Portfolio Management in the Banking Industry and its effect on Corporate Performance

Author's Details:
[(1)]**Aremu Olusegun Samuel** - Department of Banking and Finance, The Polytechnic, Ibadan, Nigeria. [(2)]**Adeusi Stephen** - Department of Finance, Faculty of Management Sciences, Ekiti State University, Ado-Ekiti, Nigeria. [(3)]**Olofinlade Samuel Oluwapelumi** - Department of Finance, Faculty of Management Sciences, Ekiti State University, Ado-Ekiti, Nigeria

Abstract
Corporate performance in banks is a crucial factor that deserves ardent study in order to fashion out an approach of augmenting it. To articulately achieve reliable corporate performance in banks, there is a need to design a portfolio management policy that would drive home the expectations of banking stakeholders on corporate performance. This study which delved into portfolio management in the banking industry and its effect on corporate performance considered the responses to a questionnaire of the key staff in portfolio/credit management, marketing and administration in six of the existing commercial banks in Nigeria. The sample of 120 workers was drawn randomly to give room for equal representation and to avoid bias in responses. Three research questions were used for the study and statistical package for the social sciences (SPSS) version 21 was used to analyze the data. The percentage was used to rate the responses of the participants. The finding from the study showed that banking and CBN policies on portfolio management have a significant effect on the corporate performance of the bank. It is therefore recommended that banks should design appropriate policies that would aid their portfolio management strategies and thus enhance their corporate performance.
Keywords: *Portfolio Management, Corporate Performance, Banks. Loan policy*

1.1 Introduction

Nigerian banks are crucial propellers of economic activities through the harmonization of deposits from different customers and made the same available in the form of loan and loan facilities to the teeming population. The role played by the banks in Nigeria cannot be overemphasized as this is so crucial because it facilitates business activities in small and big enterprises. Lending operations are core banking activities and the most profitable asset of loan institutions. In many markets, banks have to operate in the economic environment that is characterized by the existence of obstacles to good portfolio management. Where a loan is not properly channeled, controlled and administered, it leads to a devastating effect on the banks, reducing its corporate performance, profitability and further into bank distress and failure (Berger and Christa, 2009)

According to Cai and Anjan (2008), in order to ensure effective portfolio management, loan administration is the most important function of the banking industry. It is the riskiest and difficult, and at the same time most profitable function performed by banks. The key strategic value a bank adds has always depended upon its ability to manage loan risk. This cannot be properly done without an effective risk assessment, control and follow up strategy. Risk increases when loan principles are violated. Sound banking practices require that the bank management put in place standards for appraising and approving individual loan applications to ensure that loans granted are repaid. However, due to poor loan administration caused by loopholes and violation in risk assessment and control techniques, bad and doubted debts still claim a bulk charge on bank performance causing many banks to witness institutionalized distress and some, total unexpected collapse. Since lending carries a reasonable portion of resource exposure of deposit banks in Nigeria, the ability of a bank to generate much profit is largely a function of effective and efficient management of its lending portfolio.

According to Ivy Wigmore (2017), corporate performance is a composite assessment of how well an organization executes on its most important parameters, typically financial, market and stakeholder performance. It is how banks assess how their staffs perform the task given to them. It is the assessment of how portfolio management is carried out in the best interest of the banks. The impact of corporate performance in the

management of banks has remained fascinating and intriguing, though very elusive in the process of investment analysis vis-à-vis bank portfolio management.

Acharya and Naqvi (2012) refer to liquidity as the speed and certainty with which an asset can be converted back into cash whenever the asset holder desires. A liquid bank stores enough liquid assets and cash together with the ability to raise funds quickly from other sources to enable it to meet its payment obligations and financial commitment in a timely manner. Ngwu (2006) views liquidity management as the act of storing enough funds and raising funds quickly from the market to satisfy depositors, loan customers and other parties with a view to maintaining public confidence.

In spite of the measures put in place and aimed at protecting depositors and other public interest, the incidence of bank distress and failure has been on the increase in deposit money banks in Nigeria. This is as a result of increased probability of bank default, reduced performance and bulk charge against profits emanating from ineffective loan and liquidity risk management. Hence, for a bank to be viable and profitable, there must be strategic loan and liquidity risk management policies formulated and implemented in full. The tools for effective implementation of these policies will be anchored on the philosophy and mission of the bank, the overall loan risk strategy, and the loan policies adopted in the realization of strategic goals and objectives of the banks as well as the expansion prospects of such bank.

The effective management of loan and liquidity risks is inextricably linked to the development of banking technology, which will enable the bank to increase its speed of decision making and at the same time, reduce the cost of controlling banking risk. The development of these banking technologies that reduce operating costs and cost of risk control will inevitably yield greater earnings and returns for the bank in terms of contribution and profitability.

1.2 Statement of the problem

The spate of development witnessed in the banking sector in Nigeria is monumental. The trend has been highly stable since the post-consolidation exercise which increased the capitalization of banks to 25 billion nairas. In view of this, banks have access to more capital, hence boosting their access to more liquidity for loan transactions and there is a need for efficient loan/ portfolio management. However, the major problem was the spate of inability/unwillingness of some customers to pay back the loans they borrowed from the banks, hence crunching their profit margin. There is a need therefore to consider the portfolio management of Nigerian banks in relation to their corporate performance.

1.3 Research Questions

1. Does efficient portfolio management enhance the corporate performance of Nigerian banks?
2. Do the CBN policies on Portfolio management affect the corporate performance of Nigerian banks?
3. Do the banks' policies on portfolio management affect corporate performance?

2.1 Review of Related Literature

Portfolio management is crucial to the sustenance of any bank and if adequate care is not taken towards ensuring its. There is a need to ensure efficient and shrewd portfolio management in order to maintain an efficient corporate performance by the banks. Portfolio management policy is a comprehensive process that deals with identifying the target markets, loan extension, loan monitoring and identifying the proceeds. In the assertions of (McNaughton, 1996; March 2008), portfolio management policy entails the mechanisms, standards and parameters that guide the bank officers in granting loans and managing the loan portfolio under the banking discipline. They opined further that it is a set of guidelines designed to maximize cost associated with a loan while maximizing benefits from and that portfolio management policy assist financial institutions' loan department in the extension of loan privileges governed by rules and guidelines established by top management.

According to Jhingan (2010), a bank needs a high degree of liquidity in its assets portfolio the liquidity of assets refers to the ease and certainty with which it can be turned into cash. The bank must hold a sufficiently large proportion of its assets in the form of cash and liquid assets for the purpose of profitability. If the bank keeps liquidity the uppermost, its profit will be low. On the other hand, if it ignores liquidity and aims at

earning more, it will be disastrous for it. Therefore, in managing its investment portfolio, a bank must strike a balance between the objectives of liquidity and profitability. This balance must be achieved with a relatively high degree of safety.

According to Graham (1990), profitability is always associated with performance and productivity. Therefore true pure profit is the increase in wealth that an investor gets out of making an investment taking into consideration all costs associated with it, including the opportunity cost of capital. In the banking industry, every loan granted attracts an interest to the bank. Hence bank lending operations are risky but very profitable. In order to minimize these risks inherent in banking activities, there is a need for efficient, effective and strategic loan and liquidity management, which will, in turn, accelerate the tempo of profits. Until recently, lending has been the essence of deposit money banks and in fact, now, a colossal part of banks' assets are in a loan. As a result, the formulation and execution of a sound lending policy constitute part of the most vital responsibility of bank management. Kargi (2011) opined that well-conceived lending policies and careful loan practices are essential for a bank if it is to perform its loan creating functions effectively and efficiently and at the same time minimize or eliminate the risk inherent in any extension of the loan. It is important to note that the type and number of loans a bank will make as well as to whom it will grant the loan and at what conditions and circumstances, requires a sound policy decision; adequate care must be taken in the process of arriving at such decisions. Thus, a meaningful periodic appraisal of lending and loan administration of a bank in the light of ever changing environmental conditions is necessary.

Another important aspect of lending policies and guidelines is in respect of payment. The loan is commonly believed to be the lifeblood of the economy. If this assertion is correct, then any loan which ceases to flow becomes stagnant. It should, therefore, be a basic policy of deposit money bank lending that any money loaned should flow back to the bank in the form of repayment. A sound bank loan should be collectible from the anticipated income or profit of the borrower rather than from liquidation of any collateral that may be pledged (Kargi 2011).

Apart from individual loans, it is also important that the overall quality of the loan portfolio and in which way they are carried out be monitored. How elaborate effective and efficient this monitoring is performed depends on the size of the bank, the number of branches a bank has as well as the variation in marketing. There are basically two methods of monitoring bank loans as contained in Gujarati and Sangeetha (2007). The first is the external method where banks use external auditors, examiners and bank inspectors as an independent check. The internal method contains three methods. The first method is called continuing quality control where constant quality control is carried out within each branch at the head office by a loan committee set up to survey and report on the quality of lending. The second method is to establish a loan audit department with a reporting authority directly to the senior manager of the banks via the controller or accountant. The third method is the inspection. A team inspects all branches and head office divisions on a periodic basis. Each inspection is usually carried out as a surprise to examine the documentation of loans, controlling the follow-up of payments or collateral.

Impact of Portfolio Management on profitability

Portfolio management is a crucial factor in maintaining a sustained profit level. It is a major concern for bank customers to be aware of the safety of their deposits in any given bank. For this reason, it is essential for banks to critically assess the customers who demand the extension of a loan or loan facility before granting such. This is because a weak and poorly administered loan policy would lead to bad debt in the loan portfolio of banks. This will, in turn, affect the entire asset strength of the banks which consequently possess a liquidity threat to the bank. In this light, Pandey (2011) advances that the planning, monitoring, collection and management of lent funds is the core of the loan department which must be effectively carried out to ensure the survival of the banking industry.

If loan risks increase with the growing volume of loan transactions in banks, bad and doubtful debts will claim a bulk of the supposed profit estimated to be earned by banks. As these risks remain unchecked, the profitability of banks reduces with each transaction. This also reduces the operational performance of the bank.

Loan Policy Formulation

The management of loans is propelled with an acute and efficient loan policy formulation. The management of any loan started with the loan policy, the formulation of which is the responsibility of the bank board of directors and management. It is the base for determining what type of loan to grant to customers. Nwankwo (1980) define loan policy as a blueprint containing management guidelines for use by line officer of a bank in the handling of loan applications. Its objective is to provide corporate direction through a standardized procedure, derived from the operational interest of the bank, in satisfying the customer loan need but with full cognizance of the prevailing monetary and fiscal policy guidelines of the government.

Adekanye (2010), however, identify three basic types of the loan policy. They are the restrictive loan policy, moderate loan policy and liberal loan policy. A restrictive loan policy is adopted by a bank that has no plan to grow at a rate that is more than minimal. Such a bank is not willing to take any risk more than a minor one and prefer to do business with a customer who's paying habit almost never varies within terms.

The moderate loan policy is a mixture of restrictive and liberal policy approaches to loan. It tends to match receivable to provide adequate cash flow, while a liberal policy is a high risk policy with the probability of heavy loss of receivable the danger of such bank survival can be real because they are usually prone to undercapitalization and occasionally liquidity problem. Therefore, to minimize risks, enhance lending and maintain the standard, the loan policy should specify the number of loans to be made the type of securities to be accepted and limits for the different types of loans.

Portfolio Management and Corporate Performance

Effective corporate performance is essential for maintaining efficacious portfolio management in financial institutions in Nigeria. It is unfortunate that a lot of financial institutions have either collapsed or about to collapse due to a dysfunctional subprime lending to firms and people with bad and unreliable credit. The crises that rocked banks in Nigeria are an indication that not only do banks often take excessive risks but the risks differ across banks (Adeusi et. al., 2013). The quality of assets of most banks has deteriorated due to a significant dip in equity market indices (BGL, 2010). Banks play a key role in the development of the economic-financial system and thus serve as the engines of economic growth (King and Levine, 1993; Levine, 1997). In order to ensure effective corporate governance, CBN on July 6, 2004, rolled out measures to make the entire banking system a safe, sound and stable environment that could sustain public confidence in it (Owojori et al., 2011).

It is worthy of emphasis that Nigerian banks have undergone considerable overhaul and reform towards repositioning the banking system for effective corporate performance and maintain a sound portfolio management strategies. One of the exercises was the assessment of the risk asset quality of banks which prompted the removal of eight Chief Executive Officers and the consequent injection of six hundred billion nairas (#600,000,000,000.00) into the banks in order to avail the bank's opportunity of further lending to the public (BGL, 2010). This fund that was injected into the banks availed them access to more cash or liquidity and therefore, banks need to develop a sound corporate performance policy to avoid misuse of the fund, thereby optimizing its use for the success of the banks.

The Concept of Bank Lending and Loan

Lending can be defined as the creation and management of risk assets. According to Agene (1995), lending is defined as a process of analyzing loan or loans. It is considered an important task of bank management because it entails taking a financial risk, which could lead to difficulty on the part of the customer (borrower) in the repayment of both the capital and interest.

According to Osayameh (1986), the principal lending objective of a bank is to provide growth, profitability and liquidity. The term lending covers loans and advances. The lending function represents a significant source of income since the major consideration of the lender is the recovery of both the capital and interest. It is one of the most traditional elements in the relationship between a bank and its numerous customers (Adekanye, 2010).

Total loans and advances (TL&A) to total assets (TA)

Asset composition of loans and advances are the main source of income and are expected to have a positive impact on bank performance. Other things constant, the more deposits are transformed into loans, the higher the interest margin and profits. However, if a bank needs to increase the risk to have a higher loan-to

asset ratio, then profits may decrease. In addition, like bank loans and advances are the principal source of income, we expect that non-interest bearing assets impact negatively on profits (Gul et al., 2011). Asset composition (TL&A/TA), which is explained by total loans divided by total assets, provides a measure of income source and measures the liquidity of bank assets tied to loans (Javaid et al., 2011: 3798). TL&A/TA is included in the study of corporate performance as an independent variable to determine the impact of loans on banks' corporate performance. Corporate performance is primarily measured by return on assets. Table 1 below shows the credit/liquidity worthiness level of Nigerian banks from 1958 till 2006. It is noteworthy that commercial banks in Nigeria till date still maintain a minimum of #25 billion capital requirement.

TABLE 1: Review of the bank's capital base (Historical)

YEAR	TYPE OF BANK	AMOUNT
1958	Commercial	£400,000:00
1969	Foreign & Indigenous	N1.5Million & N0.6 Million
1979*	Commercial	N2.0Million
1988(Feb)	Commercial & Merchant	N5.0Million & N3.0Million
1988(Oct)	Commercial & Merchant	N10.0Million & N6.0Million
1989	Commercial & Merchant	N20.0Million& N12.0Million
1990	Commercial & Merchant	N50.0M & N40.0M
1997	Commercial & Merchant	N500.0M for all banks
2001	Existing & New (Universal Banking)	N1.0Billion & N2.0Billion
2006 till date	Commercial	N25.0Billion

Source: Roseline Oluitan (2015)

2.2 Theoretical Framework

In portfolio management, several theories have been propounded; the following would be adopted for this study:

The theory of asymmetric information tells us that it may be difficult to distinguish good borrowers from bad borrowers (Auronen, 2003) in Richard (2011), which may result in adverse selection and moral hazard problems. The theory explains that in the market, the party that possesses more information on a specific item to be transacted (in this case, the borrower) is in a position to negotiate optimal terms for the transaction than the other party (in this case, the lender) (Auronen, 2003) in Richard (2011). The party that knows less about the same specific item to be transacted is therefore in a position of making either right or wrong decision concerning the transaction. Adverse selection and moral hazards have led to significant accumulation of non - performing loans in banks (Bester, 1994; Bofondi and Gobbi, 2003).

In this sense, Derban, Binner and Mullineux (2005) recommended that borrowers should be screened especially by banking institutions in the form of loan assessment. The collection of reliable information from prospective borrowers becomes critical in accomplishing effective screening, as indicated by symmetric information theory.

3.0 Methodology

This study focused on portfolio management in the banking industry and its effect on corporate performance. The survey research design was adopted. The survey research design was used because it involved the collection of data from a field study through the use of a questionnaire. The study was restricted to six commercial banks in Ibadan. The banks that were considered are First bank PLC, Stanbic IBTC bank PLC, Skye bank PLC, First City Monument bank PLC, WEMA bank PLC and Access bank PLC. Questionnaires were administered on the staff of these banks in their various offices, especially those in charge of portfolio management such as the department of Marketing, Loan and Advances Unit and those in charge of granting loan facilities. In total, about 120 questionnaires were distributed to all the six banks, with each bank having 20 questionnaires and the head of each unit helped in ensuring that they were filled and returned. The questionnaires were randomly distributed among the workers to avoid bias and to ensure the objectivity of results. There were two variables in the test instrument and these are portfolio management as the independent

or predictor variable and corporate performance as the dependent or criterion variable. The statistical package for the social sciences (SPSS) version 21 was used for the analysis of the data.

4.0 Presentation of Results and Discussion

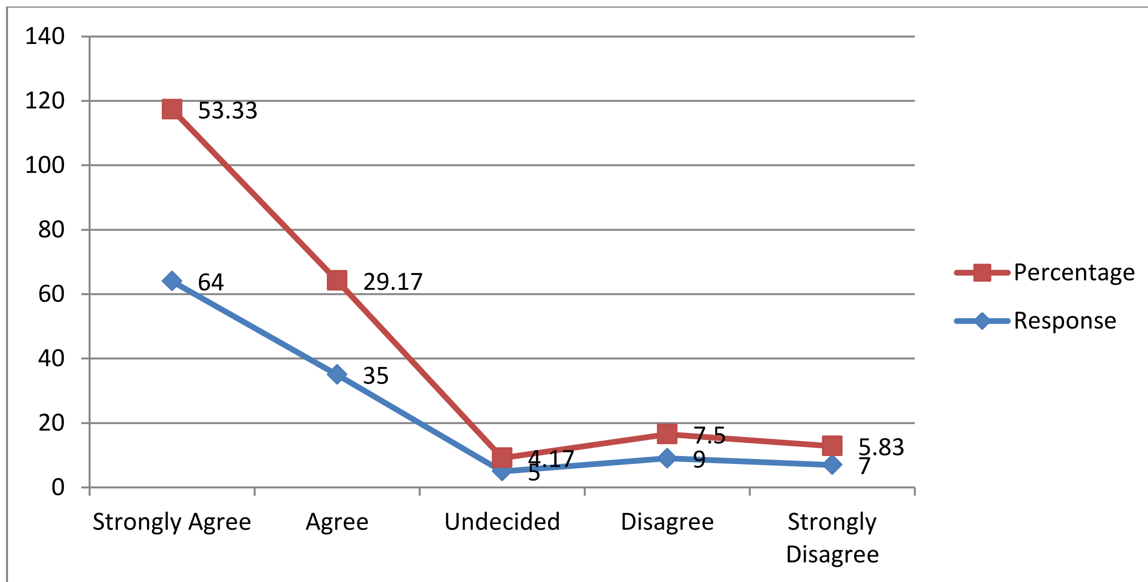
Research Question One: Does efficient portfolio management enhance the Corporate Performance of Nigerian banks?

Table 2 Showing that efficient Portfolio Management in Nigerian Banks enhances Corporate Performance

Items	Responses	Percent	Position
Strongly Agree	64	53.33	1st
Agree	35	29.17	2nd
Undecided	5	4.17	4th
Disagree	9	7.5	5th
Strongly Disagree	7	5.83	3rd
Total	120	100.0	

Source: 2017 Field Survey

Chart 1 Showing that efficient Portfolio Management in Nigerian banks enhances Corporate Performance



In the above, it is crucial to know that the level of portfolio management enhances the level of corporate performance of Nigerian banks. From the respondents, it is crystal clear that 64(53.33%) strongly agreed and 35(29.17%) agreed that there was good portfolio management system in the Nigerian banking industry which ultimately contributes to the level of profit; while a paltry of 7(5.83%) of the respondents strongly disagreed with the fact that there exists a strong portfolio management system in Nigeria. This shows that efficient portfolio management has in no small measure, contributed to the level of corporate performance by the Nigerian banks.

Research Question Two: Do the CBN policies on Portfolio management affect the Corporate Performance of Nigerian banks? **Research Question Two:** Do the CBN policies on Portfolio management affect the Corporate Performance of Nigerian banks?

Table 3 Showing Effect of CBN Policies of Portfolio/Portfolio management on Corporate Performance of Nigerian Banks

Items	Response	Percentage	Position
Strongly Agree	35	29.17	1st
Agree	30	25.0	2nd
Undecided	19	15.85	4th
Disagree	15	12.5	5th
Strongly Disagree	21	17.5	3rd
Total	120	100.0	

Source: 2017 Field Survey

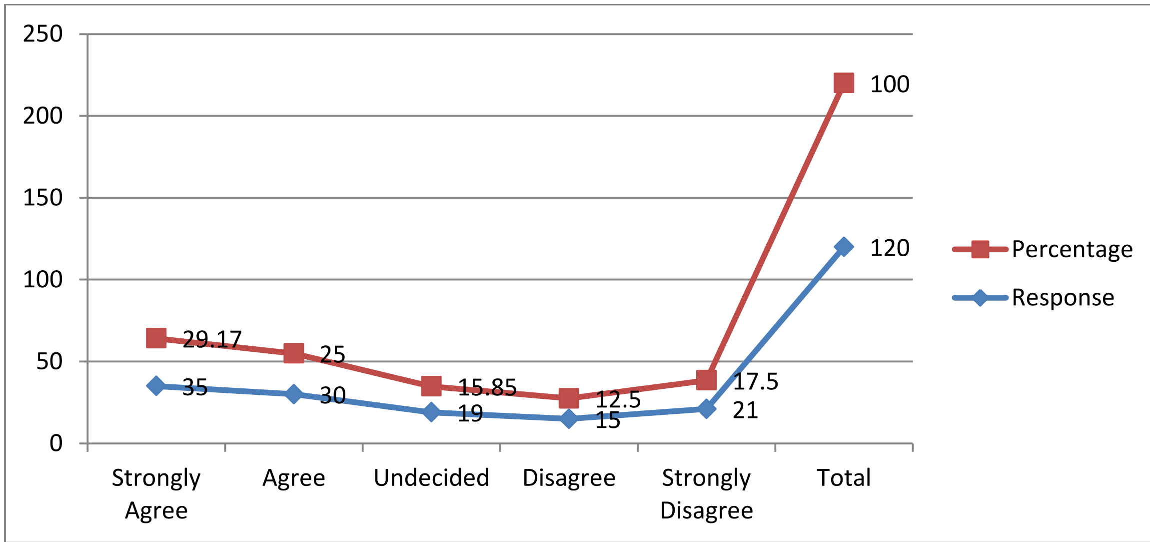


Chart 2 Showing Effects of CBN Policies of Portfolio/Portfolio management on Corporate Performance of Nigerian Banks

The above shows that CBN policies of portfolio management affect the corporate performance of banks. From the result, it could be deduced that 35(29.17%) strongly agreed and 30(25.0%) agreed that CBN policies on portfolio management affect corporate performance of banks; while 21(17.5%) strongly disagreed and 15(12.5%) disagreed that CBN policies of portfolio management affect banks' corporate performance. The result shows that the policies of CBN on portfolio management so much affect banks' corporate performance. It is clear from the result that a higher number of participants agreed with the fact that CBN policies on portfolio management affect the level of banks' corporate performance.

Research Question Three: Do the banks' policies on portfolio management affect Corporate Performance?

Table 4: Showing that Bank's Policies on Loan/Portfolio Management Enhance Corporate Performance

	Response	Percentage	Position
Strongly Agree	87	72.5	1st
Agree	32	26.67	2nd
Undecided	1	.833	3rd
Disagree	0	0.0	4.5th
Strongly Disagree	0	0.0	4.5th
Total	120	100.0	

Source: 2017 Field Survey

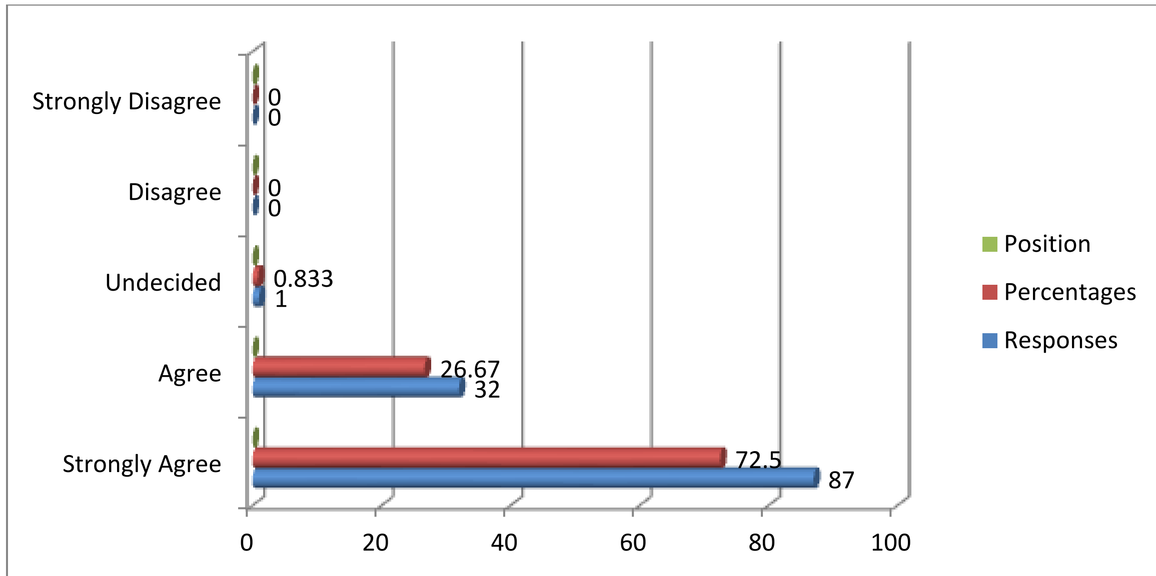


Chart 3 Showing that Bank's Policies on Loan/Portfolio Management enhance Corporate Performance

The above shows that 87(72.5%) strongly agreed, 32(26.67%) agreed that policies of banks on portfolio management enhance corporate performance, while 1(.0833%) was undecided. This shows that in order for banks to maintain a reasonable level of corporate performance, there must be in place a sustained, efficient and reliable portfolio management policy. It is important that the policies of the banks on portfolio management significantly and highly affect banks' corporate performance. It is obvious as the general consensus of the respondents was in favour of the fact that the policies of the banks on the management of a portfolio will affect the level of corporate performance.

5.0 Conclusion and Recommendations

It is important to know that efficient portfolio management policies that would spur the debtors to pay all the loans they have taken are of the essence. There are always willing and unwilling borrowers, but when adequate policies are in place to propel the unwilling borrowers to pay what they have borrowed, this will deter erring borrowers, thereby reducing the risk of accumulating non-performing loans, hence optimizing the level of corporate performance.

Recommendations

The study recommends that:

1. Efficient policies that would propel unwilling and erring borrowers to pay should be in place
2. There should be the training of workers/staff in portfolio management for efficient corporate performance.
3. Banks should design articulate and workable portfolio management policies that would enhance the banks' corporate performance level.
4. The lending policies of banks must be efficient and in tandem with global best practices.

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