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RECAPITALIZATION AND PERFORMANCE OF BANKS: THE NIGERIA EXPERIENCE

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Abstract:

Distress and failure have ravaged the Nigerian banking sector over the years and this have slow down economic growth; hence this paper was designed to examine the effect of recapitalization on performance of commercial banks in Nigeria. Ex-post facto research design was employed and time series data were sourced from Central Bank of Nigeria statistical bulletin of various years 2000-2016. Multiple regression inferential statistics was used for data analysis. The result reveal that banks credit to private sector has a positive and significant relationship with recapitalization while other variables in this study proved to be insignificant and negative. The study conclude that recapitalization is not a significant determinant of bank performance in Nigeria, hence government among other things should ensure the CBN monitor strictly the activities of the commercial banks and encourage bank credit to private sector.

Keywords: Recapitalization, Consolidation, Bank performance, Bank credit.

Introduction:

The Nigerian banking sector has undergone remarkable changes over the years. These changes have been influenced largely by challenges posed by deregulation of the financial sector, globalization of operations, technological innovations as well as the adoption of supervisory and prudential requirements that conform to international standards. Aregbeyen and olufemi (2011), opines that deregulation of the financial sector in Nigeria which started in 1987 generated a high and healthy degree of competition in the Nigerian banking industry. This could be as a result of the fact that the financial deregulation provided incentives for the expansion of banks in terms of size and the number of banks in operation as at then (Olugbenga & OLankunle, 1998).

The increased competition resulting from the deregulation of the financial sector in addition to political instability and inconsistencies in policy implementation led to rapid decline on the level of profitability and financial performance in the industry. This is because the deregulation led to the proliferation of banks with the attendant problem of the banks virtually chasing the same customers. This made the management of banks to believe that the only option for them is to survive is to take excessive risks (Aregbeyen & Olufemi, 2011) and to concentrate more on the short term end of the market thereby raising overdraft and trading in foreign exchange which had marginal effect on the real sector of the economy, since banks were unable to adequately mobilize and allocate the financial resources in the economy that will help to achieve the desired growth (Ogbulafor, 2000). These developments however culminated into series of bank failures, related financial shock and crisis in the banking sector in particular and the entire economy in general (Gunu, 2009, Gunu & Olabisi, 2011 & Ajede, 2011). Against this backdrop, weakness in the regulatory and supervisory framework, weak management practices, and the tolerance of deficiencies in the corporate governance behaviours of banks (Uchendu, 2005), the need for reform and recapitalization in the sector arose. Adegbaju and Olokoye (2008) pended that banking sector reforms and recapitalization have resulted from deliberate policy response to correct perceived or impending banking sector crisis and subsequent failures.

Suffice to say that crisis in the banking sector resulted from weakness in banking system, characterized by persistent illiquidity, insolvency, undercapitalization, high level of non- performing loans and weak corporate governance evidenced by inaccurate reporting and non compliance with regulatory requirement, couple with declining ethics as we as gross insider abuse which resulted in huge non performing insider related loans amongst others. It is against this backdrop that the recapitalization and consolidation exercise in the banking sector by the former central bank Nigeria

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Governor Professor Charles Chukwuma Soludo was designed to prevent frequent bank failures as well as restructuring the banks by increasing its capital base in order to primarily increase depositors' confidence in the sector which will in the long run affect the overall economic activity of the country since financial system is central to growth process of Nigeria (Olajide, Asaolu & Jegede, 2011).

Over the years, various countries had experienced financial distressed of varying degrees of severity and Nigeria is not exceptional (Hardy, 1998). In 1997, there were about 115 banks operating in Nigeria, 47 of them were in varying state of distress with an average ratio of non-performing assets of around 82 percent (Gunu & Olabisi, 2011). Between 1994 and 2003, no fewer than 36 banks in Nigeria closed up due to insolvency (Gunu, 2009). In 1998, the worse historic record in the sector took place where about 26 banks collapsed. Gunu (2009) opined that the failed banks had two things in common that is small size and unethical practices.

The problem of undercapitalization, mismanagement and poor corporate governance have continued to be source of instability and contagion in successive banking crisis in Nigeria over decades. Banks were find to be unable to meet up with credit requirements of certain customers thereby making it difficult for credit to be made available to private investors who probably were not 'connected persons' (Adegbaju & Olokoyo, 2008). To worsen this situation, banks were indifferent towards small savers particularly at the grass root level hence compounding the problem of domestic saving and reduction in the access of relatively cheap, stable and reliable sources of funds that would have been channelled to productive sector at affordable rates.

It is in effort to prevent the frequent failures and crisis in the banking sector that the Central Bank of Nigeria CBN on July 6, 2004 announced a major reform programme that would transform the banking landscape of Nigeria. As at this time, 89 banks were in existence, sequel to the reform, the CBN noted that no fewer than 11 banks were in distress and between 69 and 79 of these banks were marginal or fringe players.

Extant studies on the above subject are the studies of Ito and Sasaki (2002), Montgomery (2004), Montgomery and Shimizutani (2005), Soemonagoro (2006) Allen and Boobal- Batchelo (2005) Gjirja (2003). All of these studies are in advanced countries. In Nigeria the few studies available are the studies of Aregbeyen and Olufemi (2011), Ajede (2011), Gunu and Olabisi (2011) & Gunu (2009). The above studies lost emphasis on financial ratios like capital to asset ratio liquidity ratio and indices like Return on Equity, level of non-performing asset, Credit to private sector. Hence this study is designed to fill the gap identified above and of course add to extant literature on the above subject matter with the main objective of finding out the effect of bank recapitalization on the performance of commercial banks in Nigeria. The specific objectives Include finding out the effect of recapitalization of commercial banks on liquidity ratio of these banks, credit given to private sector, asset quality, and capital to asset ratio of the commercial banks in Nigeria.

Literature review

Over the years, the Nigerian banking sector has undergone remarkable change in term of institutional and ownership structure, depth of operation, efficiency of intermediate function as well as the adoption of modern technologies in attempt to serving customers better and boosting the public confidence in the industry. Oladele, Abosede and Akeke (2012) asserts that these changes calls for considerable interest in the measurement of the efficiency of the evolving institutions since creditors and investors use such efficiency as a yardstick to determine the past performance and current position of the banks. Suffice to say that priori to introduction of recapitalization policy in 2004; the Nigerian banking sector was saddled with problems of undercapitalization/weak capital base, mismanagement, poor corporate governance, gross insider abuse, over dependence on public sector deposit, sharp practices and insolvency (Umar, 2009, Donwa and Odia, 2011).

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Overview of the Nigerian Banking Sector

No doubt, commercial banks have contributed tremendously to the development of the Nigerian economy (Sanusi, 2011 and Okpara 2011). In nutshell, banks are financial institution that accept deposit payable on demand and organized loan for customers. Commercial banks are service industries that specialize in the safe keeping of money and valuables, recruiting foreign and domestic exchange, collecting cheques, draft, notes and other obligations on behalf of their customers.

Somoye, (2008) and Bebeji, (2013) opine that banking operation in Nigeria started in 1892 under the control of expatriates. Okpara (2011) asserted that commercial banking operations in Nigeria commenced with the African banking Corporation (ABC) which was established in Lagos as a South African base bank functioned for only two years after which its asset and liabilities were taken over by British Bank for West Africa (BBWA) which in 1894 was known as Standard Bank LTD (now First Bank Nigeria PLC) (Donwa & Odia, 2011). In 1949, the African Continental Bank (ACB) was established.

In the later part of 1949, the British Bank for Commerce and industry which was later called British and French Banks (now United bank for Africa PLC) was established leading increase in the number of expatriates and indigenous banks in the country to three (3). Between 1960 and 1969, the expatriates controlled about 80% of the total banking business in Nigeria. It is worthy of mention that between 1933 and 1957 the banking sector witnessed gross lack of banking legislation and regulation hence is referred to as the era of “Wild Cat Banking Era” (CBN, 1979).

As many Nigerian envisaged tighter government regulations, there was a spate of establishment of banks in Nigeria before the formal enactment of the proposed banking ordinance based on Patton’s report. There was conflicting views as to the number of banks registered in Nigeria between 1948 and 1952. Adekanye (1981) opine that many suggested it was 18 banks but one clear issue is that there was a leakage of information on the banking ordinance of 1952 before the enactment and consequently an unprecedented rush of “beat-the-law” registration of commercial banks. Okigbo (1981) asserted that most of the banks that came into existence then were mushroom banks and therefore could not stand the test of time and collapse in quick succession.

Between 1892 and 1952, the Nigerian banking sector was raved with devastating episodes of distress (Bebeji, 2013). The failures experienced then in the banking sector is attributed to many factor amongst them are lack of regulation, bad management, lack of trained personnel, aggressive competition from the expatriate banks, low capital base, poor asset quality, over lending, over expansion, inadequate credit policy, financial malpractices etc. The provision of the indigenization policy of the federal government of Nigeria only made government to acquire 40 percent of the holdings of the foreign banks in the country then. Bebeji (2013) pended that this action contributed immensely to the collapse of banks as well as resulting crisis in the banking industry since government had to resort to borrowing from banks in order to finance her deficit budget. This became a concern as an investigation panels was set up that resulted in the recommendation of the patriot Report of 1952 which served as a basis for the first banking ordinance passed in 1952, Adekanye, (1981) . Bebeji (2013) opine that the introduction of Banking ordinance of 1952, the establishment of the Central Bank of Nigeria (CBN) in 1959 and the promulgation of the Banking Act of 1969 made bank distress syndrome in Nigeria to be relatively controlled. Also, the Nigerian Deposit Insurance Commission (NDIC) was established under Decree 22 of 1988 to insure that licensed banks provide a safe and sound banking environment in Nigeria and the commission has since 1999 liquidated many banks in Nigeria.

The Central Bank of Nigeria was statutorily independent of the federal government though there was evidence of struggles of control between the government and the central bank for decades up to 1968 when a military government through a decree granted authority over banking and monetary policy to the Federal Executive Council. Then the role

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of the Central Bank of Nigeria became similar to that of Central Bank of North America and Western Europe, where the CBN is charge with the responsibility of control and regulation of the banking system, serve as bankers bank in Nigeria and carry out the government economic policy, control of bank credit growth, credit distribution by sector, cash reserve requirements for commercial banks, discount rates. It is worthy of mention here that central banks restrictions on credit and monetary expansion affected total demand and income. For instance, in 1998, as inflation accelerated, the central Bank tried to restrain monetary growth

From all indications, it is evident that there was a race of expansion in the sector, which manifested in the establishment of eleven (11) commercial banks and fourteen (14) merchant banks in 1990 with rapid expansion of more branches of the existing banks.

Somoye (2008) asserted that the first era of consolidation ever in Nigerian banking sector was between 1959 and 1969 often regarded as the genesis of serious banking regulation where the paid up capital for banks was set at four hundred thousand naira (N400,000) in 1958. The need for regulation in this sector was prompted by series of bank failures during 1953 -1959. In an attempt to resolve the distress problem, the government introduced Structural Adjustment Programme(SAP) in 1986 and the liberalization policy in 1986 re-introduced banks with foreign equity and this made systematic distress to re-surface in the Nigerian banking sector between 1989 and1998 which its argument was the general withdrawal of public sector deposit from the banks which made it difficult for banks to grant fresh loan to customers while the loans already issued out turn out to non-performing loan . By January 2001, the Nigerian banking sector was fully deregulated with adoption of the universal banking system which merged the operations of merchant banks with those of commercial banks. As this never eliminated the problem of distress in the Nigerian banking system, another recapitalization was introduced raising the minimum capital base of commercial banks to five hundred million naira (N500, 000,000) between 1997- and 2003, and this created room for banking sector reform of July 6 2004 (Hamman, Umar, Nwosu & Nwolisa, 2004).In 2005, as part of the requirement for reform agenda of 6th July 2004, the CBN raised minimum capital base of commercial banks to twenty five billion (N25,000,000,000), with a dead line of December 2005 for compliance by all commercial banks. This accounted for the collapse, merger and acquisition experience in the sector between 2004 to date.

Accordingly, the review of June 2004 showed that marginal and unsound banks accounted for 19.2% of the total asset, 17.2% of total deposit liabilities, while industry non-performing asset was 19.5% of the total loan and advances. No doubt, banks have been recording double digits in the ratio of non- performing loan to total loans which is an indication of poor asset management and bad corporate governance. The implication of this is that there existed threat of systematic distress judging from the CBN contingency planning framework of December 2002, which stipulated a threshold of 20% of the industry asset, 15% of deposit being held by distress banks and 355 of the industry credit being classified as non-performing.

A number of studies and reports have associated corruption with the misuse of public office for private financial gain, but this is not the exclusive nature of corruption (Otusanya, 2010). It was observed by the CBN that some of the banks in the country were showing liquidity strain as far back as October 2008 due to the extensive use of the Expanded Discount Window (EDW) which extended credit facilities to banks on the basis of collateral in the form of commercial papers and bankers' acceptance which were 'sometimes of doubtful value.

In 2009, the joint inspectors from the CBN and the Nigerian Deposit Insurance Corporation (NDIC) were given the task of examining the books of some banks in which they discovered or rather confirmed the various non-performing loan mostly as a result of the fraudulent acts of some banks 'CEO's. This development led to the sacking of various CEO's with fraudulent charges against them. The dismissed bank executives were alleged to have violated a number of rules. The loans were alleged to have been granted without adequate collaterals. Loans, including those given to themselves and their friends, were not serviced and became 'non-performing loan'. Reports submitted to the central

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bank of Nigeria (CBN) were found to be ‘cooked’. Bank executives had become stupendously rich as individuals while the banks they managed were becoming bankrupt or ‘failed’.

On a recovery mission on the huge amount of NPLs in Nigeria banks, the Assets Management Company of Nigeria (AMCON) was established in 2010 to buy up non-performing loans of the nation’s banking system. The CBN also helped to bail out eight (8) fragile banks out of the twenty four banks with the injection of a whole sum of N620 billion in 2009 in a bid to prevent distress in the banking industry (Sanusi, 2012 and Bebeji, 2013). Recently AMCON purchased a total of N4.2 trillion toxic assets at a cost of N1.7 trillion at a proportion of about 44 kobo to a naira. As noted by Sanusi (2012), AMCON injected N739.0 billion to recapitalize three banks and thus, depositors’ funds were secured such that no bank collapsed and no deposit was lost. As at December 2011, in a series of branches, AMCON had issued 3-year bonds valued at N4.7 trillion towards the purchase of toxic assets, liquidity and recapitalization of banks (Sanusi, 2012). The idea of setting up AMCON in fact, was to clean up the balance sheet of all the Nigerian banks by purchasing all loans that were not performing and those that had exceeded single obligor limits or which constituted risks to the Nigerian banking sector.

Bello (2005) defines consolidation as the merger of two or more commercial interest or corporations. In the views of Soludo (2005), consolidation refers to an amalgamation or a combination in which all the combining companies are legally dissolved and a new company is formed with the objectives of enhancing performance through sound asset quality as one of the yardsticks. Consolidation is an exercise that leads to a reduction in the number of commercial interests of corporations in a given sector, and simultaneously increasing the sizes and concentration of the consolidated entities in such sector. It is expected however that through asset diversification, bank consolidation would reduce the level of insolvency risk in the industry (Shih, 2003). Aregbeyen and Olufemi (2011) opine that consolidation in the banking industry can either be market-driven or government induced. They pointed that the market-driven consolidation (though prominent in developed countries), sees consolidation as a way of broadening competitiveness with added comparative advantage in the global context and eliminating excess capacity more efficiently than bankruptcy or other means of exit. On the contrary, government induced consolidation according to Ajayi (2005) as cited by Aregbeyen and Olufemi (2011) stems from the need to resolve the problem of financial distress in order to avoid systematic crises as well as to restrict inefficient banks. Recall that the consolidation of the banking industry in Nigeria started in 2004 when the CBN mandated all banks to meet the N25 billion minimum paid-up capital by 31st December, 2005 (Edozie, 2005); Donwa and Odia, 2010; Donwa and Odia, 2011; and Bebeji, 2013).

From the aforementioned, it becomes obvious that the important crux of the consolidation exercise in the Nigerian banking industry is recapitalization since banks need adequate capital due to the fact that adequate capital to provide a cushion to withstand abnormal losses not covered by current earnings, such that banks would be able to regain equilibrium thereby re-establishing a normal earnings pattern Babalola (2011).

Oladejo and Oladipupo (2011) asserted that recapitalization is a form of reform in the banking industry aimed amongst others at developing a more resilient, competitive and dynamic banking systems that support and contribute positively to the growth of the economy with a core strong and forward looking banking institutions that are technologically driven and ready to face the challenges of liberalization and globalization. Recapitalization is simply a policy thrust designed to raise the minimum paid-up capital (capital base) for banks in the country. Adegbaju and Olokoyo (2008) posit that recapitalization is an important component of the reforms in the Nigerian banking industry owing to the fact that a bank with a strong capital base has the ability to absorb losses arising from non-performing liabilities. Thus for banks to recapitalize, they need to either consolidate with existing banks or raise additional funds through the capital market (Sulaimon, Akeke and Fapohunds, 2012).

Soludo (2004) opine that recapitalization of the Nigerian Banking Sector was necessitated by the high concentration of the debt by small banks with capitalization of less than N10 million, each with expensive headquarters, separate

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investment in software and hardware, heavy fixed costs and operating expenses, and with bunching of branches in few commercial centres leading to very high average cost for the industry. The fragile state of the Nigerian Banking Sector in the pre-capitalization exercise is so bad that, only ten banks (10) out of the eight-nine (89) in operation accounted for 51.9% of total assets, 55.4% of total deposit liabilities, and 42.8% of total credit (CBN), 2004). The rating of the licensed banks in operation, using the CAMEL Parameters, revealed that ten (10) banks were 'sound', fifty-one (51) were 'satisfactory', sixteen (16) were rated 'marginal' and ten (10) banks were rated 'unsound' in 2004 (CBN, 2004). However, the performance of banks since 2001 exhibited steadily a deteriorating trend as the number of 'satisfactory' banks declined steadily from 63 in 2001 to 51 in 2004. In the same vein, the number of banks that were 'marginal' increased from 8 in 2001 to 16 in 2004. 'Unsound' banks also increased from 9 in 2001 to 10 in 2004. The marginal and/or unsound banks exhibited such weakness as undercapitalized, illiquidity, weak/ poor asset quality, poor earnings etc (CBN, 2004; Soludo, 2004). The CBN reform to consolidate the banking sector through drastic increase of the minimum capital base of commercial banks from N2 billion to =N=25 billion in 2005 led to a remarkable reduction in number of banks. Immediately after the recapitalization deadline ended in December 31st, 2005, the number of operating banks in the country reduced from 89 banks to 25 banks but later reduced further to 23 banks with the merger of some banks like First Atlantic Bank Plc and Inland Bank to form Fin bank Plc. Stanbic Bank Limited and IBTC Chartered Bank Plc to form Stanbic-IBTC bank Plc. The number of operating bank later increased to 24 banks with the entering of Citibank Nigeria Limited. With the recent merger and acquisition of some of the nine rescued banks i.e. the merger of Access Bank Plc with Intercontinental Bank Plc; merger of Ecobank Transnational Incorporated with Oceanic Bank Plc; merger of First City Monument Bank with Fin Bank Plc, the number of banks operating in Nigeria has been reduced further.

However, in August 2011, the CBN revoked the license of three of the rescued banks for failing to show ability to recapitalise ahead of the September 30, 2011 deadline, effectively nationalizing Bank PHB, Afribank and Spring Bank. The assets of these banks were transferred to three newly created, nationalized banks: Keystone Bank, Enterprise Bank and Mainstreet Bank. AMCON which took over the banks also injected N680 billion to recapitalise the banks. Unity Bank Plc, one of the bailed out banks has already recapitalised while Wema Bank Plc, the last of the rescued banks has since scaled down operations to become a regional bank with emphasis in the south west region. The post-recapitalization performance of all Nigerian banks was overcast in 2008 by the global financial and economic crisis, which was precipitated in August 2007 by the collapse of the sub-prime lending market in the United States (Bunescu, 2010). The crisis led to the crash of most other sectors and markets across Europe with consequent effect on developing economics especially oil-export dependent countries like Nigeria. The rush by stock investors to liquidate their investment to repay their loans in order to void the excessive lending rate caused the Nigerian stock market to crash. The crash of the stock market did not only affect the financial performance of some of the banks, it also increased their risk exposure. Sanusi (2010a) attributed the post-recapitalization challenges of Nigerian banking industry to the inability of the industry and the regulators to sustain and monitor the sector's explosive growth which according to him led to a huge level of inbuilt risk in the system. According to Sanusi (2010b) the reports of the special examination team carried out by CBN/NDIC) revealed that nine (9) out of the 24 (twenty-four) banks were in grave situation, prompting immediate intervention by CBN. The reports further revealed that non-performing loans in ten banks totalled =N=1,696 billion, representing 44.38% of total loans while the Capital Adequacy Ratio in the ten banks ranged between -1.01% and 7.41%, which were below the minimum ratio of 10%. This statistics portrays a fragile banking system. It is therefore necessary to conduct a study of this nature to evaluate the =N=25 billion recapitalization exercise in Nigerian banking sector in terms of the financial performance of the commercial banks.

Challenges in the Nigerian Banking Industry In The Face Of Current Reforms

The banking industry has failed in positioning the economy in the right path of recovery over the years, as the industry has lost its position as the bedrock of the Nigerian economy due to abysmal performance of the economy (Adegbie, Asaolu and Enyi 2013). The banking industry is suppose to be the enabling hub of national and global payment system

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that facilitates national and international transactions in addition to enhancing commerce, industry and exchange. However, it was in attempt to achieve a sound and vibrant banking industry that efforts were made to liberalize banking licensing in 1986. But the 2004 recapitalization is the most of all the reforms the sector has ever witnessed as it lead to mergers and acquisitions in the Nigerian Banking industry hence, making them to be bigger and stronger.

Shortly after the recapitalization exercise, some banks in Nigeria were said to be running into some liquidity-related crises, thereby suggesting that efforts directed at further reforms in the industry needed to be made. It is in view of this that a more fundamental effort at reforming the industry was being made in 2009 by the CBN. Titus (2012) asserted that CBN has provided guidelines for developing risk management frameworks upon which banks were expected to develop their own specific guidelines. Furthermore, since poor credit management has been a major cause of failure in the Nigerian Banking Industry. Efforts have also been made by government to institute the credit bureau system which according to Titus (2012) was part of government's measures to foster the development of a credit focused banking management aimed at developing the real sector of the economy.

Soludo (2004) opined that the Nigerian banking system today is fragile and marginal. Adegbaju and Olokoyo (2008) stated that banking system in Nigeria is facing enormous challenges which if not addressed urgently could snowball into a crisis in the near future. To worsen the situation, it is believed that many banks have appeared to have abandoned their essential role of intermediation which has to do with mobilizing savings and inculcating banking habit at the household and micro enterprise levels (Soludo, 2005). In consonance with this view, Adegbaju and Olokoyo (2008) strongly believes that the indifference of banks towards small savers, particularly at the grass root level, have not only compounded the problems of low domestic savings and high bank lending rates in the country, but to a large extent, it has reduced access to relatively cheap stable and reliable source of funds that would have been channelled to productive sectors at affordable interest rates.

Theoretical Framework

Buffer Theory of Capital Adequacy

This theory is of the opinion that banks prefer to hold a 'buffer' capital to reduce the probability of falling under the legal capital requirements especially if their capital adequacy ratio is very volatile. This means that banks are expected to mobilize enough deposit to obviate their capital base from being ended. It is on this basis that Calem and Rob (1996) propounded the buffer theory of capital adequacy and predicts that a bank approaching the regulatory minimum capital ratio may have an incentive to boost capital and reduce risk in order to avoid the regulatory costs triggered by a breach of capital requirements.

Empirical Review

Aregbeyen and Olufemi (2011) examined the impact of recapitalization and consolidation on the cost of equity of banks in Nigeria in order for them to measure the effectiveness and efficiency of the recapitalization and consolidation programme in the country. They used the student t-test to test the difference between the mean cost of equity capital for all sampled banks prior to consolidation and after the consolidation exercise. Their study revealed that the recapitalization programme brought about a considerable reduction in the cost of equity capital in the sampled banks.

Umar (2009) conducted a study on the impact of banking industry recapitalization on employment in Nigerian banks using simple percentages and the multiple regression analysis. The study revealed that there was reduction in the level of employment in the industry between 1999 – 2001, but experienced an appreciable increase in the level of employment between 2006 – 2008 owing to an increase in the number of domestic branches. In addition to the aforementioned, Wahab (2001) analysed the performance of commercial banks under reforms and noted that while major issues need to be considered for further improvements, evidence from his study show that reforms have

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produced favourable effects on performance of commercial banks in general, but some distortions like low profitability amongst others need to be looked into again.

Research Method

The research design for this study is expect factor. The choice of this design is base on the fact that historic data relating bank recapitalization and performance already exist and is not subject to manipulation. The population of this study include all commercial banks in Nigeria that existed in the past twelve years. The justification being that the three major different reforms have taken place since then and these banks is said to have experienced it. The data for the study is secondary sourced from the central bank of Nigeria, Nigerian deposit insurance commission and security and exchange commission statistical bulletin of various years, and multiple regression analysis was used to analyse the data with the aid of solution package for social science (SPSS) version 22.

Model specification

Brecap = f(BCPS, LR, NPR, BPERF) 1

Brecap = $\beta 0 + \beta 1BCPS + \beta 2LR + \beta 3NPR + \beta 4BPERF + et$) 2

Where Brecap= Bank recapitalization proxied by the minimum capital base (MCB) of banks for the relevant years.

BCPS = Bank credit to private sector proxied by amount credit given to private sector by the banks.

LR = Liquidity ratio proxied by current asset divided by current liabilities.

BPERF = Bank performance proxied by return on equity.

NPL = Non performing loan proxied by amount of non- performing loan in the banks

et = error term

Data presentation and analysis

***The effect of bank performance, asset quality, and liquidity ratio and bank credit to private sector on recapitalization of commercial banks in Nigeria is not significant*.**

Decision rule: Accept null hypothesis if the probability value computed by means is less than or equal to 0.05 (i.e. $P \leq 0.05$)

Variable	Coefficient	Standardized co-efficient beta	t-value	Sig
Constant	6.345		3.084	.004
Ibcps	.665	.701	4.293	.001***
Llr	-1.839	-.265	-1.802	.097
Lnpr	-.206	-126	-.717	.487
Lbperf	-.251	-.296	-1.865	.087
R	.877			
R-square	.770			

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Adjusted R-square	.693
F-statistic	10.019
Sig	.001

a. Dependent variable: LBrecap
b. Predictors (constant) bank credit to private sector, liquidity ratio, asset quality and bank performance.

* * * indicates that the result is significant 0.05 level.

Source: Spss version 22 result.

Following the result of the table above, the adjusted co-efficient of multiple determination showed a value of 0.693 indicating that about 69.3% of the total variations observed in dependent variable (Bank recapitalization) is influenced by changes in the four predictor variables (Bank credit to private sector, liquidity ratio, asset quality and Bank performance) in our study. This indicates that only about 30.7% of the changes in Bank recapitalization is attributable to other factors other than the four predictor variables in this study. This F-ratio value of 10.019 is significant at 0.05 levels and it further highlights the appropriateness of the model specification.

Furthermore, only one of the four predictor variables in this shown to be a significant determinant of recapitalization of commercial banks in Nigeria, hence we accept the null hypothesis and conclude that recapitalization of commercial banks in Nigeria is not a significant determinant of bank performance, asset quality, liquidity ratio and bank credit to private sector.

Discussion of result

From the table above, there is evidence that support a significant and positive relationship between bank credit to private sector and recapitalization of commercial banks in Nigeria. This evidence is supported by a co-efficient of regression in value of 0.665 implying that bank credit to private sector is affected by recapitalization of commercial banks in Nigeria, hence any variable that negatively affect bank credit to private sector will also affect the recapitalization of commercial banks in Nigeria.

Liquidity ratio in this study is shown to have an insignificant and negative relationship with recapitalization of commercial banks in Nigeria. As evidenced by a co-efficient of regression value of -1.839. Implying that any factor that affect liquidity ratio positively will equally affect recapitalization of commercial banks in Nigeria positively.

Following the result in the table above, asset quality is shown to have an insignificant and negative relationship with recapitalization of commercial banks in Nigeria, as supported by a co-efficient of regress in value of -0.206. Indicating that any factor that positively affects asset quality will also affect recapitalization positively. This result is without prejudice to the quality of asset procured by these banks because quality of asset is a vital factor that affects value though not included in this study.

Bank performance is shown in the result to have an insignificant and negative relationship with recapitalization of commercial banks in Nigeria as evidenced by a co-efficient of regression value of -0.251. Implying that any factor that affects bank performance positively will affect recapitalization of commercial banks positively. A caveat is that management decision/ objective is not included in this study.

Conclusion and Recommendation.

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The findings of this study showed that out of the four predictor variables in this study only one variable is shown to have a significant relationship with recapitalization of commercial banks while three of the variables are not significant.

We therefore conclude that recapitalization is not a significant determinant of bank performance in Nigeria as evidenced in our findings. This is because even after the recapitalization of commercial banks in Nigeria there have been several cases of liquidations and acquisitions. For instance Oceanic bank in 2009 was acquired by Ecobank Nigeria, Intercontinental bank by Access bank plc and so on.

Recommendations.

Based on the findings of this study, the following recommendations were made:

- That management of banks in Nigeria must strive to adequately mobilize and allocate the required financial resources as well as pursue policies that would help in achieving the desired growth in the sector and the economy at large.
- That there is need for all stakeholders to partner with the CBN to ensure a smooth and effective implementation of policies designed to improve the performance of the industry.
- That regulatory authority (CBN) should constantly monitor the activities of banks in Nigeria so that adequate steps can be taken to review and improve the policies.
- Efforts should be made to improve the amount of bank credit tp private sector if the Nigerian banking industry must maintain her survival and growth.

Contribution to Knowledge.

This study examined the effect of recapitalization on the performance of commercial banks in Nigeria for a period of sixteen years. Therefore further studies can be carried out on other sectors like the insurance industry or perhaps the banking industry using other variables for a longer period of time.

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