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DETERMINANTS OF EARNINGS IN DEPOSIT MONEY BANKS (DMB) - EMPIRICAL EVIDENCE FROM NIGERIA

Israel Kwode
Dept of Economics, Wellspring University, Benin, Nigeria
ikwode@yahoo.com

Omene E. Loveth
Dept of Economics, National Open University of Nigeria, Nigeria
lomene@yahoo.com

Abstract

The study examines earnings determinants of deposit money banks in Nigeria. It explores the relationship between gross earnings and its determinants by collating secondary data sourced from annual report of selected banks within the period 2002-2016. Ordinary least square (OLS) was used to test the relationship between the dependable variable Banks' Earnings proxied by Return on Asset (ROA) and the independent variables as: Capital base, Customers deposits, Investments, Loans and Advances, Liquidity ratio, Bank size and Inflation. The results reveal that there is a significant and positive relationship between bank earnings and capital base and bank size, while investment, loan and advance, demand deposit and inflation are significant but have negative impact on bank's earnings. Therefore, banks can improve their earnings with strong capital base and good investment management skills. Also, monetary authority should implement sound macroeconomic policies that promote low inflation, branch expansion, loan deposit ratios so as to boost credit expansion and invariably returns and profitability of deposit money banks in Nigeria.

Keywords: Bank Earnings, Liquidity ratio, Investment and loan, Macroeconomic variables, Inflation rate

INTRODUCTION

In today competitive world, the measure of business efficiency is the amount of earnings made by the firm, particularly in a highly dynamic society such as Nigeria. In fact, earning is the life blood of any business organisation including banks. Thus, maximization of earnings by economic unit most especially banks are determined or influenced by certain variables. These variables that are both internal and external have significant impact on banks' earning and non-earning assets. Over the years the level of earning made by banks had been of great concern to stakeholders giving the fact that Earnings are key variables (both dependent and independent variables) in Bank's performance, viability and sustainability. In fact, earnings are important to banks' long term growth and sustainability. Therefore, most executives and stakeholders focus on growing their earnings. Several factors have been adjudged as affecting banks' earnings among which are size, interest rate, capital assets, macroeconomic variables (interest, inflation, deposit and lending rates) and the financial structure of the bank. The efficiency of a bank is judged by its ability to satisfy all stakeholders (customers, shareholders, and monetary authorities). In other words, a successful bank is one that is able to manage its resources in such a way as to achieve a good balance between liquidity (production of depositors' cash on demand) and profitability /dividend to shareholders and ability to adjust to the directives of monetary authorities (CBN, 2008).It is again this backdrop that this study intends to empirically investigate which factor impacts significantly banks' earnings.

Objective of the Study

The broad objective of this study is to examine the Earning determinants of deposit money bank in Nigeria. The specific objectives of the study are as follows:

1. To examine relationship between Gross Earning and Customers Deposits, Investments, Loan and Advances, liquidity ratio, bank size and inflation rate
2. To evaluate factors that affect banks profitability in Nigeria;
3. To examine the trend of commercial banks profitability in Nigeria.

Statement of Hypothesis

H_O: There is no significant relationship between the level of earnings in the banking industry and Capital base, Demand Deposit, Investments, Loan and Advances, liquidity ratio, bank size and inflation

H_1: There is significant relationship between the level of earnings in the banking industries and Capital base, Demand Deposit, Investments, Loan and Advances, liquidity ratio, bank size and inflation

LITERATURE REVIEW

Commercial banks now known as (Deposit Money Banks) commenced operations in Nigeria by 1892, with the establishment of two British banks by the Colonial Masters. At Independence, the country had a total of twelve banks with 160 branches across the country. Activities of commercial banks in Nigeria came into public scrutiny during the 1995 to 1999 era, a period where distress and financial crisis had rocked the banking sector. Numerous banks were liquidated at this period by Nigerian Deposit Insurance Corporation (NDIC). Since then, the banking system has undergone remarkable changes in terms of ownership structure, conduct, performance (branch networks as well as nature of operations).

Molyneux and Thorton (1992) investigated a multi-country setting by examining the determinants of bank profitability for a panel of 18 European countries for the 1986-1989 time periods. They found a significant positive association between the return on equity and the level of interest rates in each country.

In Nigeria.Okoye, and Eze, (2013) study the impact of bank lending rate on the performance of Nigerian Deposit Money Banks between 2000 and 2010. It specifically determined the effects of lending rate and monetary policy rate on the performance of Nigerian Deposit Money Banks and analyzed how bank lending rate policy affects the performance of Nigerian deposit money banks. They found that lending rate and monetary policy rate has significant and positive effects on the performance of Nigerian deposit money banks.

Akabom-Ita, (2012) examined the impact of interest rate on net assets of multinational companies in Nigeria from 1995 - 2010. The regression analysis showed that an increase in interest rate results in reduction in net assets.

Furthermore, Enyioko (2012) examine the performances of banks in Nigeria based on the interest rate policies of the banks. The study analyzed published audited accounts of twenty (20) out of twenty-five (25) banks that emerged from the consolidation exercise and data from the Central Banks of Nigeria (CBN). Applying regression and error correction methods to analyze the relationship between interest rates and bank performance the study found that interest rate policies have not improved the overall performances of banks significantly.

Aburime (2008) used a sample of banks with 1255 individual observation on unbalanced panel data over the period 1980-2006 to investigate the macroeconomic determinants of bank profitability in Nigeria. The result revealed that real interest rate, inflation, monetary policy and foreign exchange regime are positively associated with banks' return on assets.

Ahmad (2003) reported that interest on loan is the largest constituent of income for Nigerian banks as evidenced from available data and that movement from one interest regime

to another could have some effects on the profitability of banks in the system. Ogunlewe (2001) in a study of the monetary policy influence of bank's profitability, using data from Nigerian banks found the determinants of bank profitability to include reserve ratio, permissible credit growth, stabilization securities and exchange rate. The study also found determinants of banks' profitability to include total deposits, Treasury bill rates and lending rates.

Uchendu (1995) investigated the effect of monetary policies on the performance of Nigerian commercial banks. He found that the dominant factors influencing bank profitability are interest rates, exchange rate, bank reserves, banking structure and unit labour costs, particularly when return on capital is used as measure of profitability. He concluded that stable and realistic monetary and banking policies are important for the profitability of commercial banking business in Nigeria. Elsewhere, Kanwal and Nadeem (2013) investigate the impact of macroeconomic variables on profitability of public limited commercial banks in Pakistan for years 2001- 2011. Pooled Ordinary Least Square (POLS) method is used to examine the effect of 3 major external factors; inflation rate, real gross domestic product (GDP) and real interest rate on profitability indicators; return on assets (ROA), return on equity (ROE) and equity multiplier (EM) ratios in 3 separate models. The empirical findings indicate a strong positive relationship of real interest rate with ROA, ROE and EM. Secondly, real GDP is found to have an insignificant positive effect on ROA, but an insignificant negative impact on ROE and EM. Inflation rate on the other hand, has a negative link with all 3 profitability measures. Overall, the selected macroeconomic factors are found to have a negligible impact on earnings of commercial banks.

Riaz and Mehar (2013) investigate the impact of bank specific variables: Asset size , Credit Risk, Total deposits to total assets ratio, and macroeconomic indicator : interest rate(Discount rate) on the profitability measures, ROE and ROA of commercial banks in Pakistan during the period of 2006-2010. There are two measures of profitability --Return on equity (ROE) & Return on assets (ROA). All 32 commercial banks were selected and by using regression the results show that there is a significant impact of bank specific variables(asset size, total deposits to total assets, credit risk) and macroeconomic indicator (interest rate) on ROE and credit risk and interest rate have also a significant impact on ROA.

Amer Azlanet. al. (2012) in their paper "Determinants of Commercial Banks' Return on Asset: Panel Evidence from Malaysia" investigated the possible macroeconomic factors that influence the profitability of domestic and foreign commercial banks in Malaysia. They use an unbalanced panel dataset of 16 commercial banks and panel data regression technique over the period of 2004-2011. The result indicates that all the external factors namely inflation, interest rate and GDP have a positive impact on all commercial bank's return on assets. They

also found that interest rate appears to influence foreign bank's profit positively but shows no impact on domestic bank's performance.

Sufian (2011) examined the impact of bank specific and macroeconomic variables on the performance of Korean banking sector during the pre- and post-Asian financial crisis. A total of 251 bank year observations consisting of 11 commercial banks over the period 1993- 2003 were employed and tested using panel fixed and random effect regression technique. In regards to macroeconomic perspectives, the result shows that inflation has positive association with banks' return on assets. Alper and Anbar (2011) investigated bank specific and macroeconomic determinants of commercial bank profitability in Turkey over the period of 2002-2010. The study uses both return on asset (ROA) and return on equity (ROE) as proxy for bank profitability. By employing balanced set of panel data and fixed effect model, the result shows that only real interest rate is positively related with profitability in regards to macroeconomic variables. In other words, an increase in real interest rate would lead to an increase in commercial banks' profitability in Turkey.

Ramadan et. al. (2011) examined the determinants of bank performance of 10 Jordanian banks over the 2001-2010 periods. They discovered that both inflation and economic growth were found to be negatively insignificant on both return on asset (ROA) and return on equity (ROE) of the banks. However, Khwarish (2011) which focusing more on determinants of commercial bank performance in Jordan for 2000-2010 periods found that both inflation rate and annual growth rate for gross domestic product have negative and significant effects on both ROA and ROE of the commercial banks. An empirical study by Damena (2011), on the profitability determinants of Ethiopian commercial banks uses 10 years balance sheet data of 7 leading banks confirms positive affect of GDP, inflation and interest rate.

Bennaceur and Goaied, (2008) study The Determinants of Commercial Bank Interest Margin and Profitability: Evidence from Tunisia and find that interest rate liberalization has contrasting effect on net interest margins. In fact, partial liberalization has a negative impact on the interest margin whereas complete liberalization strengthens the ability of Tunisian banks to generate profit margins. Staikouras and Wood (2004) reviewed the performance of European Banking industry for years 1994-1998. Using ordinary least square method and fixed effects model they concluded that interest rate has a significant positive impact on ROA. Demirgur – Kunt and Huizinaga (1999) posits that high interest rate is associated with higher interest margins and profitability especially in developing countries. This study, investigates earnings determinants in deposit money banks by studying selected top performing banks in Nigeria.

RESEARCH METHODOLOGY

Research Design

The approach to this research work is both descriptive and analytical. This study was based on the analysis of financial statement of five top banks in Nigeria. The study adopted correlation analysis (regression analysis) method to carry out the research work.

The Data

Basic data were collected from secondary source financial statement of 5 top performing banks in Nigeria covering a period of 15 years (2002 – 2016) from which the independent variables (determinants) were sourced.

Model Specification

In other to examine the factors that affect the earning of the aforementioned banks in Nigeria, Ordinary least square (OLS) was used to test the relationship between the dependable variable- t Banks' Earnings is proxied by Return on Asset (ROA) and the independent variables as: Customers Deposits, Investments, Loans and Advances, Liquidity ratio, Bank size and Inflation. The model was formulated as:

ROA (Earning of Banks or Profitability $E(x))$ OR

$$= \sum_{i=0}^{n} B_o + B_1 (CB) + B_2 (DD) + B_3 (I) + B_4 (LA) + B_5 (LR) + B_6 (BS)$$

$- B_7 (IF) + \ldots + B\epsilon Xe$

Where,

E(x) = Earning or Profitability is the Dependent Variable (Predictive Value) of the independent Variables.

B1 – Bi = Coefficient of Variances or Slopes

ROA = Return on Assets or Profitability

B_O = Constant

CB = Capital Base

DD = Demand Deposits

I = Investments

LA = Loan and Advances

LR = Liquidity Ratio

BS = Bank Size

INFR = Inflation

Having established a relationship between earning and various independent variables, analysis was carried with the use of statistical techniques – multiple correlation (regression analysis). The essence was specially described the strength of the relationship between the dependent variable (E(x)) and the various independent variables (Hossain 2012)

Data presented include variables in the model for period of fifteen (15) years. The study used pooled data of the five selected banks. The variables of interest are: Earning, Capital Base, Demand Deposit, investment, loan and Advances. Liquidity ratio, bank size and inflation rate from 2002 -2016 as shown in table 1 below.

Table 1. Bank Earning and its Determinant Variables

Year	Bank Earning (Million)	Capital Base (N)	Demand Deposit (N)	Investment	Loan & Advances	Liquidity Ratio	Bank Size	Inflation
2002	1913651	59404587	258190	3,459.3	41525873	40.2	2407	8.5
2003	3226912	57971327	281720	4,198.5	42915404	46.8	2407	10.0
2004	4822385	79001299	393590	5,247.4	62 242588	61.0	2185	6.6
2005	5957801	98391315	242650	7,948.7	98403851	64.1	2185	6.9
2006	9054054	110856841	323040	15,919.9	128262731	52.9	2193	18.9
2007	23380490	249382647	3522500	35,375.0	223994250	52.5	2193	12.9
2008	8907541	591263586	345970000	62,928.6	281301171	50.9	3010	14.0
2009	13940142	852538785	296430000	72,772.3	287818978	50.5	3247	15.0
2010	42912934	666066937	263480000	88,382.1	676988810	50.2	3492	17.9
2011	46836427	305298484	234960000	141,577.5	852968967	55.7	3492	8.2
2012	28580407	501489161	247180000	292,298.7	952384419	48.8	3233	5.4
2013	20424973	648167864	266320000	480,718.6	1896042256	44.3	4200	15.1
2014	85342029	873428715	258420000	890,332.6	1509594202	30.7	4952	13.9
2015	65719024	852944993	317680000	1,785,745.6	1896042256	31.7	5436	11.8
2016	78902036	877903460	324570000	1,822136.8	1976042056	52.32	5439	13.4

Source: Annual Report of five selected Banks (Various Issues)

ANALYSIS AND RESULT

Table 1 Show the data on Banks Earning determinant and key macroeconomic variables as previously defined in our model specification above. The macroeconomic variable included is inflation rate (INFR) while bank internal factors are; Capital Base (CB), Demand Deposit(DD), investment(INV), loan and Advances (L&A). Liquidity ratio (LR), bank size (BS) during the period of the study.

Bank Earning (BE) Proxied by (ROA) of banks maintained steady growth from 2002-2006 as it increase from N1913651 to N 9054054 between 2002-2006 respectively and show sharp increase in 2007 from N 9054054 to N 23380490 (million) in 2008. For the 15 years under review bank earning has a mean value of N 29328053.73 with minimum value of N 1,913,651 in 2002 and maximum value of N 85,342,029 in 2014. Bank earning fall to N 65719024 in 2015 this could be due to massive withdrawal that proceeded the 2015 general election in Nigeria.

Capital Base (CB) during the period under review show steady growth over the period as a result of massive reforms in the banking sector in recent time. Capital base of banks increased from N59,404,587 in 2002 to N 877903460 in 2016. The minimum capital base of N 57971327 was observed in 2003 while the maximum value of N 877903460 was recorded in 2016 with mean capital base of N454,940.666.73. This is impressive and good for Nigerian deposit money banks and the financial sector in general.

Demand deposit increased from N 258,190 in 2002 to N323,040 in 2006 after the consolidation of banks in Nigeria. In 2007 there was significant increase in demand deposit held by banks from N323040 in 2006 to N3522500 which is more than 56% increase. Also the remaining part of the period (ie 2008-2016) witness sharp increase. Demand deposit for the period had mean value of N170668779.33 with minimum value of N242650 in 2005 and maximum value of N345970000 in 2008

Investment (INV). Bank investment maintained steady growth throughout the period under review. It increase from N 3459.3 in 2002 to N 7948.7 in 2005. In 2006 bank investment increased from N 7948 .7 I n 2005 to N 15919.9 which is about 100% increase and continue through 2007-2016 from N35,375 in 2007 to N1,822136.8 in 2016. The minimum value of bank investment was recorded in 2002 while the highest N 1822136.8 was observed in 2016 with all time average of N 380602.77. This impressive performance is due to the conducive business environment in Nigeria and the finical sector in particular.

Loan and advances show steady increase throughout the period. It increase from 41525873 in 2002 to N 128262731 in 2006 more than25% increase in five years. Loan and advances increase from N223994250 in 2007 to N 952384419 in 2012 which is about 200% for a period of six years. This growth continued till 2016

Liquidity ratio has minimum value of 3070 recorded in 2014 and maximum value of 64.10 in 2005 with mean value of 48.84. Liquidity ratio increase from40.20 in 2002 to 64.1 in 2005 before declining to 52.9 in 2006 and further down to 50.2 in 2010. It increase to 55.7 in 2011 before falling again in 2012 to 48.8,44.3 30.7 31.7 in 2013,2014 and 2015 respectively and increase to 52.32 in 2016.

Bank size which is proxy by no of branches of banks in Nigeria was 2407 in 2002 and 2003 and 2185 in 2004-2005 and 2193 in 2006 and 2007 before increasing to 3010 in 2008 and 3247 in 2009. It was 3492 in 2010 and 2011 and fall to3233 in 2012 with an increase in 2013 to 4200,4952 in 2014, 5436 in 2015 and 5439 in 2016.

Inflation Rate (INFR). Inflation rate which is one of the external factors that affects bank earning has never been stable in Nigeria. Inflation rate was 8.5 in 2002 and 10.0 in 2003 before falling to 6.6 and 6.9 in 2004 and 2005 respectively. Inflation rate increase to 18.9 in 2006, 12.9 in 2007 and 14.0 in 2008. Inflation falls to its lowest value in a decade 5.4 in 2012 but sharply increased to 15.1 in 2013 and 13.9 in 2014. It drop a little in 2015 (11.8) and 13.4 in 2016. The high inflation rate is due to exposure of the country economy to globalization vis-a-viz oil price shock and exchange rate of the naira against international currencies.

Table 2. Descriptive Statistics of Variables

	N	MINIMUM	MAXIMUM	MEAN	STD. DEVIATION
BANK EARNING (MILLION)	15	1913651	85342029	29328053.73	28246457.585
CAPITAL BASE (N)	15	57971327	877903460	454940666.73	331524087.442
Demand Deposit (N)	15	242650	345970000	170668779.33	146472997.242
Investment	15	3459.3	1822136.8	380602.773	625879.4034
Liquidity Ratio	15	30.7000	64.1000	48.841333	9.2616520
Bank Size	15	2185	5439	3338.07	1175.723
Inflation	15	5.4000	18.9000	11.904667	4.1484470
Valid N (listwise)	15				

The data presented in table 2 was subjected to linear regression with bank earning (ROA) as Dependent variable and the result is presented below.

Table 3. Model Summary

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.913[a]	.834	.640	17066228.670	2.148

a. Predictors: (Constant), Inflation, Investment, Liquidity Ratio, Demand Deposit (N), Loan & Advances, Capital Base (N), Bank Size

b. Dependent Variable: Bank Earning (Million)

Model		Unstandardized Coefficients		Standardizd Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1385707.39	822541.608		-1.685	.143
	Capital Base (N)	.013	.048	.153	.277	.010
	Demand Deposit (N)	-.116	.096	-.585	-1.202	.275
	Investment	-18.109	23.171	-.408	-.782	.034
	Loan & Advances	-.018	.020	-.465	-.886	.030
	Liquidity Ratio	6880.180	72876.781	.217	.944	.382
	Bank Size	5164.147	2556.615	2.131	2.020	.020
	Inflation	-34214.437	13948.118	-.048	-.245	.014

From the table above there is a significant relationship between bank earnings and capital base, bank investment, loan and advances, bank size and inflation rate in Nigeria.

The F-statistics 4.307 show that the data included in the model is well fitted as the independent variables are able to explain variation in the dependent variable. The coefficient of determination r^2 0.834 show that 83.4% variation in bank earning is accounted for by changes in the independent variables (ie capital base, demand deposit, investment, loan and advances, liquidity ratio, bank size and inflation rate. The R^2 obtained is 0.884, this implies that 83.4% of Earning (ROA) is explained by the independent variables. This indicates a good fit of the regression line. DW – The Durbin Watson as shown in the regression analysis is 2.839 which shows that there absence of autocorrelation in the variable set.

There is a significant and positive relationship between bank earnings (ROA) and capital base as the t-stat of 0.013(0.277) implies that a 10 unit increase in capital base will increase earnings (ROA) by 1.3%. Demand deposit is not significant in determine bank earning p 0.275 >0.05 (at 95% confidence interval).

Investment is significant as determinant of bank earning p0.034<0.05 (at 95% confidence interval) but has negative sign which implies an inverse relationship. T-sat (-18.109, 0.782) implies that a unit increase in investment may reduce earning by 18.1%. similarly, loan and advances has significant but negative effect on bank earning p 0.030< 0.05. A unit increase in L&A will reduce earning by 0.18% in other word a ten (10) unit increase in L&A will decrease earning by 1.8%. Liquidity ratio has no significant effect on bank earning (P 0.382> 0.05). Bank size has significant effect on bank earning P0.02<0.05 and a unit increase in bank size will bring about 51.64%increase in earning. Inflation has significant but negative effect on bank earning P 0.014< 0,05. A unit increase in inflation will reduce bank earning by 3.42%.

Test of Hypothesis

Hypothesis formulated be tested using the result of linear regression analysis presented in table 3, table 4 above. Before proceeding with test of hypothesis, there is need to restate the hypothesis to be tested.

HYPOTHESIS: HO there is no significant relationship between level of Earning (ROA) and capital base, demand deposit, investment, loan and advances, bank size and inflation in Nigerian deposit money banks.

The decision rule for accepting or rejecting the hypothesis is based on the strength of the relationship as measured by ^{r2} and the P-value .r^2 lies between 0-1 a higher r^2 means stronger relationship exist between the dependent variable and the independent variables. When p-value is less than 0.05($P<0.05$) we reject HO and accept H1.

From the result in table 4 and table 5 r2 is 0.834 meaning there is a strong relationship, P-value 0.04.since p 0.04<0.05 we reject the null hypothesis and accept the alternative that there is a significant relationship between level of banks' earnings and capital base, investment, loan and advances, bank size and inflation rate. This result is supported by the work of Masdiah Abdul Hamid et. al.(2015)

The result from this study revealed among other things that bank earning's is determined by both internal and external factors. The findings show:

1. There is a significant relationship between bank earning and capita base. The relationship is positive as capital base increases banks' ability to earn increases
2. There is a significant but negative relationship between bank earning and banks loans and advances .as bank loan and advances increases, bank earning is likely to fall due to the risk attached to every loan
3. There is a significant but negative relationship between bank earning and bank investment
4. There is a significant and positive relationship between earning and bank size (no of branches). Bank size help in bringing banking service closer to the people.
5. There is a significant but negative relationship between bank earning and inflation rate in Nigeria

The above findings implies that bank performance depends on the afore mention indicators as supported by the work of Masdiah Abdul Hamid et. al.(2015). The implication of the findings of this study suggests that the earnings of the banking sector is a function of bank's capital base, investment, loan and advances, demand deposit, bank size and rate of inflation. Banks can

improve their earnings through adequate capital and proper investment climates as their circumstances may allow. Furthermore, the managers of money deposit banks are expected to create the conditions for an efficient banking system devoid of information asymmetry to adapt to changing macroeconomic variables of interest and inflation. Banks' management must efficiently manage their portfolios in order to protect the long run interest of profit-making

CONCLUSION AND POLICY RECOMMENDATIONS

The estimated results show that investment, loan and advances and inflation rate have negative and significant effects on the Earning of Nigerian deposit money banks as measured by return on assets at the 5% level of significance. Also, the study found that Capital base and bank size at the 5% level of significance has positive and significant relationship with bank earning (ROA) of money deposit banks in Nigeria. On the other hand, the study found no significant relationship between Demand Deposit , liquidity ratio and Earning (ROA) of Deposit Money Banks in Nigeria. The implication of the findings of this study suggests that Earning (ROA) of the banking sector is a function of capital base, demand deposit, bank investment loan and advances, liquidity ratio bank size and changing inflation rate. The study therefore advised that government should adopt monetary policies that will help Nigerian deposit money banks to improve on their profitability and there is need to review and strengthen bank lending rate policies through effective and efficient regulation and supervisory framework. The results of this study also suggest that banks can improve their profitability through charging moderate lending rates as against maximum rates as their circumstances may allow. Furthermore, the managers of money deposit banks are expected to be able to create the conditions for an efficient banking system devoid of information asymmetry to adapt to changing macroeconomic variables of interest rates and inflation. Banks' management must efficiently manage their portfolios investment in order to protect the long run interest of profit-making.

In the light of the above, the following recommendations in line with the result generated from the work becomes feasible.

1. From the findings, it is imperative that sound macroeconomic policies that promote low inflation, branch expansion, favourable Cash Reserves, Loan Deposit Ratios should be implemented so as to boost credit expansionand invariably Returns and Profitability of Deposit Money Banks.
2. It must be emphasised that branches opened are mainly for profit generating to ensure sustained profitability in Deposit Money Banks. Loans or credit must be performing in adherence to good standard practices which must enhance the stability of the banks in Nigeria for continued profitability posture..

3. Standard best practices that discourage fraud, good lending policies and excellent strategic planning are key to good management performance. This will in-advertently ensure that not only standard practices are outlined but also are adhered to.
4. Good corporate governance as a panacea for profitability in banks must not be underestimated since the impact of bad management on the performance of banks has become a global cankerworm. All forms of mismanagement; technical, cosmetic, desperate mismanagement and all manners of fraud and unethical practices must be closely monitored by management.
5. Adequate policies, standard practices, good cannons of lending, balanced matching of assets and liabilities, sound and effective internal control systems as well as excellent strategic planning must be enforced in the Nigerian banking industry in the achievement of the required level of performance and success.
6. Prudential guidelines by the Central Bank of Nigeriaand other regulatory authorities should be properly enforced and supervised to ensure that it becomes relatively difficult for commercial banks to hide past and current losses which enable them to buy time and stay afloat in business to the detriment of the economy and the populace. The systematic roll-over of matured fixed deposits, under-capitalization, accruing interest income on delinquent facilities, keeping dividends constant on spurious earnings, fictitious collateralizations, and others such as the current uniform financial year end for banks demands transparency in the Nigerian banking system and therefore requires the commercial banks to be indeed profitable and economically viable to the benefit of the economy.

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APPENDIX 1

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Bank Earning (Million)	15	1913651	85342029	29328053.73	28246457.585
Capital Base (N)	15	57971327	877903460	454940666.73	331524087.442
Demand Deposit (N)	15	242650	345970000	170668779.33	146472997.242
Investment	15	3459.3	1822136.8	380602.773	625879.4034
Liquidity Ratio	15	30.7000	64.1000	48.841333	9.2616520
Bank Size	15	2185	5439	3338.07	1175.723
Inflation	15	5.4000	18.9000	11.904667	4.1484470
Valid N (listwise)	15				

Regression

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Inflation, Investment, Liquidity Ratio, Demand Deposit (N), Loan & Advances, Capital Base (N), Bank Size[b]	.	**Enter**

a. Dependent Variable: Bank Earning (Million)
b. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.913[a]	.834	.640	17066228.670	2.148

a. Predictors: (Constant), Inflation, Investment, Liquidity Ratio, Demand Deposit (N), Loan & Advances, Capital Base (N), Bank Size
b. Dependent Variable: Bank Earning (Million)

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8779113516647350.000	7	1254159073806764.200	4.306	.047[b]
	Residual	1747536966060486.000	6	291256161010081.000		
	Total	1052665048270783 6.000	13			

a. Dependent Variable: Bank Earning (Million)
b. Predictors: (Constant), Inflation, Investment, Liquidity Ratio, Demand Deposit (N), Loan & Advances, Capital Base (N), Bank Size

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-138578807.390	82254071.608		-1.685	.143
	Capital Base (N)	.013	.048	.153	.277	.010
	Demand Deposit (N)	-.116	.096	-.585	-1.202	.275
	Investment	-18.109	23.171	-.408	-.782	.034
	Loan& Advances	-.018	.020	-.465	-.886	.030
	Liquidity Ratio	688028.180	728764.781	.217	.944	.382
	Bank Size	51643.147	25562.615	2.131	2.020	.020
	Inflation	-342143.437	1394865.118	-.048	-.245	.014

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3496037.75	80066704.00	31078458.64	25986850.990	14
Residual	-18601586.000	18670306.000	.000	11594219.269	14
Std. Predicted Value	-1.061	1.885	.000	1.000	14
Std. Residual	-1.090	1.094	.000	.679	14

a. Dependent Variable: Bank Earning (Million)