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Effect of Recapitalisation on Capital Adequacy of Quoted Deposit Money Bank in Nigeria

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Abstract

The objective of this study was to empirically examine the effect of bank recapitalization on capital adequacy of quoted Deposit Money Banks in Nigeria with the aim of finding out weather it has enhanced the capital adequacy of the banks or not. Relevant literatures were reviewed. The study adopted causal research design and data were sourced secondarily from Nigerian Deposit Insurance Corporation (NDIC) annual reports, Banking supervision annual reports in Nigeria. The data were analysed using pooled regression analysis through STATA Window 14 package. The findings of this study indicate that recapitalization has a significant increase on capital adequacy of quoted deposit money Banks in Nigeria. In other words, recapitalization has the incentive to boost the capital adequacy of Deposit Money Banks in Nigeria. The implication of this finding is that recapitalization has made the banks have adequate capital which covered their fixed assets and are able to absorb losses arising from operation cost and that adequate capital can serve as an impetus in fortifying the performance of the Deposit money Banks in Nigeria. It is therefore recommended that capital based of Deposit Money Banks in Nigeria should be based on inflation rate, that is when inflation rate is high the need to increase capital base arise.

Key Words: *Recapitalization, shareholders' fund, capital adequacy, Deposit Money Bank and Ratio of equity to total asset.*

INTRODUCTION

The banking sector in Nigeria has gone through vicissitude in recent time due to increasing wave of globalization, technological advancement, bank restructuring programme and financial deregulation. One of the major thrust of these reforms is recapitalization which aims at strengthening the banking system, embracing globalization, improving healthy competition, exploiting economies of scale, adopting advanced technologies, raising efficiency and improving profitability (Adegbaju & Olokoyo, 2008). The implementation of recapitalization reform policy was aimed at arresting system decay, restoration of public confidence, building of strong, competent and competitive players in the global arena, ensuring longetivity and also act as spring board to achieving improved performance (Okpanachi, 2001)

Banking sector plays vital financial intermediation function by transmitting depositors' fund into productive investments (king & Levine, 1993). Wilson (2006) posits that banks are key players in any country's financial sector and that the occupy a delicate position in the economics of any country such that their performance invariably affect the economy of the country. Again, Oke (2006) advocates the relevance of banks in the economy of any nation cannot be overemphasized because they are cornerstone and the linchpin of the economy of the country. It is therefore imperative for banks to meet up the required level of capital for sound and safe banking.

Capital adequacy is very important for banks to absorb risks till they are able to generate good profits. This is because banks that are able to exceed the capital requirement have better chance of enticing customers and instilling confidence in the system. It is therefore expected that recapitalization will enhance better performance, efficiency, profitability and reduce bank failure.

1.2 STATEMENT OF THE PROBLEM

Capital adequacy is the level of capital necessary for a bank to assume its financial health and soundness as determined by the regulatory and supervisory authorities. It is a measure used to determine whether a bank has enough capital to support the risks in its balance sheet and it is an important variable used to measure the financial performance of Deposit Money Banks in Nigeria. Banks are expected to maintain adequate capital to meet their financial obligations, operate profitably and contribute to promoting a sound financial system, but most of them are not adequately capitalized which constitutes a problem such as poor performance in the Nigerian economy and it was for these reasons that the Central Bank of Nigeria prescribed minimum capital requirement mainly to address the problems of undercapitalization and financial performances of Deposit Money Bank. Nevertheless, a good number of them are undercapitalized which affected their financial performance. Therefore the need arises to look at the effects of recapitalisation on financial performance of deposit money banks in Nigeria.

Inadequate banks capital according to Ikpefan (2013) has led to a crisis of confidence in quoted Deposit Money Banks in Nigeria to the extent that the original functions which are to support the volume, type and character of a bank's business, to provide for the possibilities of losses that may arise therefrom and to enable the bank meet a reasonable credit need of the community have been eroded. Inadequate capitalization of Nigerian banks has made them unable to finance the economy, more prone to unethical and unprofessional practices and have made them abandoned the true function of banking to focus on quick profit ventures, such as trading in foreign exchange (forex) and tilting their funding support in favour of import-export trade instead of the manufacturing sector (Soludo, 2004). Hence, the increase in bank distress witnessed in the recent past particularly in 1999s through early 2000s. This problem therefore, needs proactive steps to ameliorate imminent system crisis via recapitalisation policy for growth and development of the sector.

1.3 RESEARCH QUESTION

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. The question is to what extent does shareholders' fund affect the capital adequacy of quoted Deposit Money Banks in Nigeria?

1.4 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:

evaluate the extent to which shareholders' fund affect the capital adequacy of quoted Deposit Money Banks in Nigeria.

1.5 STATEMENT 0F HYPOTHESIS

To proffer objective answer to the research question and achieve the objective, the hypothesis have been formulated as follows;

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

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

1.6 SCOPE OF THE STUDY

The study is confined to effect of bank recapitalisation on capital adequacy of quoted Deposit Money Banks in Nigeria. It covered fifteen (15) Deposit Money Banks that are quoted on the Nigerian Stock Exchange for a period of twelve (12) years (that is from 2005 to 2016). This period was selected because it was characterized by bank restructuring programmes and financial deregulation. Bank restructuring programmes such as mergers and acquisitions, recapitalization and proactive regulations through modification of unnecessary old fashioned regulations which foster inefficiency in banking sector.

LITERATURE REVIEW

2.1 Bank Recapitalisation

Recapitalisation is an aspect of banking industry which is based on the need for reorientation and repositioning of existing banks in order to attain an effective and more efficient state.Recapitalisation is used as strategy to address the insolvency of banks and forestall future possibilities of financial distress. It is therefore thought not only to be cable of resuscitating insolvent banks but also strengthen them especially through mergers. (Yauri, Musa & Kaoje. 2012). According to Omoruyi (1991) recapitalisation appears to be the main driving force for beefing up of banks recapitalisations. It focuses mainly on restructuring, rebranding and refurbishing the banking system to accommodate the challenges of bank liquidation. Ojo (2010) views recapitalisation as restructuring a company's debt and equity mixture, with the aim of making a company's capital structure more stable. In the same vein, Ajayi (2005) also views recapitalisation as an important component of reforms in the banking industry, owing to the fact that a bank with strong capital base has the ability to absorb losses arising from non-performing liabilities. Recapitalisation entails increasing the debt stock of a company or issuing additional shares through existing shareholders or new shareholders or a combination (Adegbaju and Olokoyo (2008).

From the definitions given, it can be observed that bank recapitalisation is the act of increasing long term funds to a bank in order to place the bank in a better position to effectively carry out the business of banking. Nwude (2005) identifies the imperatives for bank recapitalisation in Nigeria to include too many banks with sizes been too small to support any sound banking business; stunted growth of the real sector arising from incapability of bank capital ratio and size to fund industrial development; high lending rate and shunning real sector, and unprofessional and unethical practices. Others include the need to promote public confidence in the banking sector, curtailment of excessive risk taking by banks; reduction in the incidence of insolvency and distress and the need to dilute ownership structure given rise to professionalism. In order to achieve the justification for recapitalization, Ajayi (2005) identifies three (3) means. These are through consolidation, convergence and market capitalization.

While consolidation involves mergers and 'acquisitions between and among banks. Convergence involves the consolidation of banks with other types of financial service such as securities and insurance. According to Ezegbu (2004) market capitalization is applicable to only quoted companies and is defined as the entity's numbers of shares outstanding multiplied by the current price of the stock.

The justification for recapitalisation according to Central Bank of Nigeria (2005) was to ensure that the banks have adequate capacity to absorb possible operational losses, support the economic development of the country, play more effectively their intermediation function, meet their expansionary drives and compete effectively in the global financial market. In the same vein, Sani and Alani (2013) put it that the objective of recapitalisation are to enable the banks increase their market power, induce restructuring and engender the alignment and realignment of banks to ensure a good, responsive, competitive and transparent banking system suited to the demand of the Nigerian economy and the challenges of globalization. According to Ikpefan, Agwu and Achugamonu (2014) the proponents of bank recapitalisation like Berger, Hering and Szego (2005) believe that increase capital base has potentially increased bank returns through revenue and cost efficiency gains. On the other hand, the opponents of recapitalisation such as De Nicolo and Gianna (2003) argue that recapitalisation has increase bank propensity towards risk taking through increases in leverage and off balance sheet operations after recapitalisation exercise. Soludo (2004) in Okpanachi (2001) opines that:

> The Central Bank of Nigeria (CBN) choose to begin the Nigerian banking sector recapitalisations process with the consolidation and recapitalisation policy through mergers and acquisition. This is done in order to arrest systems decay, restoration of public confidence, building of strong, competent and competitive payers in the global arena, ensuring longevity and many more, act as spring board to achieving improved performance (p. 1).

Obviously adequate capital base is very crucial to the success of any banks. Supporting this statement, Bakare (2011) argues that apart from its multiplier effect on the economy as a whole, it acts as a buffer and security for banks. Spong (1990) postulates that commercial banks must have adequate capital to provide a cushion for absorbing possible loan losses, fund for its internal needs, and expansion drives and added security for depositors. This can only be done through recapitalisation.

Another justification for the banking sector recapitalisation in Nigerian was attributed to the failure of the banking sector to attain major objectives of ensuring price stability and to facilitate rapid economic development (Abdullahi, 2007). Adedipe (2005) argues that the most fundamental reason for the consolidation of banks via recapitalisation was the observed growing distress in the industry which was identified as a real threat of eminent bank failure. Odufu (2005) enumerates some deficiencies which were the rationale behind the banking recapitalisations and bank consolidation in Nigeria to include:

a. **Low capital Base**: The capital base of Nigerian banks prior to recapitalisation was $10 million which was very low compared to banks in other developing economic like Malaysia where the capital base of the smallest bank is $526 million, also the capital base of a single banking group in France was $688 billion and $541 billion for a bank in Germany while the aggregate capitalization of the Nigerian banking system was ₦311 billion which is grossly low in relation to the size of the Nigerian economy.

b. **A large number of small banks with relatively few branches:** Before the consolidation or recapitalisation, there were eight-nine (89) banks in the country with a total of 3,382 branches only, whereas South Korea with 8 banks had about 45,000 branches.

c. **The dominance of a few banks:** The top 10 banks controlled about 50.8 percent of the aggregate assets, 51.7 percent of total deposit liabilities and 45 percent of the aggregate credit.

d. **Poor rating of a number of banks:** A detailed analysis of the health of individual banks as at December 2004 revealed that no bank was rated very sound, only 10 were adjudged sound, 51 satisfactory, 16 marginal and 10 unsound.

e. **Weak corporate governance**: Inaccurate reporting and non-compliance with regulatory requirements, declining ethical behaviours and gross insider abuse was a situation which resulted in lunge non-performing insider related credits.

f. **Insolvency:** The negative capital adequacy ratio of many and completely eroded shareholders' funds occasioned by operating losses.'

g. **Over-dependence on public sector funds and foreign exchange trading at a neglect of small and medium term private savers:** The Nigerian banking system plays a marginal role in the development of the real sectors, therefore not in a position to meet the nation's ideal of a strong, competitive and reliable banking system which depositors can in turn trust, rely upon and the nation can depend upon to facilitate its growth and development.

According to Soludo (2005) the problem that necessitate bank recapitalisation are explained as follows:

i. Persistent illiquidity

Most of the Nigerian banks were not able to meet their obligations to their customers, owners and the economy as a result of weaknesses in the financial, operational and managerial capabilities which render them illiquid or insolvent. Soludo (2004) observes that some of the Nigerian banks were chronic borrowers at the Expanded Discount Window (EDW) indicating that they had little cash on hand. Illiquidity had dramatic and rapid adverse effect on even well capitalized banks.

ii. Poor corporate governance

Before the bank consolidation, the Nigerian banking industry was characterized by corporate governance challenges leading to gross anomalies in the performance of the banks as well as recurring distress in the sector (Yauri, Mahammad & Kaoje, 20th). Most of the Nigerian banks suffered from weak corporate governance which was evidenced by inaccurate reporting and non-compliance with regulatory requirements, as well as gross insider abuse which resulted in huge non-performing insider related loans, (Soludo, 2004). Poor corporate governance had played a major role in bank failures in Nigeria.

iii. Poor asset quality

Poor asset quality is one of the major causes of most Nigerian bank failures. Invariably this is due to inadequate management lending policies. Deterioration in the asset quality of Nigerian banks affect its operating and financial performance as well as the general soundness of the banking system. Yin (1999) observes that the deterioration of bank asset quality arising from ignorance of loan quality is one of the proximate causes of the Asian financial system crises.

iv. Insolvency

This is a situation where the banks could no longer meet their financial obligations with their lender or lenders as debts became due. The banks became insolvent for a variety of reasons ranging from failing to meet reserve requirements to having a high default rate on the debt they issued. Most of the banks were insolvent as evidenced by 'negative capital adequacy ratios and shareholders' fund that had been completely eroded by operating losses (Soludo, 2004).

v. Insider abuse

Insider abuse is perhaps the most significant factor that led to failure of most banks in Nigeria. Many owners and directors abused or misused their privileged positions by engaging in self-serving activities. The appointment of incompetent management, relatives and friends to key positions instead of relying solely on professional managers affected the performance of the banks.

vi. Weak capital base.

The Nigerian banks were not adequately capitalized which constituted a problem in the Nigerian economy. It was for this reason that the Central Bank of Nigeria (CBN) prescribed minimum capital requirements. But still a good number of them are grossly undercapitalized. This situation has been attributed to low level of initial capital, the effect of inflation, the adverse operating result, and many due to their inability to make appreciable recoveries from their non-performing loan (Adeyemi, 2011).

vii. Over dependency on public sector fund

The Nigerian banks were over-dependent on public sector deposits for their survival. Soludo (2004) emphasizing on the issue of over dependency of the banks on public sector deposit postulates that one of the recent development in the banking system which is of great concern to the monetary authority is the significant dependence of many Nigerian banks on government deposits, with the three tiers of government and parastatals accounting for over twenty (20) percent of the total deposits liabilities of deposit money banks.

viii. Neglect of small and medium class saver

Before consolidation recapitalisations the Nigerian banking sectors had neglected the small and medium savers and concentrated more on big corporate savers. Many of the Nigerian banks abandoned their essential intermediation role of mobilizing funds from surplus units to deficit units and inculcating banking habit at the household and micro enterprise level (Soludo, 2004). The neglect of this very important sector has greatly affected the performance of Nigerian banks. Adaju (2007) asserts that:

> For any economy to grow and develop the small scale industries must make the highest contribution to the Gross Domestic Product (GDP). The contribution of the informal sector to the growth of the national economy was quite significant in terms of output and employment and the government must encourage and empower the small and medium enterprises through provision of loans by the banks (p. 10).

ix. Poor risk management practices

The main causes of banking crises was poor credit risk management practices typified by high level of insider loans, speculative lending and high concentration of credit in certain sector among other issues, Failure of Nigerian banks to effectively manage credit risk led to bank failure (Njanike,2009). According to Kithinji (2010) the main source of poor credit risk that affected the Nigeria banks include: limited institutional capacity, in appropriate credit policies, volatile interest rates, poor management, inappropriate laws, low capital and liquidity levels, direct lending, massive licensing of banks, poor loan underwriting, laxity in credit assessment, poor lending policies, government interference and inadequate supervision by the Central Bank of Nigeria

x. **Low level of financial growth**

The Nigerian banking sector was characterized by small sized banks with high overheads, low capital averaging less than ₦10 million, heavy reliance on government patronage and losses making. Also the Nigerian banking sector was characterized by high degree of fragmentation and low level of' financial intermediation up to 2004 (Ningi & Dutse, 2008).

xi. **Thin spread of qualified and experienced manpower.**

The Nigerian banking industry has been faced with a dearth of qualified bankers to implement the objectives of the organization. The few qualified bankers hardly stay in one bank because they are in high demand. According to lkpefan (2013) the inadequacy of qualified and experienced hands on ground has caused problems and that qualified hands are increasingly on demand and with attendant high staff mobility and corresponding operations inability.

xii. **Poor quality service and diversified delivery channels.**

The Nigerian banks faced problems in delivery of effective services to customers. Abdulraheem (2006) posits that it impacted negatively on their ability to compete globally and as such undermining the need for them to increase the capital base.

The problems faced by the banks in delivering effective services to customers included: insufficient legal system, high provisions for non-performing loans, high lending rates, poor management, political instability, high pricing of financial services, higher risks and low profitability. These have in turn affected the quality of service offered (Sokefun, 2011).

According to Soludo (2005) it was as a result of some problems that it became imperative to address these weakness and reposition the sector for the competitive market and to be able to play its role in the comprehensive economic recapitalisation programme as contained in the National Economic Empowerment and Development strategy (NEEDS) document. Sanusi (2010) reports that an investigation conducted by the Central Bank of Nigeria identified eight independent factors as the main origin of the crises in the banking sector in 2008 which necessitate recapitalisations in the sector to include:

i. **Macroeconomic instability caused by large and sudden capital inflow:** The capital inflow into Nigeria has not been very impressive when compared with flow into some developing economies of South Africa and Brazil (Obiechino, 2010). Sanusi (2010) posits that macroeconomic instability caused by large capital inflows led to a weak financial system if the flow had increased suddenly thereby creating conditions for banking crisis, this might have well affected macroeconomic stability.

ii. **Poor corporate governance and character failure:** According to Sanusi (2010) the inability of key personnel to some banks to live up to expectations negatively impacted on the banking institutions and he further reiterated that failure of corporate governance in most financial institutions in Nigeria led to the crisis in the Nigerian Banking sector. He further explains that eight (8) chief executives and executive directors of some banks in Nigeria were summarily dismissed between August and October 2009 due to issue of related poor corporate governance practices.

iii. **Lack of investor and consumer sophistication:** Lack of investors and consumer sophistication have caused bank crisis. Aminu (2004) states that lack of consumer sophistication has caused economic downturn in the country. She further explains that lack of consumer sophistication led to the global economic downturn experienced years back. Still emphasizing on lack of investors and consumer sophistication. Sanusi (2010) argues that lack of investor and consumer sophistication also contributed to the crisis by failing to impose market discipline and allowing banks to take advantage of customers. Many investors were unaware of the risky nature of the business they have interest and also consumers and investors were subjected to poor services. Also consumer and investors' right were not sufficiently protected and investments were made without proper understanding the risk involved

vi. **Inadequate disclosure and lack of transparency**: Inadequate disclosure by the bank was another major contributing factor to bank crisis. Sanusi (2010) reports that bank's reports to the Central Bank of Nigeria and investors often were inaccurate, incomplete and late and sometimes misleading, therefore depriving the Central Bank of Nigeria of the right information to effectively supervise the industry and also depriving investors of information required to make informed investment decision. Some banks even engaged in manipulation of their books while others engaged in practices such as converting non-performing loans to commercial paper and bank acceptance and also hiding losses (Sanusi 2010).

v. **Critical gap in regulatory framework and regulation:** Lack of co-ordination among regulators prevented the Central Bank of Nigeria from having a comprehensive consolidated bank view of its activities. Furthermore, regulations concerning the major causes of crisis were often incomplete. The Central Bank of Nigeria was not always in receipt of examination report from Stock Exchange Commission (SEC) nor was there framework for consolidated bank examination (Sanusi, 2010).

vi. **Uneven supervision and enforcement:** Uneven supervision and inadequate enforcement also played a significant role in worsening the problem associated with bank crisis. No one responsible was not held accountable for not addressing the key industry issues such as risk management, corporate governance, fraud; money laundering, enforcement etc. and ensuring that procedures were well adapted to the prevailing environment (Sanusi, 2010).

vii. **Weakness within the Central Bank of Nigeria:** According to Sanusi (2010) the Central Bank of Nigeria (CBN) was not organized to monitor adequately and analyse the macroeconomic issues and systems risk inherent in the financial Sector. The governance and management processes at the Central Bank of Nigeria (CBN) also had a significant impact on its ability to deliver its mandate adequately.

viii. **Weaknesses in the business environment**: Lack of a sufficiently developed infrastructure and business environment has had a negative influence on the banking industry (Sanusi, 2010). Absence of reliable credit rating agencies and poor infrastructure, all contributed to non-standard banking practice which caused crisis in the banking sector.

According to Sanusi (2010) it was in this respect that the Central Bank of Nigeria moved decisively to strengthen the industry, protect depositors and creditors' funds safeguard the integrity of the industry and restore public confidence.

2.2 Impact of Recapitalisation on Financial Performance of Deposit Money Banks 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 4: The 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 2, 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.

Capital Adequacy as a measure of financial performance

Capital adequacy is defined as percentage ratio of a bank's primary capital to its asset (loans and investment), use as a measure of its financial strength and stability. It is one of prominent indicators of the financial health of banks. Capital adequacy is widely acknowledged as key factor in bank performance measurement and evaluation (Hardy & Bonaccorsi di Patti, 2001). It is the sufficiency of the amount of equity to absorb any shocks that the bank may experience (Nwanko, 1991 & Kosmidou, 2009). Capital adequacy was recognized and adopted by the Base system of bank performance assessment of the Bank for International Settlement (BIS). The requirement for capital adequacy provides that banks must have a primary capital base equal at least to eight (8) percent of their assets. The capital adequacy measurement using capital adequacy ratio was implemented in the Nigerian banking system in 1990. Capital adequacy ratio is propounded by the regulatory authority in the banking sector to judge the health of the banking system and to ensure that banks can take up a reasonable level of losses arising from operational losses (Aspal & Nazneen, 2014).

Capital adequacy is considered as one of the prominent indicators of the financial health of banks. Aspal and Nazneen (2014) opine that capital adequacy can be seen as percentage ratio of a bank's primary capital to its assets (loans and investments) used as a measure of its financial strength and stability. Kosmidou (2008) looks at capital adequacy as the sufficiency of the amount of equity to absorb any shocks that the bank may experience. Capital adequacy level is a situation where the bank's adjusted capital is adequate to take up all unexpected losses arising in the future and cover fixed assets (Ebhodaghe, 1991). It has been considered as the foremost benchmark and primary measure for safety and soundness for banks and financial institution (Jeff, 1990).

According to Dang (2011) adequacy of capital is assessed on the basis of capital adequacy ratio. It reveals the internal strength of the bank to bear up losses during the period of crisis. Aspal and Nazneen (2014) argue that capital adequacy ratio is the ratio which has been propounded by the regulatory authority in the banking sector to judge the health of the banking system and to ensure that banks can take up a reasonable level of losses arising from operational losses.

According to Jacobson, Linde and Roszbach (2002) the Basel Committee introduced capital adequacy regulation in 1988 which required globally active banks to maintain minimum capital equal to 8 percent of risk adjusted assets with capital consisting of Tier 1 capital which comprises of equity capital and disclosed reserves and Tier II capital comprises of long term debt, undisclosed reserves and hybrid instruments and this has been adopted by more than one hundred (100) countries.

Capital adequacy plays major role in determining bank profitability. According to Ejoh and Sackey (2011) the ratio of capital adequacy reflects the ability of a bank to withstand the unanticipated losses. The following ratios are used to measure the capital adequacy of banks in Nigeria: (a) Ratio of equity to total asset (b) Ratio of equity to total loan and (c) Ratio of equity plus loan loss reserves to total loan. For the purpose of this study the ratio of equity to total asset will represent capital adequacy.

2.3 THEORETICAL REVIEW

Buffer theory of capital Adequacy

This theory was propounded by Calem and Rob in 1996. The study adopted this theory as the theoretical basis for explaining the relationship of capital adequacy and performance of Deposit Money Bank in Nigeria. The theory states 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 a breach of the capital requirement.

Capital buffer refers to excess capital a bank holds above the minimum capital required. It suggests that bank aims at holding more capital which decrease the risk of the bank and increase the performance of banks due to reducing the rate of lending which increase the demand for loans.

3.0 METHODOLOGY

The purpose of this study is to evaluate the effect of recapitalization on capital adequacy of Deposit Money Banks in Nigeria. The study adopted causal research design. The data for the study are sourced secondarily from comprehensive income statement, statement of financial statement, Nigerian Deposit insurance Corporation Annual reports, the Nigerian Stock Exchange Fact Books and from Various Issues of the reports of Deposit Money Banks in Nigeria.

The data collected were estimated by fixed-effects, random-effect and pooled regression. Model selection criteria applied was the Hausman specification test to choose between the random and fixed effect. The study covered the period from 2005 to 2016. This period was selected because it was characterized by bank restructuring programs and financial deregulation. A sample of fifteen (15) banks that are quoted on the Nigerian Stock Exchange were used for the study which comprises of both the old and new generation so as to have full cover of the entire sector.

4.1 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.

4.2 DATA ANALYSIS

To be sure that the data being used are clean, we conducted tests of cleanness by the use of unit root test as follows:

Method: Levine, Lin and Chu unit root test

Model: $\Delta y_{it} = \alpha y_{it-1} + \Sigma\beta_{ij}\Delta y_{it-j} + X_{it}\delta + \nu_{it}$

Where y_{it} refers to the pooled variable, X_{it}' represents exogenous variables in the model such as country fixed effects and individual time trends, and V_{it} refers to the error terms which are assumed to be mutually independent disturbances.

4.4 TEST OF HYPOTHESIS

The hypothesis for the study is as follows:

H_0: Shareholders' fund has no significant effect on capital adequacy of Nigerian Deposit Money Banks.

H_1: Shareholders' fund has a significant effect on capital adequacy of Nigerian Deposit Money Banks.

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 estimation.

Table 7: Hausman Test

```
-------------+----------------------------------------------------------------
                 ---- Coefficients ----
             |      (b)          (B)            (b-B)     sqrt(diag(V_b-V_B))
             |     fixed        random       Difference          S.E.
-------------+----------------------------------------------------------------
```

recap |	2.78e-07	2.41e-07	3.73e-08	6.86e-08
gdp |	1.83e-06	1.75e-06	7.56e-08	1.40e-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

χ^2= (b-B)'[(V_b-V_B)^(-1)](b-B)

= 0.30

P–Value = 0.8613

Source: Generated from STATA windows 14

Table above shows the result of the Hausman specification test. The Hausman test indicated that the chi-square value of 0.30, with a p-value of 0.8613 at 5% significance level.

Decision

The random effect method (REM) was adopted because the result of the Hausman test showed that the random effect is the best estimator. The REM is applied when there is the individual effects and no correlation among regressors.

Model for Hypothesis

$\boldsymbol{RETA_{it}}$= 0.13624 + 2.41e-07 $\boldsymbol{RCAP_{it}}$+ 1.75e-06$\boldsymbol{GDP_{it}}$

Decision Rule for model one:

If the p value is greater than the level of significance of 0.05, the null hypothesis is rejected while the alternate hypothesis is accepted. If the p value is less than the significance level of 0.05, the null hypothesis is accepted and the alternate hypothesis is rejected.

Reject H_o if P < 0.05

Accept H_o if P>0.05

The table shows the 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
$\boldsymbol{RCAP_{it}}$	+	1.31e-07	0.328	2.78e-07	0.108	2.41e-07	0.026
$\boldsymbol{GDP_{it}}$	+	1.52e-06	0.010	1.83e-06	0.001	1.75e-06	0.001
CONSTANT		0.132809	0.000	0.1375819	0.000	0.1362494	0.001
$\boldsymbol{R^2}$		0.0376		0.0339		0.0353	
N		180		180		180	
F*		3.45	0.0338	5.92	0.0033	11.61	0.0030
Corr(Ui, X)		-	-	-0.0886	-	0	-

Dependent Variable: $\boldsymbol{RETA_{it}}$

Source: Generated from STATA Window 14

The robustness tests was conducted for the data, it has a correct functional form and the model's residuals are serially uncorrelated, normally distributed and homoskedastic. Therefore, the outcomes reported are serially uncorrelated, normally distributed and homoskedastic. Hence, the results reported are valid for reliable interpretation.

Interpretation

The pooled regression from *Panel A* shows that recapitalisation has a positive effect on capital adequacy with a coefficient value of 1.31e-07. In *Panel B*, recapitalisation has a positive effect on capital adequacy as well with a coefficient value of 1.63e-07. Panel A and B are not used in this study because the Hausman test indicated that random effect model is the best estimator. Consequently, in *Panel C*, recapitalisation has a positive effect on capital adequacy with a coefficient value of 2.41e-07. This means that with the advent of recapitalisation in Nigerian banks in 2005, it has led to increase in the capital adequacy among the Deposit Money Banks in Nigeria.

The result from table 8 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 level of capital adequacy of banks in Nigeria.

The coefficient of determination r^2= 0.0353 shows that a 3.53% change in $\mathbf{RETA_{it}}$ is as a result of the changes in bank recapitalisation and GDP. The F- test with a value of 11.61 and p-value of 0.0030 shows that there is a strong linear dependency existing between indicators of bank RETA and recapitalisation economic growth. The estimated result is homoscedastic because the Breusch-Pagan / Cook-Weisberg test indicated the presence of heteroscedasticity but was corrected with the estimation of robustness test.

Decision

Given that the p-value is 0.026 is less than the level of significance of 0.05, reject the null hypothesis. We therefore, accept the alternate hypothesis which states that Bank recapitalisation has a significant effect on capital adequacy of the Nigerian Deposit Money Banks.

Therefore, it is concluded that Bank recapitalisation has a significant effects on capital adequacy of Nigerian Deposit Money Banks.

4.5 DISCUSSION OF FINDINGS

In this hypothesis, the null hypothesis is rejected while the alternate hypothesis which states that recapitalisation has a significant effect on capital adequacy of Nigerian Deposit Money Banks is accepted. This means that recapitalisation has significant effect on capital adequacy of Deposit Money Banks in Nigeria. The likely cause of this finding is that the Banks have adequate capital which covered their fixed assets and are able to absorb losses arising from operation cost.The result is consistent with the findings of Yauri, Musa and Kaoje (2012), Alajekwu and Obialor (2012) and Kenn-Ndubuisi and Akani (2015) who found that bank recapitalisation has a significant effect on capital adequacy of Deposit Money Banks in Nigeria. However, the result is not in tandem with the findings of Adegbaju and Olokoyo (2008) who found that bank recapitalisation has no effect capital adequacy of Deposit Money Banks in Nigeria.

Empirical evidence of rising earnings and survival of Deposit Money Banks is an indication that banks' performance is dependent on recapitalisation since recapitalisation support those who found that capital adequacy has helped regulators through recapitalisation, protect depositors from banks who lend aggressively and in doing so do not get back most of the money lent. This is because when a bank makes large loan losses that wipe out its total equity, it may lead to an immediate bankruptcy thus making depositors lose their money. Where such inability persists over a long period of time, it could ultimately lead to bank runs as most depositor's may decide to withdraw funds en-masse upon suspicion that the said bank is in distress. This finding is in line with the theory of public interest which holds that governments regulate the banking industry to facilitate the efficient functioning of the banks by ameliorating market failures and that the public interest would be served if banking system allocate resources in socially efficient manner. In other words the theory holds that regulation is supplied in response to the demand of the public for the correction of inefficient or inequitable market practices. Therefore increased capital would have facilitated efficient functioning of banks for the benefit of broader civil society in the banking industry. It also translated to more funds been available for the banks for onward lending to the public for their developmental needs. The implication of this finding is that adequate capital has strengthened the financial performance of Deposit Money Banks in Nigeria.

5.1 SUMMARY OF FINDINGS

The empirical results of the study shows that Shareholders' fund had a significant effect on capital adequacy of quoted Deposit Money Banks in Nigeria.

5.2 **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).

This study examined the effect of recapitalization on capital adequacy of quoted Deposit Money Banks in Nigeria. From the findings of this study, it can be concluded that there is an increase in capital adequacy of quoted Deposit Money Banks in Nigeria. The increment has resulted in improved financial performance of the banks in Nigeria.

5.3 RECOMMENDATIONS

In the light of the findings, the researcher suggest that in order to improve and maintain the capital adequacy ratio, the Central Bank of Nigeria should monitor and regulate from time to time the capital base of Deposit Money Banks in Nigeria to ensure its stability. This can be done by using inflation rate for the basis of increasing the capital base as observed by most authorities such as Kamin and Roggers (2002), Boyd, Levine and Smith (2001), Boyd and Champ (2003) that when inflation is high the need to increase capital base arise. It can also be done through consolidation, convergence and market capitalization.

Furthermore, management of Deposit Money Banks should make concerted efforts towards adequately mobilizing and allocating financial resources in the banking sector in order to achieve the desired growth in the Economy

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