
Contingent Liability	57,081	79,303	101,381	80,983	66,860

PROFIT & LOSS ACCOUNT
for the year ended

N'000

31st December,	1985	1984	1983	1982	1981
EARNINGS					
Gross Earnings	81,693	77,666	62,742	41,529	31,532
Less: Interest Paid	26,494	23,477	18,686	11,994	10,816
Net Earnings	55,199	54,189	44,056	29,535	20,716
EXPENSES					
Overhead Expenses	26,979	23,927	19,816	15,383	12,885
Bad and Doubtful Debts (Prov.)	14,304	12,250	7,574	2,337	2,284
Depreciations	2,090	2,231	2,008	1,350	1,120
	43,373	38,408	29,398	19,070	16,289
Profit Before Taxation	11,826	15,781	14,658	10,465	4,427
Taxation	2,985	5,680	5,700	4,101	1,172
Profit After Taxation	8,841	10,101	8,958	6,364	3,255
Unappropriated Profit b/f	9,608	4,451	2,839	3,066	2,625
	18,449	14,552	11,797	9,430	5,880
APPROPRIATIONS					
Statutory Reserve	2,210	2,525	2,240	1,591	814
Proposed Dividend	2,794	2,419	2,419	2,000	1,000
Amount Capitalised	–	–	2,687	3,000	1,000
	5,004	4,944	7,346	6,591	2,814
Unappropriated Profit c/f	13,445	9,608	4,451	2,839	3,066

SAVANNAH BANK OF NIGERIA PLC

BALANCE SHEET

as at

March 31st,	1985	1986	1987	1988	N'000 1989
USE OF FUNDS					
Cash & Short Term Funds	270,103	6,936	589,907	595,716	967,205
Investments	1,509	1,849	3,039	3,039	3,039
Other Assets	91,836	0,086	133,913	264,112	180,847
Fixed Assets	38,934	8,770	45,362	47,449	126,969
Loans & Advances	449,625	0,094	659,921	738,713	804,352
Total Assets	402,382	7,641	772,221	910,316	1,278,060
SOURCE OF FUNDS					
Share Capital	27,937	7,937	34,921	34,921	34,921
Share Premium	2,700	2,583	2,583	2,583	2,583
Statutory Reserve	15,300	3,463	23,093	28,263	33,551
Retained Profits	13,445	1,707	20,028	28,553	37,434
Shareholders' Fund	59,382	7,690	80,625	94,320	108,489
Debenture Stock	2,143	0	0	0	40,000
Deposits	776,867	8 ,503	1,331,191	1,522,975	1,913,147
Tax. Div & Other Liab.	13,615	,542	20,326	31,734	20,776
	852,007	8 ,735	1,432,142	1,649,029	2,082,412
Contingent Liability	57,081	,303	101,049	96,513	180,034

PROFIT & LOSS ACCOUNT

for the year ended

March 31st	1985	1986	1987	1988	N'000 1989
EARNINGS					
Gross Earnings	81,693	9 614	117,606	210,465	299,322
Less: Interest Paid	26,494	3 957	37,171	88,531	122,301
Net Earnings	55,199	6 657	80,435	121,934	177,021
EXPENSES					
Overhead Expenses	26,979	30 83	36,062	53,088	77,821
Bad/Doubtful Debts(Prov)	14,304	12 63	15,617	36,371	54,964
Depreciations	2,090	2 90	2,571	3,153	16,017
	43,373	44 36	54,250	92,612	148,802
Profit before Taxation	11,826	17 21	26,185	29,322	28,219
Taxation	2,985	5 68	7,662	8,643	7,066
Profit after Taxation	8,841	12 53	18,523	20,679	21,153
NI-REF Levy	0	(17)	0	0	0
Unappropriated Prof b/f	9,608	13 45	18,707	20,028	28,553
	18,449	25 81	37,230	40,707	49,706
APPROPRIATIONS					
Statutory Reserve	2,210	3 63	4,630	5,170	5,288
Amount Capitalised	0	0	6,984	0	0
Propose I Dividend	2,794	3, 11	5,588	6,984	6,984
	5,004	7, 74	17,202	12,154	12,272
Unappropriated Pro e/f	13,445	18, 07	20,028	28,553	37,434

SAVANNAH BANK OF NIGERIA PLC

BALANCE SHEET

as at

March 31,	1989	1990	1991	1992	N'000 1993
USE OF FUNDS					
Cash & Short Term Funds	513,56(	547,263	990,959	1,382,070	2,953,967
Investments	456,67(	245,282	591,402	591,944	25,331
Other Assets	180,84'	215,022	679,443	945,754	452,484
Fixed Assets	126,96(	142,340	159,246	243,421	312,582
Loans & Advances	804,35'	899,073	638,521	902,616	1,143,686
Total Assets	2,082,41'	2,048,980	3,059,571	4,065,805	4,888,050
SOURCE OF FUNDS					
Share Capital	34,921	34,921	34,921	52,383	52,383
Share Premium	2,583	2,583	2,583	2,583	2,583
Statutory Reserve	33,551	37,867	37,867	39,438	47,603
Debenture Red. Reserve Fund	–	–	–	–	8,000
Retained Profits	37,434	48,178	48,178	30,716	31,290
Shareholders' Funds	108,489	123,549	123,549	125,120	141,859
Debenture Stock	40,000	40,000	40,000	40,000	40,000
Deposits	1,913,147	1,876,341	2,671,332	3,511,781	4,338,659
Revaluation Reserve	–	–	–	76,142	76,142
Tax, Dividend & Other Liabilities	20,776	9,090	224,690	252,762	291,390
	2,082,412	2,048,980	3,059,571	4,005,805	4,888,050
Contingent Liability	180,034	179,079	442,224	269,564	637,811

PROFIT & LOSS ACCOUNT

for the year ended

March 31,	1989	1990	1991	1992	N'000 1993
EARNINGS					
Gross Earnings	299,322	345,166	567,916	611,548	1,079,879
Less: Interest Paid	122,301	144,708	244,773	239,270	376,671
Net Earnings	177,021	200,458	323,143	372,278	703,208
EXPENSES					
Overhead Expenses	77,821	123,014	145,302	221,148	303,476
Provision for loan losses	54,964	45,357	153,462	118,582	328,245
Depreciations	16,017	12,902	19,139	22,308	35,871
	148,802	181,273	317,903	362,038	667,592
Profit before Taxation	28,219	19,185	5,240	10,240	35,616
Taxation	7,066	1,920	1,748	5,002	8,400
Profit after Taxation	21,153	17,265	3,492	5,238	27,216
Unappropriated Profit b/f	28,553	37,434	43,399	43,399	43,399
	49,706	54,699	46,891	48,637	70,615
APPROPRIATIONS					
Statutory Reserve	5,288	4,316	–	1,571	8,165
Amount Capitalised	–	–	–	–	8,000
Proposed Dividend	6,984	6,984	3,492	3,667	10,477
	12,272	11,300	3,492	5,238	26,642
Unappropriated Profit c/f	37,434	43,399	43,399	43,399	43,973

PROGRESS BANK OF NIGERIA LIMITED

BALANCE SHEET

as at

30th September	1985	1984	N'000 1983
USE OF FUNDS			
Cash and short-term funds	53,377	32,784	9,309
Loans and Advances	49,828	17,336	1,436
Other Assets	46,660	18,647	5,649
Fixed Assets	4,080	2,567	990
Total Assets	153,945	71,334	17,384
SOURCE OF FUNDS			
Share Capital	7,500	7,500	4,412
Statutory Reserve	18	—	—
Capital Reserve	70	70	70
Profit & Loss Account	54	—	—
Shareholders' Fund	7,642	7,570	4,482
Deposits	113,667	45,034	9,086
Taxation, dividends & Other Liab.	32,636	18,730	3,816
	153,945	71,334	17,384
Contingent Liability	2,014	782	56

PROFIT & LOSS ACCOUNT

for the year ended

30th September	1985	1984	N '000 1983
EARNINGS			
Gross Earnings	11,069	2,832	601
Less: Interest Paid	2,309	576	72
Net Earnings	8,760	2,256	529
EXPENSES			
Overhead Expenses	5,339	3,327	1,181
Bad and Doubtful Debts (Prov.)	24	38	17
Depreciations	751	414	137
	6,114	3,779	1,335
Profit/(Loss) before Taxation	2,646	(1,523)	(806)
Taxation	245	—	—
Profit/(Loss) after Taxation	2,401	(1,523)	(806)
Unappropriated Profit/(Loss) b/f	(2,329)	(806)	—
	72	(2,329)	(806)
APPROPRIATIONS			
Statutory Reserve	18	—	—
Unappropriated Profit/(Loss) c/f	54	(2,329)	(806)

NOTE: Progress Bank of Nigeria Limited was incorporated and began banking operations in 1982.

PROGRESS BANK OF NIGERIA PLC

BALANCE SHEET

as at

N'000

September 30th,	1985	1986	1987	1988	1989
USE OF FUNDS					
Cash & Short Term Funds	53,377	9 346	118,887	169,980	556,277
Investment	0	0	1,210	3,289	3,362
Other Assets	46,660	5 790	80,211	192,969	96,669
Fixed Assets	4,080	364	8,502	13,051	19,991
Loans & Advances	- 49,828	7 697	101,155	130,474	133,994
Total Assets	104,117	14 000	208,810	379,289	676,299
SOURCE OF FUNDS					
Share Capital	7,500	00	12,500	25,000	25,000
Share Premium	0	0	0	1,864	704,790
Statutory Reserve	18	51	1,521	2,437	4,320
Capital Reserve	70	70	70	70	70
Profit & Loss Account	54	52	4,063	3,312	6,959
Shareholders' Fund	7,642	10 73	18,154	32,683	741,139
Deposits	- 113,667	158 21	183,751	352,063	533,133
Tax. Div & Other Liab.	32,636	52 03	108,000	125,017	240,107
	153,945	220 97	309,965	509,763	1,514,379
Contingent Liability	2,014	2 27	2,636	8,462	17,549

PROFIT & LOSS ACCOUNT

for the year ended

N'000

September 30th	1985	1 86	1987	1988	1989
EARNINGS					
Gross Earnings	11,069	17, 7	28,049	49,042	84,207
Less: Interest Paid	2,309	5, 6	9,205	19,910	31,735
Net Earnings	8,760	12, 1	18,844	29,132	52,472
EXPENSES					
Overhead Expenses	5,338	6, 9	10,833	16,727	32,781
Bad/Doubtful Debts (Prov)	24	5	1,100	4,319	4,699
Depreciations	751	8 3	1,413	1,978	3,321
	6,113	8,4 7	13,346	23,024	40,801
Profit before Taxation	— 2,647	3,7	5,498	6,108	11,671
Taxation	245	1,2	2,017	2,443	4,140
Profit after Taxation	2,402	2,5	3,481	3,665	7,531
Unappropriated Prof b/f	(2,329)		1,952	4,063	3,312
	73	2,5	5,433	7,728	10,843
APPROPRIATIONS					
Statutory Reserve	18	6	870	916	1,882
Proposed Dividend	0		500	1,000	2,000
Bonus Issue	0		0	2,500	0
	18	6	1,370	4,416	3,882
Unappropriated Profit c/f	55	1,9	4,063	3,312	6,961

PROGRESS BANK OF NIGERIA PLC

BALANCE SHEET

as at

September 30,	1988	1989	1990	1991	N'000 1992
USE OF FUNDS					
Cash & Short Term Funds	169,980	55(77	714,244	698,929	726,425
Investment/Equip. on Lease	3,289	3 62	118,322	10,134	49,116
Other Assets	192,969	96 69	78,304	330,339	663,387
Fixed Assets	13,051	19 91	27,217	48,788	80,458
Loans & Advances	130,474	133 95	153,885	81,164	186,705
Total Assets	509,763	810 24	1,091,972	1,169,354	1,706,091
SOURCE OF FUNDS					
Share Capital	25,000	25, 0	25,000	25,000	25,000
Share Premium	1,864	5	705	705	705
Statutory Reserve	2,437	4, 0	6,976	6,976	7,557
Capital Reserve/Deposit for Shares	70	0	70	70	25,070
Bonus Issue	0	0	0	5,000	5,000
Exch. Equal.Acct	0	0	0	1,063	3,863
Profit & Loss Account	3,312	6,9	16,041	3,239	4,982
Shareholders' Funds	32,683	37,0	48,792	42,053	72,177
Deposits	352,063	533,1	873,489	753,600	1,210,160
Tax, Dividend & Other Liabilities	125,017	240,1	169,691	373,701	423,754
	509,763	810,2	1,091,972	1,169,354	1,706,091
Contingent Liability	8,462	17,5	24,319	71,334	108,618

PROFIT AND LOSS ACCOUNT

for the year ended

September 30,	1988	1989	1990	1991	N'000 1992
EARNINGS					
Gross Earnings	49,042	84,207	128,772	178,425	323,766
Less: Interest Paid	19,910	31,735	57,294	89,735	175,106
Net Earnings	29,132	52,472	71,478	88,690	148,660
EXPENSES					
Overhead Expenses	16,727	32,781	45,629	66,776	116,707
Provision for loan losses	4,319	4,699	4,000	19,037	15,856
Depreciations	1,978	3,321	4,968	6,634	10,495
Profit before Taxation	23,024	40,801	54,597	92,447	143,058
Taxation	6,108	11,671	16,881	(3,757)	4,015
Profit after Taxation	2,443	4,140	6,255	(432)	1,690
Unappropriated Profit b/f	3,665	7,531	10,626	(4,189)	2,325
	4,063	3,312	6,961	12,431	11,060
	7,728	10,843	17,587	8,242	13,385
APPROPRIATIONS					
Statutory Reserve	916	1,882	2,656	581	581
Proposed Dividend	1,000	2,000	2,500	5,000	0
Bonus Issue	2,500	0	0	(9,189)	0
Retained Profit (Loss)	4,416	3,882	5,156	(3,608)	581
Unappropriated Profit c/f	3,312	6,961	12,431	11,060	12,804

APPENDIX L

OWENA BANK OF NIGERIA PLC.

BALANCE SHEET

as at

December 31st,	1985	1986	1987	1988	N'000 1989
USE OF FUNDS					
Cash & Short Term Funds	9,762	204,232	204,992	308,494	152,999
Loans & Advances	0,182	91,386	131,619	137,428	165,155
Other Assets	8,296	136,892	157,713	91,988	139,839
Fixed Assets	3,945	3,742	4,237	5,827	14,266
Total Assets	2,185	436,252	498,561	543,737	472,259
SOURCE OF FUNDS					
Share Capital	7,500	7,500	9,000	10,500	20,624
Statutory Reserve	1,805	4,825	6,425	8,545	10,718
General Reserve	375	675	1,025	1,025	3,048
Share premium	0	0	0	0	18
Profit & Loss Account	126	867	649	504	0
Shareholders' Fund	806	13,867	17,099	20,574	34,408
Deposits	2 ,502	219,791	298,875	394,328	238,633
Tax.Div. & Other Liab.	,877	202,394	182,587	128,835	199,217
	3 185	436,252	498,561	543,737	472,258
Contingent Liability	7 215	101,036	62,381	113,084	64,385

PROFIT & LOSS ACCOUNT

for the year ended

December 31st,	985	1986	1987	1988	N'000 1989
EARNINGS					
Gross Earnings	31 09	34,406	46,088	67,481	80,239
Less: Interest Paid	11 90	11,661	16,536	23,999	21,607
Net Earnings	19 19	22,745	29,552	43,482	58,632
EXPENSES					
Overhead Expenses	9, 7	12,265	15,857	23,908	36,530
Bad/Doubtful Debts(Prov)	4, 4	2,141	3,462	3,784	6,426
Depreciations	1, 1	1,578	1,403	1,950	2,592
	15, 2	15,984	20,722	29,642	45,548
Profit before Taxation	4, 7	6,761	8,830	13,840	13,084
Taxation	2,2 8	2,700	2,598	5,365	4,392
Profit after Taxation	2,0 9	4,061	6,232	8,475	8,692
NIRF Levy	(2 8)	0	0	0	0
Unappropriated Prof b/f	2 5	126	867	649	1,529
	2,0	4,187	7,099	9,124	10,221
APPROPRIATIONS					
Statutory Reserve	5	1,020	1,600	2,120	2,173
General Reserve	3	300	1,000	1,000	0
Bonus Issue		0	850	500	0
Proposed Dividend	1,0	2,000	3,000	5,000	5,000
	1,8	3,320	6,450	8,620	7,173
Unappropriated Pro c/f	12	867	649	504	3,048

KASHIM IBRAHIM LIBRARY

OWENA BANK OF NIGERIA PLC

BALANCE SHEET

at

December 31,	1989	1990	1991	1992	N'000 1993
USE OF FUNDS					
Cash & Short Term Funds	152,999	73,815	371,153	482,240	273,843
Investment	0	0	2,000	2,000	1,464
Loans & Advances	165,155	92,682	234,318	283,437	309,020
Other Assets	146,906	38,409	200,786	195,452	170,467
Fixed Assets	14,266	20,959	30,611	47,359	52,379
Total Assets	479,326	25,865	838,868	1,010,488	807,173
SOURCE OF FUNDS					
Share Capital	20,625	20,625	20,625	60,000	60,000
Statutory Reserve	10,718	11,444	12,063	5,053	12,063
General Reserve	3,048	5,224	6,668	(7,053)	(224,844)
Share premium	18	18	18	0	48
Profit & Loss Account	0	0	0	0	0
Shareholders' Funds	34,409	7,311	39,374	65,053	(152,733)
Deposits	229,000	9,904	548,526	689,108	735,350
Tax, Dividend & Other Liabilities	215,917	8,650	250,968	256,327	224,556
	479,326	5,865	838,868	1,010,488	807,173
Contingent Liability	64,385	7,515	29,294	137,109	167,487

PROFIT & LOSS ACCOUNT

for the year ende

December 31,	1989	990	1991	1992	N'000 1993
EARNINGS					
Gross Earnings	80,239	,704	131,420	220,476	257,619
Less: Interest Paid	21,607	,502	36,528	77,736	148,461
Net Earnings	58,632	,202	94,892	142,740	109,158
EXPENSES					
Overhead Expenses	36,530	,680	38,763	69,762	71,810
Provision for loan losses	6,426	,140	20,802	44,588	328,833
Depreciations	2,592	,203	6,464	15,806	15,743
	45,548	,023	66,029	130,156	416,386
Loss /profit before Taxation	13,084	,179	(28,863	(12,584	(307,228)
Taxation	4,392	723	819	(55)	1,978
Loss/profit after Taxation	8,692	456	28,044	12,584	(309,206)
Unappropriated Profit b/f	(2,276)	757)	(757)	(757)	(24,209)
	6,416	699	28,044	12,584	(333,415)
APPROPRIATIONS					
Statutory Reserve	2,173	726	619	0	0
General Reserve	0	176	1,444	(11,726)	(217,786)
Bonus Issue	0	0	0	0	0
Proposed Dividend	5,000	0	0	0	0
	7,173	902	2,063	0	(217,786)
Unappropriated Profit c/f	(757)	757)	25,981	12,584	(115,629)

APPENDIX 'M'

LION BANK OF NIGERIA PLC

BALANCE SHEET

at

March 31st,	1988*	N'000 1989	1990
USE OF FUNDS			
Cash & Short Term Funds	107,255	251,139	245,518
Other Assets	4,632	12,161	6,364
Fixed Assets	4,730	6,728	10,287
Loans & Advances	13,932	61,574	66,515
Total Assets	130,549	331,602	328,684
SOURCE OF FUNDS			
Share Capital	3,500	10,432	16,170
Deposit for Shares	3,745	0	0
Revenue Reserve	472	0	0
General Reserve	0	17	1,710
Reserve for Bonus Issue	0	2,458	0
Statutory Reserve	157	1,100	2,852
Shareholders' Fund	7,874	14,007	20,732
Deposits Tax.&Other Liab.	122,675	317,960	307,952
	130,549	331,967	328,684
Contingent Liability	45,153	46,052	4,584

PROFIT .& LOSS ACCOUNT

for the year ended

March 31st,	1988*	N'000 1989	1990
EARNINGS			
Gross Earnings	9,022	24,885	53,588
Less: Interest Paid	2,808	7,537	25,642
Net Earnings	6,214	17,348	27,946
EXPENSES			
Overhead Expenses	4,534	9,061	13,735
Bad/Doubtful Debts (Prov)	0	365	346
Depreciations	538	732	1,341
Profit before Taxation	5,072	10,158	15,422
Taxation	1,142	7,190	12,524
Profit after Taxation	513	3,420	5,515
Unappropriated Profit b/f	629	3,770	7,009
	0	472	2,476
APPROPRIATIONS	629	4,242	9,485
Statutory Reserve	157	943	1,752
Dividend	0	0	4,002
Pre-operating Exp. Written Off	0	823	0
	157	1,766	5,754
Unappropriated Profit c/f	472	2,476	3,731

* Lion bank of Nigeria commenced operation in Febuary 1987

LION BANK OF NIGERIA PLC

BALANCE SHEET

as at

March 31,	198	1990	1991	1992	N'000 1993
USE OF FUNDS					
Cash & Short Term Funds	251,1	245,518	283,770	416,644	518,123
Other Assets	12,1	6,364	47,767	39,523	304,982
Fixed Assets	6,7	10,287	14,564	19,696	31,579
Equipment on Lease	–	–	–	876	637
Loans & Advances	61,5	66,515	47,004	71,438	99,593
Total Assets	331,6	328,684	393,105	548,177	954,914
SOURCE OF FUNDS					
Share Capital	10,43	16,170	20,596	25,649	72,323
Deposit for Shares	–	–	–	–	–
Revenue Reserve	–	–	–	–	–
General Reserve	1	1,710	5,141	1,012	2,714
Reserve for Bonus Issue	2,45	–	–	–	–
Statutory Reserve	1,10	2,852	3,996	7,492	11,837
Shareholders' Fund	14,00	20,732	29,733	34,153	86,874
Deposits, Tax & Other Liabilities	317,59	307,952	363,372	514,024	868,040
	331,60	328,684	393,105	548,177	954,914
Contingent Liability	46,052	4,584	17,006	20,302	6,373

PROFIT & LOSS ACCOUNT

for the year ended

March 31,	1989	1990	1991	1992	N'000 1993
EARNINGS					
Gross Earnings	24,885	53,588	59,731	91,606	130,241
Less: Interest Paid	7,537	25,642	33,327	35,582	47,193
Net Earnings	17,348	27,946	26,404	56,024	83,048
EXPENSES					
Overhead Expenses	9,061	13,735	17,944	29,384	48,253
Provision for loan losses	365	346	2,676	7,822	8,812
Depreciations	732	1,341	2,012	2,876	4,584
	10,158	15,422	22,632	40,082	61,649
Profit before Taxation	7,190	12,524	3,772	15,942	21,399
Taxation	3,420	5,515	803	4,290	6,915
Profit after Taxation	3,770	7,009	2,969	11,652	14,484
Unappropriated Profit b/f	472	2,476	3,731	5,556	1,427
	4,242	9,485	6,700	17,208	15,911
APPROPRIATIONS					
Statuory Reserve	943	1,752	1,144	3,496	4,345
Dividend	–	4,002	–	7,232	8,437
Bonus Issue	–	–	–	5,053	–
Pre-operating Exp. Written Off	823	0	0	0	0
	1,766	5,754	1,144	15,781	12,782
Unappropriated Profit c/f	2,476	3,731	5,556	1,427	3,129

HIGHLAND BANK OF NIGERIA PLC

BALANCE SHEET

December 31st,	1988	as at N'000 1989
USE OF FUNDS		
Cash & Short Term Funds	25,939	67,217
Investments	0	0
Other Assets	886	3,846
Fixed Assets	2,922	7,472
Loans & Advances	224	5,482
Total Assets	29,747	88,535
SOURCE OF FUNDS		
Share Capital	0	6,000
Deposit for Shares	4,500	384
Statutory Reserve	117	156
Capital Reserve	156	423
General Reserve	351	1,270
Profit & Loss Account	0	208
Shareholders' Fund	5,124	8,441
Deposits	19,362	71,687
Tax.Div. & Other Liab.	5,485	8,887
	29,971	89,015
Contingent Liability	45,752	91,012

PROFIT & LOSS ACCOUNT

for the year ended

December 31st,	1988*	N'000 1989
EARNINGS		
Gross Earnings	2,483	11,425
Less: Interest Paid	697	2,248
Net Earnings	1,786	9,177
EXPENSES		
Overhead Expenses	947	5,573
Bad/Doubtful Debts(Prov)	0	0
Depreciations	221	839
	1,168	6,412
Profit before Taxation	618	2,765
Taxation	150	2,540
Profit after Taxation	468	225
Unappropriated Prof b/f	0	0
	468	225
APPROPRIATIONS		
Statutory Reserve	117	106
General Reserve	351	119
	468	225
Unappropriated Pro c/f	0	0

*Figures for Expenses were not available at the time of going to press.

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KASHIM IBRAHIM

HIGHLAND BANK OF NIGERIA PLC

BALANCE SHEET

as at

December 31,	1989	1990	1991	N'000 1992
USE OF FUNDS				
Cash & Short Term Funds	67,647	94,562	202,736	187,894
Investments	–	–	–	–
Other Assets	3,846	3,731	18,597	39,360
Fixed Assets	7,472	9,331	11,105	11,552
Loans & Advances	5,482	18,611	23,358	51,834
Total Assets	84,447	126,235	255,796	290,640
SOURCE OF FUNDS				
Share Capital	16,000	20,000	24,000	24,000
Deposit for Shares	384	4,000	–	26,000
Statutory Reserve	423	1,382	2,370	4,769
Capital Reserve	157	284	284	284
General Reserve	1,270	148	2,455	8,051
Profit & Loss Account	208	–	–	–
Shareholders' Fund	18,442	25,814	29,109	63,104
Deposits	31,687	74,167	180,803	165,663
Tax, Dividend & Other Liabilities	34,318	26,254	45,884	61,873
	84,447	126,235	255,796	290,640
Contingent Liability	10,012	27,611	36,562	4,303

PROFIT & LOSS ACCOUNT

for the year ended

December 31,	1989	1990	1991	N'000 1992
EARNINGS				
Gross Earnings	10,425	15,590	27,206	52,694
Less: Interest Paid	2,248	3,033	10,673	15,664
Net Earnings	8,177	12,557	16,533	37,030
EXPENSES				
Overhead Expenses	3,573	5,089	12,585	19,394
Provision for loan losses	–	431	–	2,021
Depreciations	839	1,401	–	2,992
	4,412	6,921	12,585	24,407
Profit before Taxation	3,765	5,636	3,675	12,623
Taxation	2,540	1,799	380	4,628
Profit after Taxation	1,225	3,837	3,295	7,995
Unappropriated Profit b/f	–	–	–	–
	1,225	3,837	3,295	7,995
APPROPRIATIONS				
Statutory Reserve	306	959	988	2,399
General Reserve	919	2,878	2,307	–
	1,225	3,837	3,295	2,399
Unappropriated Profit c/f	0	0	0	0