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EFFECT OF CAPITAL ADEQUACY ON PERFORMANCE OF NIGERIAN BANKS USING BASLE III ACCORD FRAMEWORK

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Abstract

Banks in Nigeria over the years are confronted with capital adequacy (equity needed to absorb any unexpected shocks) problem which had consequential effects on their performance. Banks according to the capital adequacy standard set by Banks for International Settlements (BIS) requires primary capital base equal to at least eight per cent (8%) of their assets. Since the bank specific characteristics differ in Nigeria, the CBN set an arbitrary N25 billion minimum capital base after considering all capital adequacy variables (total assets(TA), owners fund (LA), customer's deposit (CD) and loans and advances (OC) to forestall all future financial downturn. This study in this regard examines the relationship between these variables on banks performance in Nigeria using secondary data collected from the nine deposit money banks with significant foreign operations. The data were analysed using panel methodology and the results of the OLS regression show that 76% (R^2) of the variations in PAT are caused by the independent variables. Further findings showed that a unit change in TA, LA, CD and OC lead to 4.1%, 1.6%, 3.7% and 1,7% change in PAT respectively. The study concludes that capital adequacy impacts significantly and positively on bank performance in Nigeria. It was therefore recommended that the Central Bank of Nigeria (CBN) should not only focus on capital adequacy but also consider external/macroeconomic variables that impacts on performance, emphasize supervisory review and market discipline with a view to maintain banks financial strength and stability in Nigeria.

Keywords*: Performance, Capital Adequacy, Basle III Accord, Bank deposit, Total Assets*

1. INTRODUCTION

The importance of the banking sector is premised on the fact that banks are considered to be the foremost channel of savings and allocations of credits in an economy (Ariccia and Marquez, 2004). The banking sector facilitates the vital financial intermediation function by transferring the deposits into productive investments and it is

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the fuel injection system which stimulates the economic competence by mobilizing savings to investment channels. This intermediation functions and by inference the financial performance of banks has significant implications for economic growth of an economy because sound financial performance rewards the stakeholders for their investment and encourages additional investment. On the other hand, poor banking performance may result in banks' failure and collapse which may also affect/hamper the economic growth of the country.

The banking boom of the 1980s due to liberalization of the sector was later greeted with poor performance as a result of inadequate capital, high non-performing assets and macro-economic instability Aburime and Uche, (2008) etc. which is manifested in frequent distress and collapse of some banks (Obadan, 2004; Barth, Caprio and Levine, 2006). In addressing these challenges, the CBN introduced several reforms and regulations such as Four (4) Pillar Reform Programme in 2010, review of the prudential guidelines in Basle II Accord Framework to Basle III Accord Framework (which required globally active banks to maintain a minimum capital equal to 8% of risk adjusted assets). The objective according to Ezike and Oke, (2013) is to enhance the quality of banks, establish financial stability, enable healthy financial sector evolution and ensure that the financial sector contributes to the real economy. This hybrid instruments) that has been adopted by more than 100 countries as pointed out by Jacobson, Linde and Roszbach, 2002).

Although bank performance assessment has been adequately captured in the literature but the issue of capital adequacy and how it impact on performance has received little attention. Specifically, studies on assessment of Basle III accord framework on bank performance are apparently lacking; this is considered a serious academic omission and it forms the policy thrust of this study. Among the few studies on this concept are Olalekan and Adeyinka (2013) that studied the effect of capital adequacy of performance of both foreign and domestic banks in Nigeria while Ezike and Oke (2013) divided the banks into pre and post SAP era covering 2003-2007. The findings of these studies could not stand the test of time due to inappropriate method (survey) and period (2003-2007). More so, the lack of agreement among Kosmidou (2008), Gul, Irshad, Shroeck (2012 and Zaman (2011) with respect to capital adequacy and banks' profitability is also a subject of academic worry.

This study therefore evaluates the impact of capital adequacy on Nigerian banks' financial performance using Basle Accord III framework (minimum of 8%). Other specific objectives are pursued focusing on the nine (9) international banks out of the eleven (11) banks listed in the Nigeria Stock Exchange as at 31 December, 2015 between 2009 and 2015 are to: (i) assess the effect of loans and advances on Nigerian banks' profitability; (ii) examine whether total assets and owners' funds of Nigerian banks operating internationally affect their profitability; and (iii) critically appraise the effect of customers deposits on these banks' profitability. The relevant hypotheses raised (null form) relates to testing the statistical insignificant impact of Loans and Advances, total assets and customers deposits on Nigerian Banks' profitability and shareholders' funds.

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2. REVIEW OF LITERATURE

2.1 Conceptual Clarifications

2.1.1 The Concept of Capital Adequacy

Capital adequacy results from the idea of rearranging the existing capital structure of banks in order to restructure the banking industry against widespread distress. Adequate capital creates an opportunity for better standards in any business establishment and it spurs business exertion and great performance. According to the Olalekan and Adeyinka (2013), the minimum ratio of capital to total risk-weighted assets shall remain at 10% as prescribed in the circular BSD/11/2003 issued on August 4, 2003. Umoh (1991) explains that, a bank requires capital adequacy for the same reasons other businesses may require capital since banks deal with other people's moneys which must be kept safe. However, Nwankwo (1991) and Oluyemi (1996) emphasized that the key element of capital is the only elements common to all countries' banking system and the need for capital adequacy for banks is a pressing problem not only in Nigeria but also to a very large extent in other countries globally.

Bank Performance can be likened to the principal objective of banks which is to earn profit. It means ability of banks to make sufficient profit for the purpose of paying corporation tax like any other company, pay interest to depositors, wages to the staff, dividend to shareholders and meeting other expenses (Ezike and Oke, 2013). So, unless banks earn profits, they cannot perform their role effectively. Profitability is essential for a bank to maintain ongoing activity and for its investors to obtain fair returns; but it is also crucial for supervisors, as it guarantees more resilient solvency ratios, even in the context of a riskier business environment. Thus, an institution that persistently makes losses will ultimately deplete its capital base, which in turn puts equity and debt holders at risk.

Basle accord was reached by the Basel Committee on Banking Supervision is an institution created by the Central Bank Governors of the Group of 10 nations (G10) i.e. Belgium, Canada, France, Italy, Japan, the Netherlands, the United Kingdom, the United States, Germany and Sweden. The Basel Committee formulates broad supervisory standards and guidelines and recommends statements of best practice in banking supervision (Basel II Accord, for example) in the expectation that member authorities and other nations' authorities will take steps to implement them through their own national systems. The purpose of the committee is to encourage convergence toward common approaches and standards. Inability of the Basel II provisions led to the promulgation of Basle III Accord framework which required globally active banks to maintain a minimum capital equal to 8% of risk adjusted assets). The objective is to address various aspects of banks' operations such as risk management, corporate governance and anti-money laundering/ counter financing of terrorism and loan loss provisioning all with a view to

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address the peculiarities of different loan types and financing to different sectors (Olalekan and Adeyinka, 2013).

2.2 Theoretical Framework

Capital adequacy is a fairly new area in deposit money banks' risk management especially in developing countries. In this study, the anticipated income theory explained the theoretical underpinning as it related to banks performance. This theory depends on loan portfolio as liquidity source. In essence, banks' liquidity can be planned if scheduled loan payments are based on future income of the borrower at a point in time. Thus, the theory recognises the influence of the maturity structure of the loan and investment portfolio on liquidity position of banks (Kosmidou, 2008; Ezike and Oke, 2013).

Just like other similar theories, anticipated income theory major flaw is in the installment loan repayments. Since installment loan repayments provides regular stream of liquidity, they may not be adequate in meeting unstructured emergencies in terms of cash requirements in the banking system. As a result, Bosede, Olowe and Uwuigbe (2013) opined the banks management needed to maintain some capital as cushion to absorb uncertainty in the business environment. The 2008/2009 financial crisis popularized this theory and as the environment becomes more complex the need to understand the rudiments of this theory is apt and this study built upon such belief.

2.3 Empirical Evidence

Earlier studies by Goddard, Molyneux, and Wilson (2004) on capital adequacy as a determinant of profitability of banks revealed that a high capital adequacy ratio should signify a bank that is operating over-cautiously and ignoring potentially profitable trading opportunities, which implies a negative relationship between equity to asset ratio and bank performance. On the other hand, Pasiouras and Kosmidou, (2007) revealed that banks with higher equity to asset ratio will normally have lower needs of external funding and therefore higher profitability. They identified that the performance of domestic and foreign commercial banks in 15 EU countries during the period 1995-2001 were affected by bank specific characteristics such that capital adequacy, credit risk, bank size, liquidity risk have significant relationship with bank profitability.

Staikouras and Wood (2004) claimed that there exists a positive link between a greater equity and profitability among EU banks. Abreu and Mendes (2002) also trace a positive impact of equity level on profitability. Goddard *et al.* (2004) supports the prior finding of positive relationship between capital/asset ratio and bank's earnings. However, the direction of the relationship between bank capital and bank profitability cannot be unanimously predicted in advance.

In Nigeria however, there are scanty literatures available on capital adequacy with heavy emphasis on the CBN prudential guidelines. Olalekan and Adeyinka (2013) investigate the impact on capital adequacy on Nigerian Banks Performance using primary

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data and find a non-significant relationship between capital adequacy and banks' profitability. This implies that for deposit- taking banks in Nigeria, capital adequacy plays no key role in the determination of profitability. We disagree with the reliability of this study due as a result of primary data used which is unreliable itself. Although it cannot be contested that the CBN prudential guidelines was influenced greatly by the Basle Accord, so far only Ezike and Oke (2013) investigated the impact of the adoption of the Capital Adequacy Standards on the performance of Nigerian banks. The study involved the use of ordinary least squares (OLS) estimation technique to examine and determine the effect of the independent variables – loans and advances, shareholders' funds, total assets and customer deposits – on the dependent variables – Earnings per share (EPS) and profit after tax. The results showed that capital adequacy standards exert a major influence on bank performance. In addition, the impact of the Nigerian monetary authority on the new capital requirements was found to be complemented with the adoption of the Basle accord framework. This study builds upon the above studies by succinctly examining the impact of capital adequacy on Nigerian banks' performance. Furthermore the Basle Accord III and secondary data were adopted to smooth out the methodological constraints of the aforementioned studies.

3. METHODOLOGY

3.1 Research Design

This study adopted a cross panel data methodology in gathering data from the published accounts and reports and websites of the sample banks under study. Thus, the study relied solely on secondary data source to eliminate some sampling bias introduced by previous researches. The population for this study was all the eleven (11) deposit money banks listed on the Nigerian Stock Exchange (NSE) as at 31st December, 2015. However, using purposive sampling method, the sample size were the nine (9) Nigerian banks having significant international operations during the periods under review. This was adopted because the Basle Accord applied majorly to international deposit money banks. Hence, the secondary data used were obtained from the banks' annual reports and accounts covering 2009-2015.

3.2 Research Model and Measurement

The Basel Capital Accord is an international standard for evaluation of capital adequacy ratio. In its analysis of 1999, the accord incorporated various variables that affect bank soundness and safety into its framework. These variable include: Owners capital, Assets quality, Total deposit, Loans and Advances, Ratio of capital to total assets, Credit exposures, Returns, Market discipline and effective supervision. Ability of a bank meting these requirements determines the magnitude of returns/profits earned and as such its performance.

Thus, the relationship between the Basle framework and performance is expressed in functional form as:

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$PAT = f(OC, LA, TA, CD)$ ----------(1)

$Y_{PAT} = \beta_0 + \beta_1 OC_{it} + \beta_2 LA_{it} + \beta_3 TA_{it} + \beta_4 CD_{it} + \epsilon_{it}$ ----------(2)

Where:

PAT = Profit after tax (proxy for bank performance; dependent variable);
OC =Owners Capital;
LA = Loans and Advances;
TA = Total Assets; and
CD = Customer Deposits (proxy for bank capital adequacy),
β_0- β_3 = coefficients of the variables,
ε = Stochastic error not accounted for by the model.

According to the Capital Adequacy Standard set by Bank for International Settlements (BIS, 2002), banks must have a primary capital base equal at least to eight percent (8%) of their assets. However, due to differences in banks specific characteristics, the Central Bank of Nigeria set ₦25 Billion capital as adequate after considering all the variables above. Since all the banks met the minimum capital requirement, the apriori expectation is that $\beta_0 = \beta_{1=} \beta_{2=} \beta_{3=} \beta_{4>} 0$. The Ordinary Least Square (OLS) technique of multiple regressions was adopted to determine the effect of the independent variables on the dependent variable. The OLS was adopted because it has been used in a wide range of economic relationships with fairly satisfactory results.

4. RESULTS AND DISCUSSION

Table 1: Size and Ranking of the Study Variables

Banks	PAT	Total Assets	Loans & Advances	Customer Deposit	Owners Capital	Average/ Ranking
UBA	**6st**	**4th**	**5th**	**4th**	**7th**	**5.2 5th**
GTB	**2nd**	**5th**	**4th**	**5th**	**4th**	**4.0 4th**
ECOBNK	**4th**	**1st**	**1st**	**1st**	**3rd**	**2.0 1st**
FBN	**3rd**	**2nd**	**2nd**	**2nd**	**2nd**	**2.2 2nd**
ACCESS	5th	6th	6th	7th	6th	7.5 7th
SKYE	8th	8th	8th	8th	8th	8.0 9th
ZENITH	1st	3rd	3rd	3rd	1st	2.2 2nd
DIAMOND	7th	9th	7th	6th	9th	7.6 8th
UNION	9th	7th	9th	9th	5th	7.2 6th

Source: Authors' Computation, (2016).

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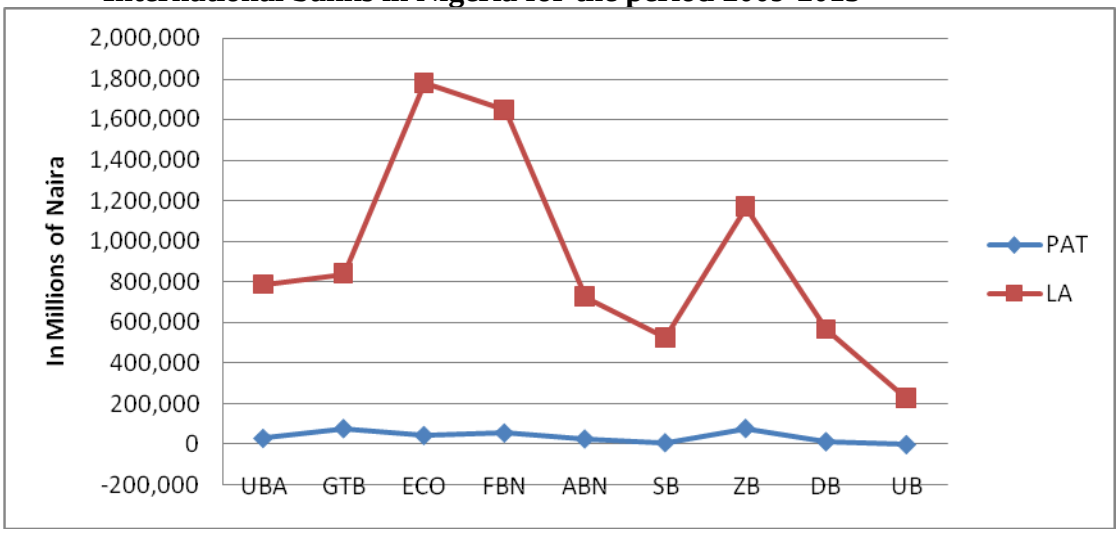
The size and ranking characteristics of the variables as shown in table 1 reveal that in terms of profitability, Zenith bank ranked 1st , followed by GTB and FBN while the least profitable is UNION Bank. However, ECO has the highest total assets, loans and advances and the highest customer deposit but ranked third in terms of owner's equity. The performance/profitability of SKYE bank was not encouraging during the period having the least result in terms of PAT, total assets, loans and advances, customer deposit and owners capital. The bank was ranked the last of all the 9 banks examined in this study. This performance translated to the reason why the bank is under monitoring and surveillance by Asset Management Company of Nigeria (AMCON) and NDIC. Generally, FBN and Zenith ranked second in terms of overall assessment while Diamond bank ranked 8th. The key variables to risk mitigation and performance enhancement (loans and advances, customer deposit and total assets are pictorially represented in figures 1, 2 and 3 as follows:

Figure 1: Relationship between Profit after Tax and Loans and Advances of International banks in Nigeria for the period 2009-2015



Source: Authors' Drawing, (2016).

Figure 2: Relationship between Profit after Tax and Customers Deposit of International banks in Nigeria for the period 2009-2015

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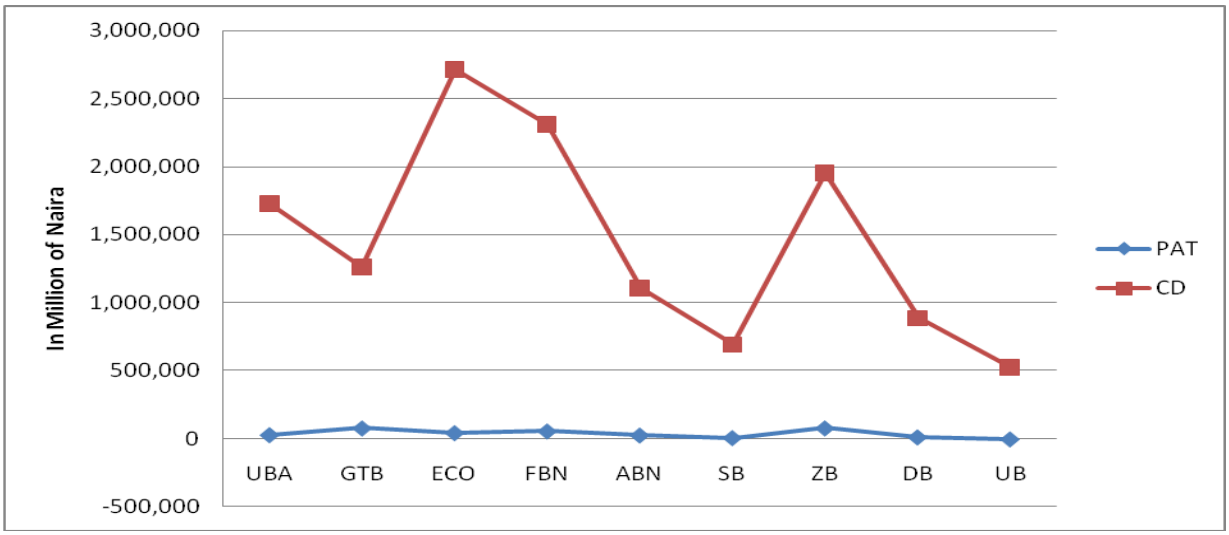
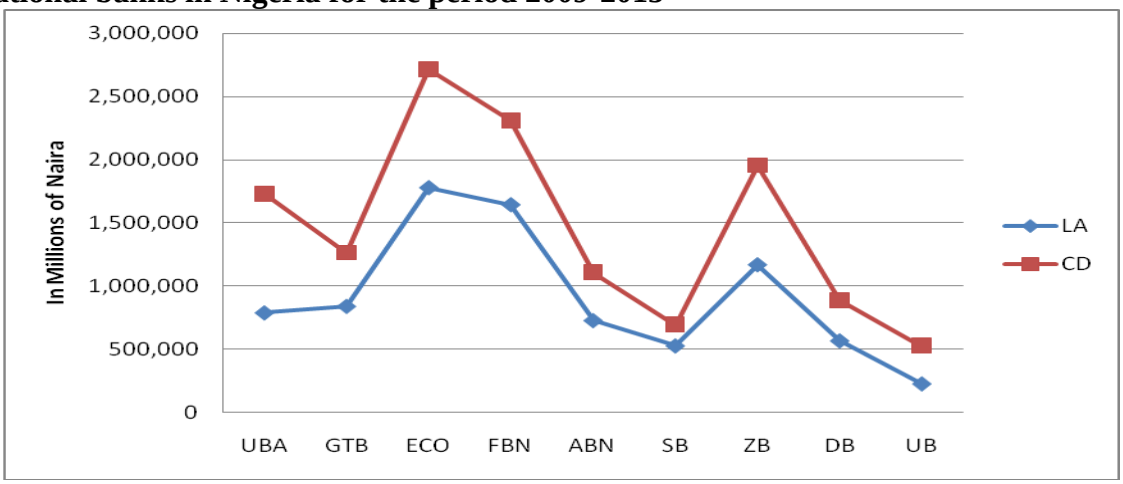


Source: Authors' Drawing, (2016).

Figure 3: Relationship between Loans and Advances and Customers Deposit of International banks in Nigeria for the period 2009-2015



Source: Authors' Drawing, (2016).

The relationship between PAT and LA over the period 2009-2015 of the nine international banks in Nigeria is depicted in figure 1 reveals a wide gap between the variables but a direct relationship exist between them. More so, as loans and advances extended by the banks increase, their profitability also improves alongside and vice versa. This might be because the bulk of banks revenue comes from interest income charged on loans giving to customers. The only exception was the case of ECO Bank which earned lower profits in relation to the loans advanced while UBN and SKYE banks extended on average lower loans and in turn earn lower profits. In a nutshell, banks with high capacity to extend loans to its customers tend to earn more profit than banks with lower loans advancement profile.

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Evidence from figure 2 indicates that Eco Bank had the highest customers' base, followed by FBN and ZB. This perhaps might be due to their operational presence in more countries outside Nigeria compared to Diamond Bank whose operation is restricted to Nigeria alone. With such strength, customers would have more confidence in them (FBN, ZENITH and ECOBNAK) as pan African banks than the smaller banks which can be acquired and/or merged overnight as was the recent case of Intercontinental Bank (now Access Bank) and Oceanic Bank; as well as SKY Bank acquisition of Mainstream Bank. Finally, the graph shows no correlation between profit and customers deposit as Eco Bank reported a far lower profit in proportion to its customer's deposits. Thus, in the final analysis it could be inferred that banks' profits do not directly relate to customers base.

Consequently, figure 3 shows an intriguing relationship between customers deposit and loans and advances extended by these banks for the seven years period. The graph depicts a positive association between customers' deposit and loans and advances. Specifically, for all the banks, an increase in deposit leads to an increase in loans advanced and vice versa. This relationship is based on the liquidity theory that opined banks must always reserve part of it deposits to meet customers' liquidity demand while extending the remaining as loans. However, theorists, researchers and bank regulators have not agreed on the percentage of deposits to be loaned out, it is left at the discretion of the banks taking into consideration customers demand such that liquidity will not be impaired.

It was further shown that Eco Bank, FBN and ZB decreasingly had more deposits and thus, extended more loans than other banks. At the other extreme, UBN, SKYE and DIAMOND gave out the lowest loans since they equally had the lowest deposits. In a nutshell, considering the overall performance, it could de deduced that ZB, UBA and GTB were more effective and efficient in the use of it available resources. For instance GTB asset turnover rate was more than 3.5% greater than Eco Bank, the biggest bank in term of assets, loans and advances, owners' capital and customers deposit. This view was supported by Kosmidou (2008), Ikpefan (2013) and Ezike and Oke (2013) who observed that due to the need to maintain adequate cash to provide for losses arising from customers' default and exposure, many banks limit their lending capacity which is their core business activity.

The opinion of the Basle Standard Committee is that as long as a bank is compliant with maintenance of capital base equal to at least eight per cent (8%) of their assets. The extent to which this is practicable and perhaps the relationship between this compliance and performance is investigated to establish whether it is the compliance that induces the bank performance or otherwise.

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Table 2: Evaluation of Banks Compliance with Minimum 8% Basle III Standard

Banks	years							Average
	2009	2010	2011	2012	2013	2014	2015	
	%	%	%	%	%	%	%	
UBA	12	10	8	8	9	10	12	10%
GTB	11	12	14	16	16	15	16	14%
ECOBNK	12	11	11	10	9	10	10	10%
FBN	18	17	14	12	10	9	11	13%
ACCESS	20	22	11	10	13	13	13	14%
SKYE	24	15	12	10	9	9	11	13%
ZENITH	19	16	17	18	16	14	15	16%
DIAMOND	13	17	12	10	10	11	12	12%
UNION	22	22	19	22	21	22	23	22%

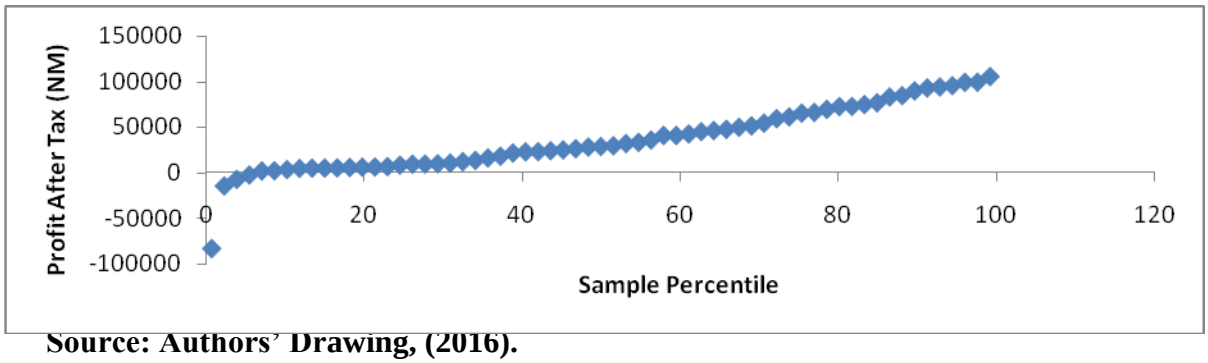
Source: Authors' Computation, (2016).

Evidence from table 2 shows that all the banks are compliant as far as maintenance of capital base equal to at least eight per cent (8%) of their assets. Specifically, Union Bank and Zenith bank top the list having an average of 22% and 16% respectively while Diamond bank has the least compliance of 12% that also exceeds the minimum of 8% required.

4.1 Hypothesis Testing

One of the basic assumptions of any parametric test is the rule of normality. From the normality graph in figure 5, the data perfectly slope upward and has a line of best fit depicting that the data are normally distributed. Thus, the regressed model serves as a good predictor of the variables it sought to measure.

Figure 5: Normal Probability Plot



Source: Authors' Drawing, (2016).

Following this, the summary of the regression result for the banks is presented in table 3 and from which the econometric model in equation III was derived:

$Y_{PAT} = -22.5626 + 0.041TA + 0.016LA + 0.037CD + 0.174OC$ ……III

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Table 3: Regression Results

Multiple R	0.849028	D.W statistic	2.29393
R Square	0.761044	Akaike info criterion	6.225064
Adjusted R Square	0.630771	Schwarz criterion	5.71141
Standard Error	24356.78	Log likelihood	76.3039
Mean dependent var	12.21733	Observations	63
F statistic	185.329		

ANOVA

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	4	4.4E+10	111.1E+10	185.329	7.37E-10
Residual	58	3.44E+10	5.93E+08		
Total	62	7.84E+10			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Significant*	*Hypothesis*
Intercept	-22.5626	76.84454	-2.93614	0.004758	YES	Reject
Total Assets	0.041185	0.009573	0.437213	0.003581	YES	Reject
Loans and Advances	0.01560	0.014383	0.10827	0.014154	YES	Reject
Customer Deposits	0.037293	0.012169	0.311737	0.056358	YES	Reject
Owners Capital	0.174193	0.043888	3.96902	0.000201	YES	Reject

The results in equation III shows that a unit change in total assets leads to 4.1% change in PAT; a unit change in loans and advances causes 1.6% change in PAT; and a unit change in customers deposit also leads to a 3.7% change in PAT while a unit change in owners capital also leads to 1.7% change in PAT. However, 22.6% change in PAT occurred outside the measured variables and as expected the relationship was negative. In other words, loans and advances (LA) in Nigerian banks revealed a strong and positive relationship with the dependent variable (PAT). This variable (LA) is appropriately signed in that it has a positive relationship due to the high credit rating of the loans and advances given to customers by the banks. Also, total assets show a positive relationship with PAT and it is appropriately signed as expected. Customer deposit has a positive relationship with PAT and owners' capital which is the most significant independent variable in this study has a positive relationship with the dependent variable.

Consequently, the R^2 of 0.76 shows that 76% variation in the dependent variable (PAT) is explained by the independent variables and the significant F shows it is very

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significant. In this case the observed t-value of 2.93614 is greater than the t-value at 5% which is 1.350 i.e. 2.93614 > 1.350. This is corroborated by the F-statistics of 185.329 which indicates that the independent variables (components of capital adequacy) greatly explain changes in the dependent variable. Individually, all of the independent variables show significant relationship with the dependent variable at 5% level of significance as all the p-values are less than 0.005. Thus, all the null hypotheses were rejected in favour of the alternative. In a nutshell, this study showed that loans and advances, customers' deposit, total assets and owner's funds have significant impact on the profitability of banks in Nigeria.

However, the study also depicted that bank size impacted more on profitability than customers' deposits, loans and advances and shareholders' funds. Thus, this result reinforced the main objective of Basle Accord III which sought to strengthen bank capital requirements and introduces new regulatory requirements on bank liquidity and bank leverage. This also shows that the CBN capital requirements for banks from ₦2Billion to ₦25billion in 2005 and the amendment of the prudential guidelines in line with Basle Accord were on the right tract. Conclusively, this study reveals existence of positive relationship between capital adequacy and profitability and is line with the findings of a number of studies including Olalekan and Adeyinka (2013); Kosmidou, (2008); Demirguc-Kunt and Huizinga, (1999); Ben Naceur, (2003); Valverde and Fernandez, (2007) as well as Brock and Suarez, (2000); Demirguç- Kunt, Laeven and Levine, (2004) and Saunders and Schumacher (2000). However, it contradicted the works of Berger, (1995); Ben Nacuer, (2003); Kosmidou, (2008); Pasiouras, Liadaki and Zopounidis, (2008); (2006); Gul, Irshad and Zaman (2011) that reported insignificant relationship between bank profitability and capital adequacy especially foreign banks.

5. CONCLUSION AND RECOMMENDATIONS

It was concluded from the findings that banks in Nigeria reported increasing profits over the years under review despite having the Nigerian economy going on recession since 2011.More so, the size of the banks significantly influence the performance of the banks internationally and the growth was largely due to all the banks having more than 8% risk weighted assets in reserves to meet any unforeseen economic uncertainties in accordance with Accord III. During the study period, all the banks were far more stable and diversified than domestic banks in Nigeria. This was informed by the large deposits and high customers' confidence. There exists a positive and significant correlation between profitability and loans and advances. By implication therefore, banks with foreign operations had higher customers deposit and thus extended more loans and earn more profits than their domestic counterparts.

Loans and advances, total assets, total equity and customers' deposit have positive impact on profitability of banks but bank size has more significant effect on performance. This means that the banks' tier 1 and tier 2 capital requirement were adequately met and the banks do not only meet the local ₦25billion capital requirement but also Basle Accord III which is internationally recognised and adopted. Loans and advances for

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example can determine the level of growth in banks because if the quality of loan and advances in terms of repayment and performance is high, banks performance will improve, but if the quality is poor, the banks risk will be increased and growth will be hindered. Apart from this, the quality of assets portfolio in the banks has great influence on bank performance. Investment in poor and too risky assets will definitely retard growth while well-diversified and high quality assets will enhance performance. Thus, adequate capital function in various ways such as providing cushion against losses not covered by current earnings and also serves as confidence booster to the depositors, public and the regulatory authority in Nigeria. Hence, capital adequacy had significant impact on the performance of banks that operate internationally in Nigeria.

Based on the conclusions reached the following recommendations were put forward for performance enhancement:

i. The Central Bank of Nigeria should enforce compliance with capital adequacy and possibility of overtrading/under trading; and concentrate on efficient and effective bank management supervision to prevent bank collapse.
ii. The CBN should take more decisive measures aimed at tightening the risk management framework of the Nigerian banking sector with a view to enhance profitability and survival. This might be in terms of monitoring credit terms and repayment pattern with a view to reduce loan default and minimize non-performing loans and its associated negative consequences.
iii. Banks should maintain adequate cash to provide for losses that may arise in case of customers' default in order to maintain good credit rating and avoid collapse
iv. Apart from capital adequacy stressed by banks regulatory bodies in Nigeria, the other two components of capital management (supervisory review and market discipline) should be monitored for effective implementation.

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