IIARD International Journal of Banking and Finance Research E-ISSN 2695-1886 P-ISSN 2672-4979
Vol 11. No. 2 2025 www.iiardjournals.org

Effect of Recapitalisation on Liquidity Position of Quoted Deposit Money Banks in Nigeria

Dr. Godfrey Datong Daboer
Business Education Department
Federal University of Education
Pankshin
daboergodfrey64@gmail.com
08069651389

Prof. Ambrose.A. Okwoli & Prof. Saratu Jim-Suleiman
Faculty Of Management Sciences
University Of Jos, Plateau State.
DOI: 10.56201/ijbfr.vol.11.no2.2025.pg123.140

Abstract
Nigerian Banking Industry has undergone a lot of reforms since 1952 among which recapitalization was one of the major thrusts of the reforms. The sector faced numerous challenges that were traced to under capitalization which hindered satisfactory liquidity position in the sector, this in turn affected the public's confidence in the sector. It was one of these reasons that the Central Bank of Nigeria directed all Deposit Money Banks in Nigeria to increase their capital base in order to address the problem of general underperformance and develop- strategies towards improving the capacity for better performance. This study, therefore, examined the effect of recapitalization on liquidity position of quoted Deposit Money Banks in Nigeria. Causal research design was adopted while secondary data in terms of the annual report of Nigerian Deposit Insurance Corporation (NDIC), Central Bank of Nigeria (CBN) and Deposit Money Banks in Nigeria were employed. The data were analyzed using pooled regression analysis through STATA windows 14 package. The finding from the study shows that recapitalisation has led to significant increase in liquidity position of quoted Deposit Money Banks in Nigeria. The implication of the finding is that recapitalisation has boost the liquidity position of Deposit Money Banks in Nigeria. The study therefore recommended that the Central Bank of Nigeria should closely monitor to strike a balance between liquidity and profitability of Deposit Money Banks in the country. The study has also established that the capital structure of Deposit Money Banks in Nigeria be maintained through the use of consolidation, convergence and market capitalisation.

***Key Words**: Effect, Recapitalisation, Liquidity, Deposit money banks, Nigeria.*

INTRODUCTION

Recapitalisation is an important variable of reform in Nigerian banking industry. It is a policy undertaken by the Federal Government through the Central Bank of Nigeria to increase the existing capital of the banking industry mainly to address the fundamental problems of general underperformance and develop strategies to improve its capacity for better performance. Thus, recapitalisation is not a guess work, but an organized scheme of revitalizing a company to a better structure and focus. The three stages involved in the process of recapitalization include: (a) diagnosis-identification of the causes of the problem; (b) prescription to proffer appropriate solutions and (c) monitoring- monitor the implementation of proffered solutions (Akinsulire, 2005). Recapitalisation is expected to improve the banks' performance by ensuring adequate capital and earnings as well as enhancing the banks' intermediation capacity (Adah, 2012). It became inevitable in the light of the global dynamic exigencies and as a need to enhance the banking industry's competitiveness and capacity to play the fundamental role of investment and improving economic growth which it was created for (Ajede, 2011).

Recapitalisation as an aspect of reforms is designed to enable the banking system develop the required resilience to support the economic development of the nation by efficient performing of its functions as the fulcrum of financial intermediation. This is because recapitalisation involves a major change in the way a bank is funded. Recapitalisation is also seen as the act of beefing up the long-term capital of a bank to the level atleast required by the monetary authorities in order to ensure the security of shareholder's fund (equity plus reserve) (Kpefan, 2013). The effect of recapitalisation programme in Nigerian banking industry is the shrinkage of the number of banks from eight-nine (89) to twenty-five (25) through mergers and acquisition involving seventy-six (76) banks which altogether accounted for 93.5 percent of the deposit share of the market (Soludo, 2001)

Bank recapitalisation has become a global phenomenon, for instance, the mergers and acquisition of banks that took place in Malaysia where eighty (80) banks shrunk to twelve (12) in an attempt to raise their capital base from US$70 million to US$526 million in one year. Also, in America there were over seven thousand (7000) cases of bank mergers since 1980. Similarly, 1998 a merger in France resulted in a new bank with capital base of US$688 billion, while the merger of two banks in Germany in the same year created the second largest bank in Germany with a capital base of US$541 billion. In Singapore, with about three million people, banks consolidated to about six banks and further moved down to three (3) with a second largest bank having a capital base of about US$67 billion.

Recapitalisation policy was one of the thirteen (13) issues announced in July, 2004 by the Central Bank of Nigeria (CBN) in order to sanitise the banking industry. The intent of the policy was to consolidate the existing banks into fewer in number and larger in size and financially stronger banks (Ikpefan, 2013). The issue of recapitalisation which metamorphosed into consolidation of banks was designed to ensure a diversified, strong and reliable banking sector which will ensure the safety of depositors' money, play active developmental roles in the Nigerian economy, and be competent and competitive players in the African region and global financial system (Soludo, 2004). He further emphasizes that big and strong banks would mean better returns for shareholders, bigger contribution to national economic growth, return to traditional banking financial intermediation, greater reach to the grassroots, good corporate governance and cheaper credit to the borrowers.

STATEMENT OF THE PROBLEM

The banking industry is the engine of any economy and it is expected to influence performance of other sectors, but there are evidences that liquidity of quoted Nigerian Deposit Money Banks has not been adequate and this accounted for their poor performance in terms of low profitability, low liquidity, low returns on investments and lack of sustainability.

Iliquidity of Nigerian banks have affected their financial performance. Most of the banks were unable to meet their regular financial obligations without dipping into their reserves. Sanusi (2009) reports that examination was conducted by a joint team of Central Bank of Nigeria (CBN) and Nigerian Deposit Insurance Corporation (NDIC) officials which indicated that five banks were either perennial net-takers of funds in the inter-bank market or enjoyed liquidity support from the Central Bank of Nigeria for long periods of time. This illiquidity in the Nigerian banking system has led to the loss of customers confidence in the banking industry. Hence there is an urgent need for fundamental restructuring, repositioning and refocusing of the Nigerian Banking System through recapitalisation policy to boost the liquidity position of the banks for better financial performance.

RESEARCH QUESTIONS

In order to provide direction for this study, the researcher has raised a fundamental question whose answer is proffered in the course of the study. This question is: What is the effect of shareholders' fund on the liquidity position of quoted Deposit Money Banks in Nigeria?

OBJECTIVES OF THE STUDY

The main objective of this study is to evaluate the effect of shareholders' fund on financial performance of quoted Deposit Money Banks in Nigeria. However, the specific objective of the study is to assess the effect of shareholders' fund on the liquidity position of quoted Deposit Money Banks in Nigeria.

RESEARCH HYPOTHESIS

To proffer objective answer to the research question and achieve the objective, the following null and alternative hypothesis have been formulated.

HYPOTHESIS

H_0: Shareholders' fund has no significant effect on liquidity position of quoted Deposit Money Banks in Nigeria.

H_1: Shareholders' fund has a significant effect on liquidity position of quoted Deposit Money Banks in Nigeria.

LITERATURE REVIEW

Bank Recapitalisation

The Central Bank of Nigeria (2005) argued that recapitalisations are usually introduced either in response to the challenge posed by factors and developments such as systemic crisis, deregulation, globalization and technological innovations or as proactive measures both to strengthen the banking system and prevent systemic crisis..In an address delivered at a special meeting of Bankers' Committee for the Chief Executive Officer's (CEO's) of all the commercial banks in the country, Soludo (2004) asserts that:

> *The goal of the recapitalisation is to help you become stronger players and in a manner that will ensure longevity and hence higher returns to your shareholders over time and greater impacts on the Nigerian economy. We strongly believe that the ultimate beneficiaries of this policy shift would be the Nigerian economy-the ordinary men and women who can put their deposits in the bank and have a restful sleep; the entrepreneurial Nigerians who can now have stronger financial system to finance their businesses; and Nigerian economy which will benefit from internationally connected and competitive banks that would also mobilize international capital for Nigerian development (p. 1).*

In the same vein, Nwude (2005) postulates that recapitalisations are designed to enable the banking system develop the required flexibility to support the economic development of the nation by efficiently performing its functions as the pivot of financial intermediation. Bank recapitalisation involves systematic review of rules and regulations governing banking practice with a view to achieving systematic stability and sustainability while conscientiously creating meaningful wealth for shareholders (Adams, 2005).

Bank recapitalisations, according to Okafor (2011) refers to changes or shift in banking processes and practices imposed on banks by banking system regulators. Sheng (1996) also defines banking sector recapitalisation or restructuring of banks as the package of macro-economic, microeconomic, institutional and regulatory measures taken to restore fragile banking systems to financial solvency and discipline. Rahman (2012) Opines that banking sector recapitalisation is an inevitable process when the existing structure of bank cannot fulfill the desired level of economics of scale in operation.

Bank recapitalisations are the processes undertaken by the federal government of Nigeria to ensure that every part of the economy functions efficiently in order to ensure the achievement of macro-economic goals of price stability, full employment, high economic growth and internal and external balances (Sanusi, 2011). Banking Sector recapitalisations can also refer to beneficial change more specifically to restore or improve banking system by making changes to it.

Abdul-Rahman and Ayorinde (2013) further explain that banking sector recapitalisation is part and parcel of government strategic agenda aimed at repositioning and integrating the Nigerian banking sector into the African and global financial system. Adeyemi (2007) conceptualizes bank recapitalisations as those activities that ensure the safety of depositors' money, position banks to play active developmental roles in the economy and become major players in the sub-regional and global financial markets.

In addition, Ojong, Ekpuk, Ogar and Emori (2014:167) postulate that banking sector recapitalisation is "an integral part of the overall economic recapitalization programme undertaken to reposition the banking industry to be able to play it's critical intermediation and developmental roles, and by so doing reposition the Nigerian economy to achieve its objectives of becoming one of the twenty largest economies by the year 2020".

Bank recapitalisations are measures taken for improvement by alternation or correction of defects in the banking sector and putting it into better condition for efficient service delivery and development of the Nigerian economy.In the view of Gunu (2009) the Central Bank of Nigeria's resolves to carry out recapitalisations in the Banking sector was borne out of the past failures of the nation's banking industry. It is in response to these bank failures that banking sector recapitalisation was initiated with the aim of strengthening the growth potentials of the Nigerian banks as well as develop its absorptive capacity in case of any eventuality, as in the recent global financial crises.

Okafor (2011) opines banking recapitalisation can be categorized into systemic and big-bang recapitalisations. He went further to assert that the systemic banking recapitalisation refers to a recapitalisation designed to resolve a combination of banking sector or economy wide problem(s). He gave examples of systemic banking recapitalisation as liberalization, recapitalisation and deregulation of interest and credit operation while the big-bang recapitalisations are targeted at achieving a particular course. The 2004/2005 bank recapitalisation exercise is a good example of the big-bang recapitalisation. Bank recapitalisations therefore involve the articulation of robust policies that will deepen the financial system to enable banks play their roles most efficiently.

In the opinion of Abdulraheem (2006) Bank recapitalisation is not peculiar to Nigeria alone, it is a global phenomenon. It involves several elements that are unique to each country based on historical, economic and institutional imperatives (Somoye, 2008). He went further to give example of countries that have carried out bank recapitalisations and their reasons for such recapitalisations. According to him, in Hungary, the recapitalisations in the banking sector was due to highly undercapitalization of some state owned banks, weakness in the regulatory and supervisory and deficiencies in the corporate governance behaviour of banks. Also, the banking recapitalisation in the Yugoslav economy was motivated by the need to establish a virile banking sector that would effectively play its role of intermediation and provide world-class financial service (Aluko & Okagbue, 2004).

Furthermore, the Banking sector recapitalisations in Japan was the recapitalisation of regulatory and supervisory framework, the safety net arrangements as well as mechanisms to speed up attempts at resolution of banks non-performing loans (Somoye, 2008). Again Malaysian banking sector recapitalisation was centred on beefing up Prudential's regulation and the establishment of Dana modal National Berhad and Danahala National Berhad to consolidate (Somoye, 2008).

Bank recapitalisations arc deliberate actions taken by the government to address issues such as risk management, governance and operational inefficiencies in the banking sector. According to Sanusi (2011).

> *Banking recapitalisations the world over is focused on the need to increase risk management procedures and enhance corporate governance in order to strengthen and reposition the banking industry to enable it contribute effectively to the development of the real sector through its intermediation process. It also involves a comprehensive process of substantially improving the regulatory and surveillance framework; fostering healthy competition in banking operation; ensuring an efficient framework for monetary management; expansion of saving mobilization base, enforcement of capital adequacy, and the promotion of investment and growth through market-based interest rates and increasing sophistication of the global financial products (p.3).*

All these make it imperative for banking sector to be recapitalized. Enunciating further Sanusi (2011) posits that "good recapitalisations engender clear market entry and exit conditions; ensure the ability of banks to function according to market principles without state intervention in their decision making; guarantee central bank independence and establish independent bank oversight All these actions are geared towards promoting strong competition in the financial system which improves the efficiency of intermediation through the dismantling of monopolies in the financial system.

Objectives of Bank Recapitalisation in Nigeria

The banking sector plays the Central role in the development of every economy by mobilizing resources for productive investments and being the channel for the implementation of monetary policy and the fact that the ability of banks to effectively impact on economic development hinges largely on their soundness and efficiency, government across the world continue to take variety of measures to safeguard the banking sector through recapitalisations (Sanusi, 2011).

The recapitalisation policy is one of the thirteen (13) issues announced in July 2004 by the Central Banks of Nigeria in order to sanitize the banking industry. The policy was tagged "13 points recapitalisation agenda for repositioning the Central Bank of Nigeria and financial system for the 21st century" with the objectives of consolidation. In order to achieve this objective, the 13 points recapitalisation agenda are stated as follows:

i. Requirement that the minimum capitalization for banks should be ₦25 billion with full compliance before end of December 2005. Eighteen (18) months period was given to all conventional banks to meet up the stipulated amount and only those banks that met the requirement were licensed to undertake banking business. Those banks that could not meet up with the directive were either to merge or be liquidated. Some countries like South Korea, Malaysia, Indonesia and Japan were given twelve months within which to recapitalize.

ii. Phased withdrawal of public sector funds from banks starting in July 2004. The withdrawal of public sector deposits from the banks and transfer of same to the Central

Bank of Nigeria caused serious liquidity crisis as manifested in the overdrawn positions of many banks and cross default in the inter-banks market. The Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC) had to provide liquidity support though accommodation bills guaranteed by the Nigeria Deposit Insurance Corporation (NDIC) and later discounted by the Central Bank of Nigeria (CBN). The intention of this recapitalisation objective was for the bank not to depend solely on public sector deposit for their intermediation role.

iii. Consolidation of banking institutions through mergers and acquisitions. The objective was to increase the capital base of the banks for proper intermediation role of transferring money from surplus units to deficit units.

iv. Adoption of a risk focused and rule-based regulatory framework.

v. Adoption of zero tolerance in the regulatory framework, especially in the area of data/information rendition reporting. All returns by banks must now be signed by the managing directors of banks. This recapitalisation objective was to discourage hiding of information under other assets/liabilities, off-balance sheet etc which attracts serious sanctions. Some banks were able to manipulate their records thereby hiding losses and fraudulent transactions.

vi. The automation process of rendition of returns by banks and other financial institution through the electronic financial analysis surveillance system (e-FASS). This objective was for the banks comply with directive.

vii. Establishment of a hotline, confidential internet address (governor@centralbank.org) for all Nigerians wishing to share any confidential information with governor of Central Bank of Nigeria on the operations of any bank or the financial system. Only the governor has access to this address.

viii. Strict enforcement of the contingency planning framework for systemic banking distress.

ix. The establishment of an Asset management company as an important element of distress resolution. This recapitalisation objective was to address the issue of non-performing loan which have caused distress in many Nigerian Banks.

x. Promotion of the enforcement of dormant laws, especially those relating to the vicarious liability of Boards of banks in cases of bank failures.

xi. Revision and updating of relevant laws and drafting of new ones relating to the effective operations of the banking system.

xii. Closer collaboration with the Economic and Financial Crimes Commission (EFCC) and the Financial Intelligence Unit (Fl U) in the enforcement of the anti-money laundering and other economic crimes measures.

xiii. Rehabilitation and effective management of the mint to meet the security printing needs of Nigeria.

As articulated by Omoruyi (1991), Central Bank of Nigeria (2004) and Balogun (2007) banking sector recapitalisations in Nigeria have been embarked upon to achieve the following objectives: Market liberalization in order to promote efficiency in resource allocation, expansion of the saving mobilization base, promotion of investment and growth through market-based interest rates, improvement of the regulatory and surveillance framework, fostering healthy competition in the provision of services and laying the basis for inflation control and economic growth, ensure an efficient framework for monetary management; and Enforcement of capital adequacy.

According to Sanusi (2011) the 2009 medium to long term objective of the banking sector recapitalisations was anchored on the following:

i. **Enhancing the quality of banks:** The Central Bank of Nigeria (CBN) realizes this objective through a five part programme which consists of the following: industry remedial programme to fix the key causes of the crisis, risk based supervision, recapitalisationing the regulatory framework, enhanced customer protection and internal transformation of the Central Bank of Nigeria (CBN). Also the issue of corporate governance, data quality and consumer confidence have been addressed in the programme.

ii. **Establishing financial stability**: The Central Bank of Nigeria and other regulatory agencies are to stem wide fluctuation in the key macroeconomic indicators. The main emphasis of this objective is to strengthen the financial stability committee with the Central Bank of Nigeria (CBN), establishing economic policy and counter-cyclical fiscal policies by the government and further development of capital market as alternative to bank finding.

iii. **Enabling healthy financial sector evolution:** The Central Bank of Nigeria (CBN) had to review the basic one-size-fit-all model of banking. This led to the emergence of international, national, mono-line and specialized bank with different capital requirement commensurate to the depth of their operations.

iv. Ensuring that the financial sector contributes to the development of the real economy: This objective has to do with the development of the real sector as it seeks to position the banking system to contribute to the growth and development of the various sectors of the economy. This objective is based on the fact that the real economy growth must be supported by actual rise in physical goods and services. The recapitalisation has also identified priority sectors and tailored interventions to support and promote growth in these sectors. Some of the key interventions in the real sector under this recapitalisation objective include: the ₦ 200 Billion Commercial Agricultural Credit Scheme (CACS); the ₦300 Billion Power and Aviation intervention fund; the ₦200 Billion restructuring/Refinancing to the manufacturing sector/SME; the ₦ 200 Billion Small and Medium Scale Enterprise Guarantee Scheme (SMECGS).

One of the objectives of banking sector recapitalisations is to promote a diversified, efficient and competitive financial system with the ultimate goal of improving the allocation efficiency of resources through operational flexibility, improved financial viability and institutional strengthening.

DEPOSIT MONEY BANKS (COMMERCIAL BANK)

Deposit money banks are the most important savings, mobilization and financial resource allocation institutions. According to Olokoyo (2011) Deposit Money Bank grants loans and advances to individuals; business organizations as well as government in order to enable them embark on investment and development activities which contribute towards the economic development of a country. Okwoli (2007) posits that commercial banks provide four basic duties namely:

a. Receipt of deposit either on current account which bears interest and is withdrawable by cheque or on deposit account which bears interest and its withdrawal is by the use of pass book.

b. Discounting of bills which gives the customer the immediate use of cash resulting from such bills.

c. Granting of loans to customers at interest against various forms of security either on current or loan account.

d. Acting as agents for customers for the safe custody of valuables; collection and payment of coupon; stock and share transactions; other capacities such as that of a trustee attorney and executor, and cleaning agent. Enunciating further, Faure (2013) explains that commercial banks are also called high street banks. They are the banks that provide all services the public associates with banking such as ATM withdrawal/deposit, cheque/current accounts, other deposit accounts, overdraft facilities, mortgage advances, leasing installment credit advances and a host of others.

EFFECT OF BANK RECAPITALISATION IN NIGERIA

According to Ojong, Ekpuk, Ogar and Emori (2014) the impact of banking sector consolidation in Nigeria are discussed below:

The injection of additional capital into the banking sector has addressed the rampant cases of weak capital base and its attendant crises of confidence in the sector. Also, the increased capital capacity of banks by implication expands the banks' single obligor limits thereby enabling them to also expand their lending scope to the sector which they could not before, such as the real sector of the economy. The ownership structure of the Nigerian banks that were hitherto family businesses with parochial control now had to diversify their boardrooms to other non-family members to invest thereby reflecting the public liability status of most of the banks. Reduction of public sector deposit or government funds to a maximum of 10% in banks. With the banking sector recapitalisation policy, banks had to fully explore the financial markets for funds in order to remain in business.

Table of capital base of Nigerian Banks after consolidation

NEW BANKS	MERGING PARTNERS	SHARE CAPITAL (BN)
Access Bank	Access, Marina Intl and Capital Banks	28.6
Afribank	Afribank and Afribank Merchant Bankers International	29
Bank PHB	Platinum Bank and Habib Bank	25
Citibank-NIB	Citibank Nigerian Limited and Nigerian Intl Bank	25
Diamond Bank	Diamond Bank and Lion Bank	33.26
ECO Bank	Stand Alone	57
ETB	ETB and Devcom Bank	26.36
FCMB	FCMB, Co-operative Dev. And Nig. American Banks	30.6
Fidelity Bank	Fidelity, FSB and Manny Bank	29
First Bank	First Bank, FBN Merchant Bank, MBC Intl Bank	44.6
First Inland Bank	First Atlantic Bank and Inland Bank PLC	30.6
GTB	Stand Alone	34
Intercontinental	Intercontinental, Equity, Global and Gateway Banks	51
Oceanic Bank	Oceanic Bank and International Trust Bank	31
Skye Bank	Prudent, EIB, Bond, Reliance, Cooperative Banks	37.7
Spring Bank	Citizen, Guardian express, Omega, TIB and Fountain Banks	27.6
Stanbic IBTC	Stanbic Bank and IBTC Chartered Bank	25
Standard Chartered	Stand Alone	26.6
Sterling Bank	Trust Bank of Africa, Magnum and NBM Banks	25
UBA	UBA and Standard Trust Bank	29
Union Bank	UBN, Broad, TUN Merchant Bank	58.6
Unity Bank	Intercity, Interstate, Tropical, Pacific, Centre Point	30.6
Wema Bank	Wema Bank and National Banks	35
Zenith Bank	Stand Alone	38

Source: Generated from Nigerian Fact Book 2009

From table above, it can be seen that banks in Nigeria have beef-up their capital base as a result of recapitalisation exercise which hitherto was low and could not perform their intermediation role as expected.

As a result of recapitalisation, virtually all Nigerian banks are now quoted on the Nigerian stock exchange. The banking sector recapitalisation has deepened activities of the capital market. Most of the banks are now quoted on the floor of the Nigerian Stock Exchange and this has deepened the activities and increased the liquidity of the capital market through the activities in the stock and shares of banks. After the banking sector recapitalisation, banks in the country became more globally in terms of international rating and competitiveness and are able to attract foreign financial assistance in form of access to credit lines and foreign direct investments;

lkpefan (2013) argues that banks are now in a better position to assist members of the public especially owners of small and medium scale enterprises with short and medium term loans. Not only that, they can also finance long term projects that are of economic value and benefit to the country either single-handedly or collectively as a consortium of loans syndicates.

In the same vein, Ikpefan, Okorie, Agwu and Achugamonu (2014) posit that bank recapitalisation has helped to improve the gross earnings of banks, deposits, loans and advances, shareholders' fund at least in the short run. They further state that it has helped the bank to undertake big ticket transactions with increased deposit, the earnings of banks have increased on the average, the loan capacity of banks has also improved considerably, lastly equity investment has gone up considerably and has improved the equity capital and reserve. According to Sanusi (2012) the banking sector consolidations have yielded the following results among others:

(i). As a result of the recapitalisation, banks are putting in place best practices in the areas of corporate governance and risk management. Transparency and public disclosure of transactions have remarkably improved. The issuance of prudential guidelines by the Central Bank of Nigeria in 1990 were aimed at ensuring uniformity of their approach in disclosure of information and also ensure the reliability of published accounting information and operation. Also, the adoption of the International Financial Reporting Standards (IFRS) in the Nigerian banking Sector by end-2010 has helped to enhance market discipline and reduce uncertainties which limit the risk of unwarranted contagion.

(ii) A number of banks have returned to the profit-making path and improved their balance sheets. This is shown by the result of their financial statements.

(iii) Banks have gradually resumed lending to the private sector with the additional liquidity of more than ₦ 1.7 million injected into the banking system through the issuance of AMCON bonds. Also, the giving of credit to the power sector and small and medium scale enterprises at single digit interest rate have helped create thousands of Jobs in the economy.

(iv) A new code of corporate governance has been issued by the Central Bank of Nigeria. The chief executive officers of the banks shall serve a maximum tenure often (10) years only. In addition, the chief Executive officers who have served for ten (10) years by July 31, 2010 ceased to function in that capacity and have handed over to their successors.

(v) Nigerian banks are now key players in the global financial market with many of them falling within the top twenty (20) banks in Africa and among top one thousand (1,000) banks in the world.

(vi) The consolidation has culminated in moderating the spread between the lending and deposit rate to 9.7 percent as at the end of December 2011, from 12.2 percent in 2010.

This has contributed to the existing macroeconomic stability in the economy with inflation moderating to 10.3 percent as at end 2011.

(vii) As a result of banking sector consolidation, the volatility in the exchange rate witnessed in the foreign exchange market has been brought under control.

(viii) There is a greater co-operation between the monetary authority and the banks through regular meeting and collaboration on policy issues.

(ix) The recapitalisations have brought about greater confidence in the banking system with the removal of distress banks and the adoption of a strict code of corporate governance. According to Dike (2006):

> *One clear benefit of the consolidation exercise is increased confidence in Nigerian banks by foreign financial organizations that have begun to extend credit lines to them. Among the banks that benefitted from this credit extension are united Bank for Africa, Intercontinental Bank and Diamond bank (p. 33).*

(x) As a result of banking sector recapitalisation there is increased widespread use of e-payment service among Nigerians which include the issuance of debit and credit cards, Automatic Teller Machine Services and online transfer of funds across the country/world.

In assessing the positive impact of banking sector recapitalisation on the Nigerian economy, Atojoko (2007) states that:

> *Thanks to the consolidation exercise the Nigerian banks are now financing multi billion Naira mega projects in the manufacturing and telecommunication sectors. One of such projects is $150 million (₦ 19 Billion) provided by a consortium of 13 local banks to partly finance the Obajama Cement Company in Kogi State, a company own by the Dangote Group of companies (p. 10).*

The researcher is of the opinion that banking sector recapitalization have drastically reduced fraudulent activities in the banking industry and have also encouraged people to pick up the habit of banking since the distress syndrome in banking sector have been addressed. The recapitalisations have also stimulated the banks to play a more supportive role for the productive sector by growing and nurturing the economy rather than playing the parasitic role. Also, there is banking convenient as a result of the recapitalisation because withdrawal and transfer of money can be done at the convenience of the account holder.

METHODOLOGY

For the purpose of this study, the data were collected from the financial statement of the sampled Deposit Money Bank. Financial statements from 2005 to 2016 are coalesced together to generate a pooled data series. Therefore, the study is both time series and cross sectional. The financial statements collected include comprehensive income statement, statement of financial position, Central Bank of Nigeria statistical Bulletin, Nigerian Deposit Insurance Corporation annual reports, the Nigerian Stock Exchange Fact Book and from various issues of the annual reports of deposit money banks. The population of this research work is made up of fifteen (15) Deposit Money Banks quoted on the Nigerian stock Exchange. The reason for the choice of Deposit Money Banks is that they dominate the banking sector of the Nigerian economy in terms of number and coverage. However, because of the need for availability, reliability and accuracy of financial data, only Deposit Money Banks that are quoted on the Nigerian Stock Exchange.

This study adopts causal research design which seeks to establish cause-effect relationships. Causal research design otherwise known as ex-post factor research design uses historical information in studying existing phenomenon with the intention of using the result to understand the current trend in the issues under study (Nworgu, 1991).

METHOD OF DATA ANALYSIS

Before data analysis, computation of ratios on absolute figures is obtained from the financial statements of the sampled banks in order to normalise the data to enhance the quality of the results.

For liquidity proxy, the ratio of liquid asset to total asset (RLATA) of bank i in period t is adopted and its formula is liquid asset divide by total asset. This is given by RLATA $= \frac{\text{liquid asset}}{\text{total asset}}$

This gives the symbol of RLATA. This ratio has been successfully used by Adesina (2012)

Models for Hypotheses

The model for testing hypothesis

The model for testing hypothesis (liquidity) is

RLATA = $\theta_0 + \theta_1$ $RCAP_{it}$ + θ_2 GDP_{it} + Vi +ω_{it}

Decision criteria: Same as stated in hypothesis one.

The variable used as proxy for liquidity is the ratio of liquid Asset to Total Asset (RLATA) while the variable used as proxy for recapitalisation is shareholder equity. Gross Domestic Product is the Proxy for bank growth and also moderating variable

The functional relationship is represented in a model form as follows:

RLATA – f (RCAP, GDP)

Re-stating the variable in the equation form, the model is represented as follows:

$RLATA_{it} = \theta_0 + \theta_1, RCAP_{it} + \theta_2 GDP_{it}$ + Vi +μ_{it} . . . equation 4

Where:

θ_0	= The intercept term
θ_1 , θ_2	= Regression coefficient
$RLATA$	= Ratio of liquid Asset to Total Asset of bank i in period t
GDP	= Growth of bank i in period t
Vi	= Bank specific error term
μ_{it}	= composite error term
i	= The unit (i = 1, 2 . . . 15 banks)
t	=The time unit (t = 1,2 . . . 12 years)

Assumptions of vi

i E($u_{it}|\textit{ʎ}_i$) = 0: No correlation between the composite error term and the cross-section error term.

ii E($u^2_{it}|\textit{ʎ}_i$) = σ^2_u:There is a constant relationship between the co-variance of the composite error term and the cross-section error term.

iii E($\textit{ʎ}_i$ |x_{it}) = 0: There is no correlation between the cross section error term and the independent variable.

iv E($\textit{ʎ}^2_i$ |x_{it}) = $\sigma^2_{\textit{ʎ}}$: The covariance of the cross section error term is constant with the independent variables.

v E($\textit{ʎ}_i$ |$\textit{ʎ}_j$) = 0: There is no autocorrelation between the current and lag cross-section error terms

vi E(u_{it},u_{js}): There is no autocorrelation in the composite error term. i≠j

On anapriori basis, the expectation about the relationship between liquidity and bank recapitalisation is that recapitalisation is expected to be inversely related to RLATA (dependent variable) That is $\theta < 0$, $\theta < 0_2$

Decision Rule: The decision is based on the computed value, value of P, and R^2 test.

DATA PRESENTATION

The raw data for this study are collected from the financial statements of the sampled banks, bank supervision annual report, Nigerian Deposit Insurance Cooperation annual report and the fact book of the Nigerian Stock Exchange for the period from 2005-2016.

TEST OF HYPOTHESIS

H_0: Shareholders' fund has no significant effect on liquidity position of Deposit Money Banks in Nigeria.

H_1: Shareholders' fund has a significant effect on liquidity position of Deposit Money Banks in Nigeria.

Choice between Fixed and Random Effects

In choosing the most appropriate method between fixed effect and random in this research work, the researcher adopts Hausman Chi-square test to select whether the Fixed or Random should be used.

Method: Hausman Specification Test

Model: $\chi 2 = (\hat{\beta}c - \hat{\beta}e)\ [\text{var}\ (\beta c) - \text{var}\ (\beta e)^{-1}]\ (\hat{\beta}c - \hat{\beta}e)$

Where: ˆβc is the Instrumental Variable estimate and ˆβe is the Ordinary Least Square estimate

Table showing the result of Hausman Test

	---- Coefficients ----			
	(b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
recap	-3.04e-07	-1.12e-07	-1.92e-07	6.28e-08
gdp	-2.36e-06	-2.75e-06	3.82e-07	1.05e-07

b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

χ2 = (b-B)'[(V_b-V_B)^(-1)](b-B)

= 9.36

P-Value = 0.0093

Source: Generated fromSTATA Windows 14

The table shows the result of the Hausman specification test. The Hausman test indicated that the chi-square value of 9.36, with a p-value of 0.0093 at 5% significance level.

Decision

The fixed effect method (FEM) was adopted because the result of the Hausman test showed that the fixed effect is the best estimator. FEM appears when there is the individual effect and explanatory variables have a correlation with X_{it} or have a pattern that nature is not random.

Model for Hypothesis

RLATA$_{it}$ = 0.4894569 -3.04e-07 ***RCAP***$_{it}$ -2.36e-06 ***GDP***$_{it}$

Decision Rule:

If the p value is greater than the level of significance of 0.10, the null hypothesis is accepted while the alternate hypothesis is rejected. If the p value is less than the significance level of 0.10, the null hypothesis is rejected and the alternate hypothesis is accepted.

Reject H_o if $P < 0.05$

Accept H_o if $P > 0.05$

Table showing Result of Pooled Regression, Fixed Effect and Random Effect

	Expected sign	Panel A Pooled coefficient	P-value	Panel B Fixed coefficient	P-value	Panel C Random coefficient	P-value
RCAP$_{it}$	+	2.48e-07	0.026	-3.04e-07	0.040	-1.12e-07	0.398
GDP$_{it}$	+	-3.48e-06	0.000	-2.36e-06	0.000	-2.75e-06	0.000
CONSTANT		0.4681567	0.000	0.4894569	0.000	0.4819103	0.000
R^2		0.2281		0.1339		0.1820	
N		180		179		179	
F*		26.15	0.0000	35.82	0.0000	65.75	0.000
Corr(Ui, X)		-	-	-0.1975	-	0	-

Dependent Variable: RLATA $_{it}$

Source: Generated from STATA Window 14

The result for model indicated it is robust, has a correct functional form, normally distributed and homoskedastic. Therefore, the results reported are valid for reliable interpretation.

Interpretation

Result of the pooled result in *Panel A*, recapitalisation has a positive effect on liquidity with a coefficient value of 2.48e-07. In *Panel B*, recapitalisation has a negative effect on liquidity with a coefficient value of-3.04e-07. Also, in *Panel C*, recapitalisation has a negative effect on liquidity with a coefficient value of -1.12e-07. This means that from the result in *Panel B* which is the fixed effect, recapitalisation resulted to a decrease in liquidity among Deposit Money Banks in Nigeria as at the time of this study.

Furthermore, the result from table above, the result shows that the control variable, GDP is negative for all the estimation techniques (pooled, fixed and random effects). This indicated that GDP which represented the level of productivity and economic activity in the country have negatively affected the liquidity of banks in Nigeria.

The coefficient of determination r^2= 0.1339 shows that a 13.39% change in *RLATA*$_{it}$ is as a result of the changes in bank recapitalisation and GDP. The F- test with a value of 35.82 and p-value of 0.0000 shows that there is a strong linear dependency existing between indicators of bank $RLATA_{it}$ and recapitalisation economic growth. The estimated result is homoscedastic because the Breusch-Pagan / Cook-Weisberg test indicated the absence of heteroscedasticity.

Decision

Since recapitalization has brought about increase in the liquidity of Deposit Money Banks in Nigeria. Since the p-value is 0.040 is less than the level of significance of 0.5, thus, it is concluded that bank recapitalization has a significant effect on the performances of Deposit Money Banks in Nigeria.

Discussion of finding

In this hypothesis, the null hypothesis is rejected. This means that recapitalisation brought about increase in the liquidity of Deposit Money Banks in Nigeria. This finding may likely occur as a result of the banks having effective liquidity management strategies that take into account the risk profile of the institution with prudent policies and processes to identify, measure, monitor and control liquidity risk.

The result does substantiate the findings of Ikpefan (2013), Yauri, Musa and Kaoje (2012), and Oleka and Mgbodile (2014) who found that bank recapitalisation has a significant effect on liquidity position of Deposit Money Banks in Nigeria. However, the result does not support the findings of Alajekwu and Obialor (2014) and Kenn-Ndubuisi and Akani (2015) who found that bank recapitalisation has no effect on liquidity position of Deposit Money Banks in Nigeria.

Empirical evidence of increase in liquidity of Deposit Money Banks is an indication that recapitalisation has a positive effect on the liquidity of Deposit Money Banks, since recapitalisation does not support Alajekwu and Obialor (2014) and Kenn-Ndubuisi and Akani (2015) who found that recapitalisation is independent on bank recapitalisation. Recapitalisation has made banks to have more liquid money at their disposal. This encourages banks to have loanable funds. This fund has often led to lending which attracted more profits for more performances. Since liquidity measures the ability and ease with which assets can be converted to cash. Liquidity ratio is a statutory required condition. Cash reserve and liquid assets ratios are annually prescribed by the monetary authorities. Therefore, the main challenge to a bank is to ensure its own liquidity under all reasonable conditions. The ability of banks to meet its periodic cash demand of customers is a measure of its strength and an assurance for depositors' confidence. The higher the liquidity ratio, the higher the margin of safety that bank possesses to meet its current liabilities. The finding aligned with economic theory of regulation because the theory holds that regulation is necessary in the case of banks, specifically to maintain safe and sound banking system that can meet its obligation without difficulty, hence a highly solvency and liquidity bank level is better.

The implication of this finding is that an increased in bank liquidity reflected bank ability to meet its credit demand and cash flow requirement. Hence, recapitalisation of bank brought about structurally change for only capital adequacy and management quality confirming that though recapitalisation is a good development in the banking sector in Nigeria, however, increasing minimum capital requirement alone cannot achieve stability as witnessed by the post 2006 bank distress and the Central Bank of Nigeria intervention of the failing banks (bailing out 8 banks with a tune of 400 billion in 2012). This has led to the conclusion that recapitalisation alone cannot achieve the soundness and stability desired by the Central Bank of Nigeria.

SUMMARY OF FINDING

The empirical result of the study shows that: Shareholders' fund had a significant effect on the Liquidity position of Deposit Money Banks in Nigeria.

CONCLUSION

The banking sector is the engine of any economy which influences performance of other sectors but there are evidences that capital base of Deposit Money Banks in Nigeria has not been adequate and this has accounted for their poor performance. This challenge has led to the implementation of recapitalization policy by the Nigerian regulatory authority (Central Bank of Nigeria).

The liquidity position of the banks has improved significantly in the period under review. The financial performance of Deposit Money Banks has increased as a result of increment in the liquidity sufficiency of the banks.

RECOMMENDATION

In the light of the finding, the researcher recommended that in order to maintain liquidity in the banking system, the Nigerian Deposit Insurance Corporation (NDIC) should periodically evaluate the funds management strategies of each bank and corrective action should be initiated where funds management policies, practices and for procedures are inadequate. Liquidity position of the banks should be diligently monitored to strike a balance between liquidity and profitability. This can be done through improved liquidity planning, greater drive for deposit and injection of fresh capital.

REFERENCES

Abdul-Rahman, O. A,& Ayorinde, A. 0(2013) Post-merger performance of selected Nigerian Deposit Money Banks-An Economic perspective. *International Journal of management sciences and Business Research. 2*(8).49-59

Abdul-Rahman, O. A,& Ayorinde, A. 0(2013) Post-merger performance of selected Nigerian Deposit Money Banks-An Economic perspective. *International Journal of management sciences and Business Research. 2*(8).49-59

Abdulraheem, A. (2006). Economic and political challenges of Banking Recapitalisation. in *Democracy and Development in Nigeria*(Ed) Vol.2. Lagos: Concept publication.

Adah, A. (2012) Impact of recapitalisation on the financial performance of Deposit Money Banks in Nigeria. PhD thesis. Ahmadu Bello University Zaria.

Adam, J.A. (2005). Banking Sector recapitalisations: The Policy Challenges of bank Consolidation in Nigeria. *Nigerian Journal of Economics 46*(15), 2-13.

Adeyemi, K. S. (2007). Banking sector consolidation in Nigeria: Issues and challenges. Union Digest. *Union Bank Publication*.

Ajede, S.A. (2011, January). Bank recapitalisation and man power planning and control. A paper presented at the 6th Ilero (IIRA) African regional congress at University of Lagos Akoka, Lagos state

Akinsulire, O. (2005). *Financial Management.*(5th Ed) Lagos: El-Toda ventures limited.

AlaJekwu, U. B. & Obialor, M. C. (2014). Nigerian bank recapitalisationeffect on the Banks and the Economy (2000-2012). *International Journal of managerial studies and Research (IJSR)* 2(2)., 48-56.

Aluko, T.B.and Okagbue, B. (2004). Banking Sector Recapitalisations in Nigeria. *A publication of George Okolie and Okagbue Firms*.

Atojoko, S. (2007). World class Act*Tell Magazine* May.

Balogun, E.D. (2007). Banking Sector Recapitalisations and the Nigerian Economy: Performance, Pitfalls and future policy options" MPR paper No 3084. University of Munich, Germany.

Central Bank of Nigeria (2004). Central Bank of Nigeria Annual Report and statement of Account.

Central Bank of Nigeria banking supervision Annual Report (2005), Abuja. CBN.

Dike, O. (2006, January 16). The wheat, the chaff. *Newswatch Business*, P. 15

Faure, A.P. (2013). Banking: An introduction Quoin Institute (pty) Limited and book boon com.

Gunu, U. (2009). The impact of the Banking Industry Recapitalisation on Employment in Nigerian Banks' *European Journal of Social Sciences* 11(3), 486-495

Ikpefan, O.A.,& Kazeem, B.L.O (2013). The Effect of Merger on Deposit Money Banks Performance in the Nigerian Banking Industry. *Journal of Applied Finance and*. 3 (4). 105-123

Ikpefan, O.A. (2013). The impact of Bank recapitalisation on the performance of Nigerian Banking Industry (1986-2006). *The Journal of Commerce* 4(1). 24-39

Ikpefan, O.A., Okorie, U.E., Agwu, M.E.,& Achugamonu, B.U (2014). Bank capitalization and cost of equity on earningsof Nigerian Deposit money Banks. General management Approach. *International Review management and Business Research* 3(4), 1928 – 1947.

Kenn – Ndubuisi, J.I.,& Akani, H.W (2015). Effects of recapitalisation on commercial banks survival in Nigeria: Pre and post CAMEL analysis.*European journal of Accounting, Auditing and finance Research* 3(9), 12 – 30.

Nwude, O. (2015). Bank Recapitalisation: The imperative, implications, Options and strategies for banks. *The Nigerian Bankers* Lagos. The CIBN Press Ltd.

Ojong, C.M., Ekpuk, A., Ogar, A.,& Emori, E.G (2014). Banking Sector Recapitalisation in Nigeria: A Regulatory Imperative for a sustainable Banking Industry. *Research Journal of Finance and Accounting.* 5(13). 166-189

Okafor, F.O. (2011). *50 years of Banking sector recapitalisations in Nigeria (1960-2010). Past lesson: Future imperatives*. Enugu: Ezu Books Ltd.

Okwoli, A.A. (2007). *Principles of financial Accounting.* Third Edition Jos: Go-Go International Limited.

Oleka, D.C.,& Mgbodile, C.C. (2014). Recapitalisationand banks' performance Empirical evidence from Nigeria. *Research journal of finance and Accounting* 5(6), 96 – 101.

Olokoyo, F.O., (2011). Bank Recapitalisations and Performance of banks in Nigeria.*International Journal of Education and research* 1(9), 1-10.

Omoruyi, S.E. (1991). The financial Sector in Africa: Overview and Recapitalisations in Economic Adjustment Programmes. *CBN Economic and financial Review*29(2), 110-124.

Sanusi, S. L. (2009, August). Keynote address by the governor of the Central Bank of Nigeria on developments in the banking system in Nigeria. Central Bank of Nigeria Research department

Sanusi, L. S. (2011, March). Banks in Nigeria and National Economic Development: A critical review. Being a Keynote address at the Seminar on: Becoming an Economic Driver while applying Banking regulation". Organized by the Canadian High Commission in Joint Collaboration with the Institute of Bankers of Nigeria (CIBN) and the Royal Bank of Canada (RBC), Canada

Sanusi, L. S. (2011, March). Banks in Nigeria and National Economic Development: A critical review. Being a Keynote address at the Seminar on: Becoming an Economic Driver while applying Banking regulation". Organized by the Canadian High Commission in Joint Collaboration with the Institute of Bankers of Nigeria (CIBN) and the Royal Bank of Canada (RBC), Canada

Sheng, A. (1996). *Bank Restricting: Lesson from the 1980s*. Washington: The world Bank.

Soludo, C.C (2001). Consolidating the Nigerian Banking Industry to meet the Development challenges of the 2l Century. Being an address delivered to the special meeting of the Banking committee held at Central Bank of Nigeria headquarter Abuja, Federal Capital Territory.

Soludo, C.C. (2004, March). Consolidating the Nigerian Banking Industry to meet the Development challenges of the 2l Century. An address delivered to the special meeting of the Bankers' committee at St. Catherine College University of Oxford, UK

Somoye R.O.C. (2008). The performance of commercial banks in post consolidation period in Nigeria: An empirical Review". *European Journal of Economic and finance, and Administrative Sciences* (14), 62-73.

Yauri, N.M., Musa, J.,& Kaoje, N.A. (2012). Bank recapitalisation in Nigeria: Resuscitating liquidity or forestalling distress. *International journal of Business and social Science,* 3(10), 298 – 305.