

**NAME: ABDULLAHI BASHIR**  
**MAT NO: SBS/2282060234**  
**TOPIC: ASSET AND LIABILITY MANAGEMENT OF NIGERIAN BANKS**  
**(A STUDY OF GUARANTY TRUST BANK PLC)**  
**DEPARTMENT: BANKING AND FINANCE**

**CHAPTER ONE**  
**INTRODUCTION**

## **1.1 Background to the Study**

A strong financial system is very important for a country to flourish. The economic progress of a nation and development of banking is invariably interrelated. The Banking sector is an indispensable financial service sector supporting development plans through channelizing funds for productive purpose, intermediating flow of funds from surplus to deficit units and supporting financial and economic policies of government. The importance of bank's stability in a developing economy is noteworthy as any distress affects the development plans (Rajaraman and Vasishtha, 2002) thereby the economic progress (Thiagarajan, et al, 2011). The stability of banking hence is a pre-requisite for economic development and resilience against financial crisis. Like any other business, success of banking is assessed based on financial performance / profitability and quality of asset it possesses (Ombaba, 2013).

Asset-liability management is the prerequisite condition for the efficiency and growth of Deposit Money Banks. The stability of Deposit Money Banks as whole in the economy depends on proper Asset-liability management structures. Better Asset-liability management has the tendency to manage risks and shocks that Deposit Money Banks can face (Isaac & Akinwunmi 2018)

The concept of the ALM was developed as a hedging reaction against the risk of financial intermediation. Asset and liability management simply refers to the process by which an institution manages its balance sheet in a strategic manner in order to accommodate risk faced by it (Sanjay 2015). Asset liability management in commercial banks is determined by the ability of the banks to retain capital, absorb loan losses, support future growth of assets and provide return to investors (Makau & Mamba, 2014).

Asset Liability Management (ALM) involves matching the timings and values of the cash inflows with cash out flows in banks keeping in mind the minimization of consequential risks. Banks usually borrow money for short duration but lend it for long and therefore cause liquidity risk in banking operations arising from the mismatch between cash inflows and cash outflows. Another fact that exacerbates the problem and enhances the requirement of ALM is that banks are highly leveraged institutions that are performing their operations being several times their own funds. Volatility in Interest rates and the highly intensified competition of the modern banking sector and increasing expectations of customers has made the matters more challenging. Therefore, for the sake of survival and achieving desired level of earnings, ALM has become an essential strategy. Asset Liability Management is the management of the total balance sheet dynamics

and it involves quantification of risks and conscious decision-making with regard to asset-liability structure in order to maximize the interest earnings within the framework of perceived risks. The primary objective of Asset Liability Management is not to eliminate risk, but to manage it in such a way that the volatility of net interest income is minimized in the short run and economic value of the organization is protected in the long run.

In a Bank's balance sheet, assets include loans and advances granted to customers, investment securities, properties and equipment among others while the liabilities side includes deposits from customers, borrowings and so on. Since the main goal of any institution is to maximize profits, Banks will want to ensure maximum return on their dealings. The largest source of income to the bank is interest income from lending activity less interest paid on deposits and debt. But it should be noted that banks cannot give out loans without deposit and banks primarily makes their profit through loan creation. (Isaac & Akinwunmi 2018).

The profitability and overall financial performance of commercial banks is very vital for the smooth operation of the financial system of a country. The profitability of these institutions is largely dependent on how they perform the financial intermediation functions. In the

financial intermediation process of Deposit Money Banks, they incur costs on their liabilities and earn income on their assets. Hence, the financial performance of Banks will depend on how well they have been able to manage their assets and liabilities through a proper balancing and matching of those assets with liabilities while maximizing profit at the same time. It is worthy to note that determinants of bank profitability are different in banks because of difference in operation, internal external factors and structural affiliation among others influences banks' financial performance.

The ultimate concern of ALM process is to maximize the interest earnings within the perceived risks framework. The Asset Liability Management decisions do not entrust upon eliminating risk but to manage them in such a way that the net interest income is optimized. ALM comprises of micro and macro level objectives. At micro level, it focuses on fulfillment of two objectives simultaneously. It ensures optimization of profitability through matching of prices while ensuring sound liquidity position matching of maturity durations. The matching of Prices basically targets to maintain income generation by proper deploying of liabilities at a rate greater than the costs. Similarly, for ensuring liquidity the assets/liabilities are grouped on the basis of their respective maturing profiles. Any difference in this regard which is termed as "GAP" is then evaluated by the identification of future

requirements of finance. This step is very significant as the impact of liquidity risk of financial intermediation is minimized during the whole process. However, ensuring profitability by prices matching and ensuring liquidity by maturity profiles matching is not a simple task. At macro-level, ALM helps in the formulation of a vital business policy framework that is responsible for efficient allocation of funds and offering of banking products with most suitable pricing decision.

## **1.2 Statement of Problem**

Nigeria's experience with the financial reform process shows a widening growth in the non-performing assets which has been a hindrance to the development of financial sector thus negatively contributing towards the growth of the Nigerian economy. The deposit money banks management responsibility of closely monitoring the assets quality has proven to be quite tasking owing to theoretical foundations on the impact that assets quality has on the financial performance of deposit money banks. Thus, there is no doubt that these two variables are interrelated and hence the need to establish the nature and significance of relationship.

Factors such as Stiff competition, bad credit appraisal leading to high incidence of non-performing loans, mismatch of assets and liabilities, slow growth of financial inclusion, unstable financial markets, frequent changes in interest rates among others have made ALM challenging to

Banks Folajimi and Asaolu (2014) as cited in Eghodaghe explains that a financial institution in distress is usually one where the evaluation depicts poor condition in all or most of the five performance failures stated thus (a) gross undercapitalization in relation to level of operation. (b) high level of classified loans and advances (c) illiquidity reflected in the inability to meet customer's cash withdrawals. (d) low earnings resulting from huge operational losses and (e) weak management as reflected by poor credit quality, inadequate internal controls, high rate of frauds and forgeries, and labour turnover.

It is no more surprising that Banks today compete to give loans out to their customers because it constitutes the major source of income to Banks without taking into consideration the source in terms of maturity.

Given the challenges mentioned above and based on previous literatures, this study takes a further step to explicitly examine how Asset and Liability Management affects the financial performance of Deposit Money Banks in Nigeria.

### **1.3 Objectives of the Study**

The general objective of this study is to evaluate the effects of Assets and Liabilities Management of Nigerian Banks. The specific objectives of the study include the following:

- i. Examine the effect of customer's loans and advances on the financial performance of DMBs in Nigeria
- ii. Evaluate the effect of deposits from customers on the financial performance of DMBs in Nigeria.
- iii. Analyse the effect of shareholders' funds on the financial performance of DMBs in Nigeria

#### **1.4 Research Questions**

The following research questions will guide this study:

- i. What are the effect of customer's loans and advances on the financial performance of DMBs in Nigeria?
- ii. Does deposits from customers affect the financial performance of DMBs in Nigeria?
- iii. What are the effects of shareholders' funds on the financial performance of DMBs in Nigeria?

#### **1.5 Research Hypotheses**

The following research hypotheses stated in null form will guide this study:

**Hypothesis One**

**Ho:** Customers' loans and advances has no significant effect on the financial performance of DMBs in Nigeria

**Hypothesis Two**

**Ho:** Deposits from customers has no significant effect on the financial performance of DMBs in Nigeria

**Hypothesis Three**

**Ho:** Shareholders' funds has no significant effect on the financial performance of DMBs in Nigeria

**1.6 Significance of the Study**

This study is significant in many ways:

- i. The study is important to the government in determination and establishment of a stronger regulatory and legal framework for the Banking industry in Nigeria. The study is useful to the government in policymaking regarding the commercial banks assets quality management which will result to further protecting the depositors' funds while enhancing deposit money banks financial performance and stability.
- ii. The study is also significant to the management of deposit money banks in Nigeria. The findings of the study will enable the

bank managers formulate strategies to enhance better management of their loans / assets portfolio in line with their growth strategies thereby maintaining high quality of their assets and realize their firm's maximization of wealth goals.

- iii. The study will contribute to the body of knowledge in the area of deposit money banks assets quality management. It will reconcile theory to reality while its findings will be used for further studies in the field in future. This will benefit the scholars and researchers in the field of credit and finance.

### **1.7 Scope of the Study**

This study is limited to examining assets and liability management of Nigerian deposit money banks, using Guaranty Trust Bank Plc and their activities for the period (2017-2021)

### **1.8 Limitations of the Study**

The limitation of this study is related to the acquisition of information from the bank under study. The oath of secrecy sworn annually makes staff adamant to release operational information to non staff members. This study is also limited in scope.

### **1.9 Definition of Terms**

#### **Assets and Liabilities Management (ALM)**

ALM is the practice of managing financial risks that arise due to mismatches between the assets and liabilities as part of an investment strategy in financial accounting.

**Bank Performance:** The Progress made by a bank in the utilization of its resources to achieve its objectives.

**Profitability:** Is the measure of the level of income which a bank earns from its operations, residue earnings, after charging interest paid out, total expense, taxes etc.

**Financial Statements:** These are documents that portray recorded accounting information in monetary terms e.g. statement of financial position, statement of changes in equity, cash flow statement, statement of comprehensive income.

**ROA:** The return on assets (ROA) shows the percentage of how profitable a company's assets are in generating revenue.

**ROE:** a measure of the profitability of a business in relation to equity.

## CHAPTER TWO

## **REVIEW OF RELATED LITERATURE**

### **2.1. Conceptual Review**

#### **2.1.1 Assets and Liabilities Management (ALM)**

ALM is the practice of managing financial risks that arise due to mismatches between the assets and liabilities as part of an investment strategy in financial accounting. It includes the allocation and management of assets, equity, interest rate and credit risk management. Often an ALM approach passively matches assets against liabilities (fully hedged) and leaves surpluses to be fully managed. Njogo et al, (2014) defines ALM as the process by which an institution manages its balance sheet in order to accommodate for any alternative such as; interest rate risk and liquidity risk. It is used to determine and control risk faced by a bank. In managing risks, asset and liability management is used to access and minimize some of these risks by taking appropriate decisions.

Makau and Memba (2014) defines Asset-liability management basically as the process by which an institution manages its balance sheet in order to allow for alternative liquidity, interest rate and credit risk scenarios. They further explained that asset liability management functions extend to funding, capital planning, profit planning and growth projection.

In the 2014 report of John Bricks & Associates, Harold explained Asset-liability management (ALM) as a forward-looking process involving the joint and simultaneous management of assets and liabilities to measure, monitor, and control the effects of changing interest rates on income, asset values, liquidity, and regulatory capital.

Lina & Indre (2013) summarizes, ALM to simply combine several bank portfolios - asset, liabilities, and the difference between the banks received and interest paid - management processes into a single coordinated process. In other words, the ALM is coordinated and not broken the total bank's balance sheet management. ALM as a planning tool has evolved from the need to ensure the asset and liability time overlap for different time periods.

### **2.1.2 Financial Asset**

Financial asset is a non-physical asset whose value is derived from a contractual claim, such as bank deposit, bonds and stocks. Charumathi (2008) defined financial asset as a dynamic process of planning, organizing, coordinating, and controlling the asset and liabilities: their mixes, volume, maturities, yield and costs in order to achieve a specified net interest income.

In other words, it deals with the optimal investment of asset in view of meeting current goals and future liabilities. It is related the management of the risk associated with liquidity mismatch, interest rates and foreign exchange movement. Financial assets are concerned with an attempt to match assets and liabilities in terms of maturity and interest rate sensitivity to minimize interest rate and liquidity risks (Zawalinska, 1999).

Financial assets are usually more liquid than other tangible assets, such as commodities or real estate, and may be traded on financial markets. Financial assets is contract that do not contain contingency, that is irrespective of any conditions, generate financial claims having demonstrable value over which ownership right are enforced, individually or collectively, and from which economic benefits can be derived by using or holding them. Examples of financial assets are monetary gold, currency deposits, and securities other than shares, borrowings, loans, shares, and other equity, other accounts receivable /payable, financial derivatives. Assets earn revenue for the banks and include cash, securities, loan and property and equipment that allow it to operate.

### **2.1.3 Cash Equivalents**

These refer to the line item on the statement of financial position that reports the value of a company's assets that are cash or can be converted into cash immediately. It includes banks accounts, marketable securities, commercial paper, treasury bills and short term government bonds with a maturity date of three months or less. Marketable securities and money market holdings are considered cash equivalents because they are liquid and not subject to material fluctuations in value. One of the major services of a bank is to supply cash on demand, whether it is a deposit or withdrawing money or writing a cheque or a bank customer withdrawing on a credit line. Balance of payment manual (1993), a bank needs cash to pay bills, but while bills are predictable in both amount and timing, cash withdrawals by customers are not, hence, a bank must maintain a certain level of cash compared to its liabilities to maintain solvency (Takou & Ogakwu (2019)).

Cash is money in form of currency. This includes all bills, coins and currency notes. A demand deposit is a type of account from which funds may be withdrawn at any time without having to notify the institution. Examples of demand deposits accounts include checking accounts and saving accounts. All currency balances as of the date of financial statements of deposit account are included in cash totals.

Another source of cash is cash in the process of collection. When a bank receive a cheque, it must present the cheque to the bank on which it is drawn for payment, previously, this used to take several days but nowadays, cheque are been processed electronically and many transfers of funds are being conducted electronically instead of using cheque. So this category of cash is diminishing significantly and will probably disappear when all financial transactions finally become electronic (Hutchison, Farris & Anders, 2007).

#### **2.1.4 Financial Performance**

Financial results can be quantified through different measurement methods, such as return on asset, return on investment, return on equity, earnings per share, net profit margin. Kwan (2003) mentioned that the financial position report is a common indicator of the financial condition of an organization over a period of time and is used for comparison in a similar industry. In fact, there are different ways to measure financial results. Efficiency can be measured using a variety of methods, such as billing technology, which includes return on capital, return on investment and return on investment.

#### **2.15 Return on equity (ROE)**

ROE is a significant indicator for financial results which reveals how best a firm put the resources to maximize profits. ROE is a ratio of the profitability of an enterprise in relation to the book value of equity,

also known as net assets or assets less liabilities. The quota is computed as: Distribution of net income over equity (net income / equity). A low ratio may mean that the principal objective of the management (owner's rich maximization) is not established. A high ratio means that the management goals are set.

ROE is used in particular to compare performance between companies in a similar industry. ROE measures management ability and intensity to generate income from the available equity within its framework. In each case the profitability (capital income) is the division of the numerator and the denominator as contain the formula: Dividing by sales generates profit margins, dividing by shareholders equity produces ROE.

## **2.16 Return on Assets**

Return on assets (ROA) is a financial ratio that earns the percentage of the company's earnings in relation to total assets. It is generally defined as net income divided by total assets. The net result is derived from the company's income statement and is the result after tax. Assets are read from the balance sheet and comprise liquid assets, inventory, land, capital utilization depreciated and the value of intellectual property, such as patents. Businesses acquired may also have a category called "goodwill" which pays extraordinary money to the company over its own book value at the acquisition date. Because

assets will tend to fluctuate over time, average assets must be used for the period to be measured. Thus, ROA for the quarter should be based on quarterly earnings divided by average assets in the quarter. ROA is a ratio, but usually presented as a percentage (Bernstein et al., 2000).

The more capital intensive a company is, the harder it will be pressure to achieve a high ROA. For example, a large equipment manufacturer will require very significant assets simply to do what it does; the same applies to a power station or a pipeline. A fashion designer, advertising agency, software company or publisher can only require minimal capital equipment and will thus produce a high ROA (Albrecht, et al., 2005).

The difference between a highly capitalized company and a company that mainly rely on intellectual property or creative assets is that, in case of failure, the capital-intensive company still wants assets that can be converted into real money while a concept-based company will fail, When its art is no longer started, it will leave a few computers and furniture behind it. (Baker, 2005).

### **2.1.7 Customer Deposits and Financial Performance**

Banks fund their assets through a combination of their liabilities and equity. A bank's liabilities represent that bank's debt traditionally consist of deposits of money from people who entrust the bank to hold

onto their money and return it when asked to do so. On the other side of the balance sheet are a bank's assets that, for the most part, consist of loans to its customers, from which the bank derives income in the form of interest charged to the borrowers. (Makau and Memba, 2014). The major source of income to Banks is the interest charged on loans they grant to their customers (deficit unit) which is also majorly sourced from the deposits of customers (surplus unit), this means that deposits is a major determinant of the financial performance of DMBs Deposits play a major role in the funding of Banks activities as a predominant portion of their assets are financed through deposits.

For a bank to be profitable, it must raise enough deposits at a reasonable rate in order to lend to its customers. This implies that a bank that is able to generate more deposits cheaply will be able to supply more loans competitively and hence make more profits if all other factors are held constant. (Dancan, 2012)

### **2.1.8 Loans and Financial Performance**

Granting of loans is a broad spectrum of activities encompassing mobilization of surplus funds from owners and lending same to borrowers on agreed terms and at a profit. The principal economic function of banks is making loans available to fund consumption and investment spending by businesses, individuals and units of

governments. They mobilize funds of surplus economic units and then convert such funds as credit facilities to the deficit units.

Loans represent one of the highest yielding assets on banks' balance sheet. It is obvious that the more banks offer loans the more it does generate revenue and more profit. However, banks have to be cautious in offering more loans because as they offer more loans to customers, they expose themselves to liquidity and default risks which impacts negatively on banks' profits and survival. The risk of a trading partner not fulfilling his or her obligation as per the contract on due date or anytime thereafter can greatly jeopardize the smooth functioning of bank's business.

It is not surprising that most failures in banks are as a result of high Non-performing Loans (NPLs). The use of the 6C's of lending is one of the techniques banks use in order to reduce the volume of Non-performing loans and that desired returns are generated from the loans granted to their customer. The 6Cs include; Capacity, Collateral, Condition, Capital, Character and Cash flow.

### **2.1.9 Shareholders' Funds and Financial Performance**

Shareholders' fund is regarded as the net assets of a company which is made up of the called-up share capital and reserves which are invested in the company but do not include loan capital.

Capital represents the owner's interest in the business. A bank capital represents a cushion against the unforeseen and forms the safety net of cushion that allows it to remain solvent and continue operation despite unexpected macroeconomic or institutional disturbances. Too low a level of capital as a percentage of total assets can subject a bank to a disproportionate risk of failure in the face of adverse situation. On the other hand, too high a capital base will reduce gearing, thus, requiring the bank to push up earnings in order to generate a fair return to investors/ shareholders. There is need, therefore, to ascertain a prudential balance between the need for safety and returns in order to maximize shareholders wealth and safety of depositors' funds.

Central Bank of Nigeria (CBN) regulates the shareholders' funds of Bank in form of capital adequacy ratio (CAR) and the minimum capital base for each categories of Banks. A regional Bank is required to maintain a minimum capital base of #15b and a capital adequacy ratio of 10%, a national Bank is required to maintain a capital base of #25b and a CAR of 10% while an international Bank is #100b with a CAR of 15%. The essence of these requirements is to ensure the safety of Bank's clients, avoidance of Banks going into liquidation, thereby ensuring the efficiency and stability of the nation's financial system.

Shareholders fund is essential to the financial performance of Banks because it shows the extent to which Banks can carry out their operations and it also provides a buffer for absorbing occasional operating losses. Also, these funds can be used to acquire various fixed assets of the banks including building, technology and equipment, fixtures and fittings, etc. These fixed assets can be used to carry out smooth activities of the Banks

### **2.1.10 Relationship between Loans, Deposits and Shareholders'**

#### **Funds**

A bank's balances usually comprise of its assets, liabilities and its capital (also known as owners' equity or shareholders' funds). An asset is anything that can be sold for value and a major example is loan. Liabilities on the other hand represents an obligation that must eventually be paid out, and hence, it is a claim on assets, e.g. Deposits while capital or shareholders' funds is the net worth, that is, what is left when all assets have been sold and all liabilities have been paid. The relationship between assets, liabilities and shareholder's fund of a bank is shown by the following equation:

### **2.1.12 Bank Assets = Bank Liabilities + Bank capital**

This can be rewritten as follows (for the purpose of this work):

#### **Loans = Deposits + Shareholders funds**

The above equation implies that the assets of a bank is funded majorly with the money deposited by customers and the fund of its owners. Money lent to customers are majorly sourced from deposits which means that the amount of loan id=s dependent on the deposits received from customers. This is evident from the Loan-to-Deposit ratio (LDR) which is used to assess a Bank's liquidity by comparing a bank's total loans to its deposits for the same period.

The difference between the interest income on loans granted and the interest expense on deposit liabilities constitutes capital in a bank's balance sheet. The shareholders' funds are made up of called-up share capital and retained earnings or reserves (from net profit). This implies that the net worth of a Bank is dependent on how well it is able to manage its loans and deposits, holding all others constant.

### **2.1.13 ALM of Banks and the Nigerian Economy**

Banks, in the management of their assets and liabilities can either impact the economy positively or negatively. This implies that a good and proper management of Banks' assets and liabilities can impact the economy positively while the reverse is the case if done otherwise.

Improper Assets and liabilities management does not just hurt Banks but the whole economy. Borrowers will struggle to get funding because banks become risk averse and conscious of their poor asset quality. Therefore, a sound financial system is critical to economic growth for any country, and a healthy banking system is a key component of this. Report shows that the Nigerian banking industry lost over #2trillion to bad loan in the half of 2016. This might be due to the decline in economic activities during the year as a result of fall in oil prices and depreciation of naira among all others. The deposit money banks failed to properly manage the composition of their assets and liabilities during this period and the major problems were; (a) Bad Loan problems; (b) Capital Adequacy (c) Corporate governance, etc.

The period was characterized by non-performing loans (NPLs), and also, Banks failed to put aside enough money to guard against the financial and operational risks they faced, despite the volatilities of the Nigerian economy and sector's close relationship with the oil and gas industry.

## **2.2 Theoretical Framework**

### **Financial Hierarchy Theory**

The financial hierarchy theory established by Donaldson (1961) was rationalized by Myers and Majluf (1984) in respect of financial approach to theory. Regarding this theory, scholars are interested in

the relationship between liquid assets and the value of the firm. Also, how these liquid assets optimize capital structure of the firm in the long run (Kytonen, 2002). Financial theory reflects the liquidity management problem on the basis of optimizing the capital structure of a firm. Kytonen suggested that cash management can be linked to financial theory by considering its relevance in an imperfect / under developed market. In other words, adding cash balances to such financial theoretic models as capital asset pricing model (CAPM) or Modigliani-Miller (M&M) model links cash management to the financial theory. The effects of the inclusion of cash balances in these theoretical models show the significance of liquid assets for the value of the firm.

The financial hierarchy theory is also called the Pecking Order Theory of Liquidity (behavioral theory of corporates), otherwise, Pecking Order theory of cash management adopting financial approach to theory. It evolved as a result of imperfections (emphasizes is on information asymmetry problem) in the capital market. In reality, management of firms does possess insider information which the investors, financial analysts, and general public do not have. The theory was postulated by Myers and Majluf (1984) claiming that managers would in most instances finance capital deficit via the public offer of new securities.

According to the theory, in the event where retained earnings and other internal source of financing will be low to invest, then, manager will issue debt and only issue new equity as a last recourse. To achieve manufacturing firms' profit optimization objective, optimal / adequate cash and cash equivalents (financial slack) must be maintained to prevent transaction and other costs inherent in sourcing financing from outside. The theory insinuates the non-existence of an optimal level of cash holdings given that an optimal level of debt does not exist.

### **Agency Theory**

The agency problem was developed by Coase (1960), Jensen and Meckling (1976) and Fama and Jensen (1983). The theory states the relationship between principals such as a shareholders, and agents such as a firm's senior management. The principal delegates work to an agent. The theory attempts to deal with firstly, the agency problem where there is a conflict of interest between a company's management and the company's stockholders, and secondly, that the principal and agent settle for different risk tolerances. There are two main agency relationships in a firm that are normally in conflict; those between the company's management and stockholders and between the stockholders and the debt holders. These agency conflicts have implications on corporate governance and business ethics. Such relationships have expensive agency costs that are incurred so as to

sustain an effective agency relationship. Incentive fees paid to agents to encourage behavior consistent with the principal's goals are common examples of agency costs Bowie and Edward (1992).

### **Market Power Theory**

Market power theory emanated from Bain (1951). This theory stresses that an increase in market power results to a monopoly, profits (Athanasoglou, Brissimis & Delis, 2005). The theory is based on the premise that concentration of the market is a best measure for market power since more concentrated markets exhibit superior market imperfections facilitating various entities to set prices for their products and services at levels which is less favourable to their clients or customers (Punt and Rooij, 2001). The theory also affirms that companies with a large market share and sound differentiated products and services can easily earn monopolistic profits and succeed or win against their competitors (Nkegbe & Yazidu, 2015). The market power theory assumes that extra profits results from a higher market concentration which allows commercial banks to collude and earn supernormal profits which arise due to the firms portfolio of differentiated products that also increases the market share and market power in determining prices for products (Mirzaei, 2012).

### **2.3 Empirical Review**

Chattha, Alhabshi and Meera (2020) used duration gap analysis to analyze ALM practices in Islamic Commercial Banks (ICBs) and Conventional Commercial Banks (CCBs). The findings report that ICBs have 2.41 times more variation than CCBs and are exposed to liquidity risk.

[Maghyereh and Yamani \(2022\)](#) in their study found out that the foreign currency position is the ratio of claims (assets) to liabilities (on-balance sheet and off-balance sheet) by bonds (on-balance sheet and off-balance sheet) in each currency and each bank metal. In the case of inequality, the position is considered open, and in the case of equality, it is considered closed. They uses valuation-based assessment methods based on the VaR concept to calculate expected maximum portfolio losses maintaining current market trends in the future.

A comparative study of ALM framework in Nigeria Banking industry was carried out by Isaac and Akinwunmi in 2018. The study examined some best practices in the management of asset-liability and their influence on performance of banks taking into account the unique attributes of the Nigerian economy. The Study predicated on the liability management theory and portfolio theory. Secondary data

source was explored in presenting the facts of the situation. Data were tested using the Ordinary Least Square Linear Regression model from the Central Bank Nigeria Bulletin and financial reports of Banks, information concerning Shareholders' funds, Total Assets (independent variables) and profit after tax (dependent variable) of listed deposit money banks in Nigeria were extracted. The result shows that Shareholders' Funds positively relate to profitability and significant and that the Total Asset also positively relate to profitability. The study shows that there is a significant relationship between bank performance (in terms of profitability) and Asset-Liability Management. The study concluded that an efficient Asset-Liability Management has significant influence on profitability and then recommended among others, that Banks need to put in place surplus optimization of bank resources, which explains the need to maximize assets available to meet increasingly complex liabilities

Folajimi, Asaolu and Enyi (2018) examined the role of assets and liabilities management as a distress resolution in Nigerian banking sector. The study revealed that there is poor management of assets and liabilities, poor investment policies in the industry, the banks grow assets more than liabilities, the banks resulted into using depositors' money to acquire assets and they failed to comply with Central Bank of Nigeria monetary policies. The study therefore recommended

among others that the industry and the regulators and supervisory agents should institute a good and sound investment policy for effective management of assets and liabilities in the industry.

Anchori (2018) in his dissertation examined the impact of ALM on non-interest income structure of DMBs in Nigeria for the period of year 2011 to 2015. Findings showed that banks' asset liability management have impact on the extent to which noninterest income is a significant component of banks' aggregate performance. Evaluations of non-interest income show that foreign exchange fees form the highest source of non-interest income followed by fees relating to lending. Also, reduction in Commission on Turnover by Central Bank of Nigeria from 5 per mille to 1 per mille (now replaced with account maintenance) presently did not reduce non-interest income. He concluded that bank's size do not have positive relationship with non-interest income. An important implication of his findings is that large Deposit Money banks large banks may be overlooking opportunity to generate non-interest income. Hence, large DMBs should not under-utilize their assets so as to generate more non-interest income.

Onyeka, Nnado & Iroegbu, (2018) studies examined the relationship between cash (including liquid substitutes) and profitability of listed firms in the manufacturing sector of the Nigerian Stock Exchange.

Expost-facto research approach via quantitative panel methodology was employed to evaluate the effect of the cash and cash equivalents on the dependent variable. Data were collated from the audited annual reports of thirty-six (36) manufacturing firms listed on the Nigerian Stock Exchange for the fifteen year period: 2003-2017. Diagnostic tests were carried out on the collated data using Levin-Lin-Chu panel unit root test which confirmed their stationarity and Westerlund Panel Cointegration Tests that depicted the variables were not cointegrated in the long run. Further, Hausman test confirmed the consistency and suitability of the Fixed Effects (FE) multiple regression model. Hypothetical statements tested portrayed the existence of a significant positive influence of cash and cash equivalents on return on assets of the sampled firms. These results imply that optimizing firms' profits necessitate striking the best liquidity profitability trade-offs, otherwise firms keeping insufficient liquid assets may be forced to borrow from external sources at exorbitant costs or become illiquid. The study concurred that Nigerian manufacturing firms' profitability is significantly influenced by the adequacy of cash holdings.

Mihail (2009) did a study on how asset liabilities management affects profitability of banks. The main goal of this paper was to analyze the asset-liability management in bank for the 2004-2011 periods, using a

panel of over 30 banks across Europe. The analysis was carried using the canonical correlations where she tested for a linear dependency between two variables, that is, (the structure of assets and liabilities). The study concluded that in order to be effective in banks, the management of assets and liabilities must take into consideration the risk level, liquidity, profit, solvency, the level of loans and deposits.

Gamayuni (2015) tests empirically the relationship between intangible assets, financial policies, and financial performance on the firm value at going-public company in Indonesia. Path analysis was used to ascertain the relationship between intangible assets, financial policies, financial performance, and firm value at going-public company in Indonesia in the year 2007 to 2009. This study also provides empirical evidence that Intangible assets, financial policies, financial performance have significant influence to the firm value simultaneously. Intangible assets have no significant influence to financial policies, but has positive and significant influenced to financial performance (ROA) and firm value. Debt policies and financial performance (ROA) influenced firm value positive and significant. Financial statements limitation in measuring and disclosing intangible assets is the cause of significant difference between book value equity and market value equity. Measurement and disclosure of intangible

assets (intellectual capital) precisely and accurately is very important, because intangible assets have a positive and significant effect on the firm value.

Adegbe and Dada (2018) examined risk asset management, liquidity management and sustainable performance in Deposit Money Banks in Nigeria. They adopted both the ex-post factor and survey research methods. Primary data were used to obtain opinions of respondents while secondary data were used to analyze the actions taken by the managers. The findings showed that there are strong relationships between risk asset management, liquidity management and sustainable performance in Nigeria Deposit Money Banks. Their findings further revealed that non-performing loans have significant negative impact on the assets of Deposit Money Banks in Nigeria; low cash deposit has a significant negative impact on the capital of Deposit Money Banks in Nigeria; noncompliance with CBN's stipulated cash balance requirement has a significant negative impact on the profitability of Nigeria Deposit Money Banks and inadequate liquidity management has a significant negative impact on the dividend payment of Nigeria Deposit Money Banks. The study concluded that effective risk asset management and liquidity management remain the nuclear of the banking industry to maintain sustainable performance. The study recommended that the regulatory authority should enforce

compliance with monetary policies; that banks should institute effective and quality risk asset and liquidity management in order to maintain financial stability and sustainability

Abata (2014) examined financial assets and performance in Nigeria using secondary data obtained from the annual reports and accounts of the six largest banks listed on the Nigeria stock exchange based on the market capitalization with a simple interval of fifteen years period from 1999 to 2013. the study adopted the use of ratio as a measure of bank performance and asset quality since it is a verifiable means for gauging the level of activities while the data were analyzed using the Pearson correlation and regression tool of the SPSS 17.0. The findings reveal that asset quality had a statistically relationship and influence on bank performance. Based on the findings the study recommends policies that would encourage revenue diversification, minimize credit risk, and encourage banks to minimize their liquidity holdings.

A study on the determinant of financial performance of quoted Banks in Nigeria was carried out by Osuka and Osadume in 2015. Some Deposit Money Banks quoted in the Nigeria Stock exchange from year 2001 to 2010 were used as case study. The study used the regression analysis method and established that; asset quality, capital adequacy and employee motivation are key success factors in the financial

performance of Banks. The findings were that, Asset qualities of the reviewed banks showed an appreciable growth and improvement as seen from their annual reports and accounts. That asset quality significantly affected the financial performances of quoted banks as the F-statistics for the selected banks calculated were far greater than their respective tabulated value at 5% level of significance.

Adeolu, (2014) carried out a study on asset quality and bank performance on commercial banks in Nigeria and with the use of the Pearson correlation and regression tool of the SPSS for data analysis and concluded that that asset quality had a statistically strong positive relationship and influence on bank performance.

#### **2.4 Summary of Gap in Literature**

Several studies have been conducted on how ALM affects financial performance of Banks, but few have been conducted in Nigeria. Among the studies carried out on ALM and performances of banks, few authors have used the combination of loans, deposits and shareholders' funds to measure ALM, which the study also explains. Furthermore, this study uses customers' loan and advances, deposit from customers and shareholders fund as variables ALM of Nigerians banks. This study also extends the number of years to cover the

periods from 2017 to 2021 to show a more recent analysis of the effect of ALM on Deposit money Banks

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Design**

The research design for this study is *quantitative and ex post research design*. The choice of quantitative research design is motivated by the fact that the study seeks to find out empirically, the effect of assets/liability management of Nigerian banks.

#### **3.2 Population of the Study**

The population of this study comprises all the banks in Nigeria listed in the Nigeria capital market.

#### **3.3 Sampling/Sample Size**

The sampling size for this study was determined using a purposive sampling technique. For the purpose of this study loan and advances, customer deposit, shareholder's fund vis-à-vis return on assets is chosen as the sample size for this study for the period of (2011 - 2021).

#### **3.4 Method of Data Collection**

The data for this study was obtained mainly from secondary sources particularly from Central Bank of Nigeria (CBN) statistical Bulletins, Nigerian Stock Exchange (NSE) fact books, Security and Exchange Commission (SEC) market Bulletins and relevant journals.

### 3.5 Method of Data Analysis

The procedure for analyzing the data was econometric procedure. Here the technique used was the multiple regression analysis to test the effect of assets/liability management of Nigerian banks.

### 3.6 Model Specification

For the analysis of this study, the multivariate analysis with ordinary least square (OLS) regression will be used. The regression will be run using e – view software. There is a need for the researcher to ensure that all assumptions of multiple regression are obeyed. The data analysis techniques to be employed are the descriptive statistics and regression analysis using time series data.

$$ROA = f(LOA, CUSD, SHF) \dots \dots \dots 3.1$$

The econometric form of the model is written as:

$$ROA = \beta_0 + \beta_1 LOA + \beta_2 CUSD + \beta_3 SHF \dots \dots \dots 3.2$$

Where:

ROA = Return on Assets proxy for financial performance

LOA = loan and Advances

CUSD = Customer Deposit

SHF = Shareholder Fund

## CHAPTER FOUR

### DATA PRESENTATION, INTERPRETATION OF REGRESSION

#### RESULT AND HYPOTHESIS TESTING

##### 4.1 Data Presentation

Year	LOANS & ADVANCES	SHAREHOLDER FUND	CUSTOMER'S DEPOSIT	ROA
2012	779,050,018	1,734,877,860	1,054,122,573	0.526
2013	1,002,370,638	2,102,846,415	1,261,927,035	0.045
2014	1,275,681,135	2,355,876,526	1,439,522,070	0.044
2015	1,299,151,371	2,544,793,438	1,704,669,096	0.021
2016	1,417,217,952	2,613,340,074	1,681,184,820	0.005
2017	1,265,971,688	2,824,928,985	1,697,560,947	0.056
2018	1,067,999,019	2,712,521,494	1,865,816,172	0.061
2019	1,300,820,647	3,097,248,495	2,086,810,070	0.057
2020	1,410,577,734	4,061,543,605	2,881,686,058	0.049
2021	1,590,435,678	4,785,834,809	2,910,453,890	0.054

Source: Guaranty Trust Bank Annual Report 2012-2021

## 4.2 Interpretation of Regression Result

The OLS result is stated in the table below:

<b>Variable</b>	<b>Coefficient</b>	<b>Std. error</b>	<b>t-statistics</b>	<b>Prob. Value</b>
C	28481.44	2188.545	13.01387	0.0000
LOA	5.73E-07	4.22E-07	5.358045	0.0002
CUSD	0.651934	1.754426	0.371594	0.0001
SHF	2.085669	1.036363	2.012488	0.0003
R-squared	0.931649			
Adjusted R-squared	0.918833			
DW Stat	1.7			
F-statistic	72.69517			
Prob(F-statistic)	0.0000			

### **Constant**

The constant of the equation is positive and statistically significant. The constant is 28481.44. This implies that if the independent variables are held constant the dependent variables will become 28481.44

### **Customer Deposit (CUSD)**

The coefficient of Customer Deposit (CUSD) is positive and statistically significant. The value of the coefficient is 0.001. This implies that there is a positive relationship between Customer

Deposit (CUSD) and Return on assets (ROA) proxy for financial performance. A unit increase in Customer Deposit (CUSD) will lead to 0.001 increases in Return on assets (ROA) proxy for financial performance.

### **Loan and Advances**

The coefficient of Loan and Advances (LOA) is positive and statistically significant. The value of the coefficient is 5.73. This implies that there is a positive relationship between Loan and Advances (LOA) and Return on assets (ROA) proxy for financial performance. A unit increase in Loan and Advances (LOA) will lead to 5.73 increases in Return on assets (ROA) proxy for financial performance.

### **Shareholder Fund (SHF)**

The coefficient of Shareholder Fund (SHF) is positive and statistically significant. The value of the coefficient is 2.085. This implies that there is a positive relationship between Shareholder Fund (SHF) and Return on assets (ROA) proxy for financial performance. A unit increase in Shareholder Fund (SHF) will lead to 2.085 increases in Return on assets (ROA) proxy for financial performance.

### **Coefficient of Determination ( $R^2$ )**

The  $R^2$  value is 0.931649 and  $R^2$  (adjusted for loss in degree of freedom) is 0.918833. The value of  $R^2$  shows that the model explains variations in Return on assets (ROA) to the tune of 93%. Durbin Watson statistics value of 1.7 shows the absence of autocorrelation.

### **F-Statistics**

The F-statistics which is used to determine the overall significance of the entire regression model yielded an F-value of 72.69517. This implies that the entire regression model is statistically significantly.

## **4.3 Test of Hypotheses**

### **Hypothesis I**

**Ho:** Customers' loans and advances has no significant effect on the financial performance of DMBs in Nigeria

The hypotheses above were tested by considering the f- tabulated and f- calculated values.

**Decision Rule:** Reject the null hypothesis if the f-calculated is greater than the f -critical (table value) at 5% level of significance.

**Decision:** A comparative analysis of both the F-calculated value of F- Statistics in model one shows that the F-Statistic =

10.011211 and  $f$ - tabulated of 0.5300 shows that the  $f$ -calculated is higher than the  $f$ -tabulated. The study therefore reject the null hypothesis and conclude otherwise that Customers' loans and advances has significant effect on the financial performance of DMBs in Nigeria

### **Hypothesis Two**

**Ho:** Deposits from customers has no significant effect on the financial performance of DMBs in Nigeria

**Decision Rule:** Reject the null hypothesis if the  $f$ -calculated is greater than the  $f$  -critical (table value) at 5% level of significance.

**Decision:** A comparative analysis of both the  $F$ -calculated value of  $F$ - Statistics in model one shows that the  $F$ -Statistic = 72.69 and  $f$ - tabulated of 0.5300 shows that the  $f$ -calculated is higher than the  $f$ -tabulated. We therefore reject the null hypothesis and conclude otherwise that Deposits from customers has significant effect on the financial performance of DMBs in Nigeria

### **Hypothesis III**

**Ho:** Shareholders' funds has no significant effect on the financial performance of DMBs in Nigeria

**Decision Rule:** Reject the null hypothesis if the f-calculated is greater than the f -critical (table value) at 5% level of significance.

**Decision:** A comparative analysis of both the F-calculated value of F- Statistics in model one shows that the F-Statistic = 89.309 and f- tabulated of 0.5300 shows that the f-calculated is higher than the f-tabulated. We therefore reject the null hypothesis and conclude otherwise that Shareholders' funds has significant effect on the financial performance of DMBs in Nigeria

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary of Findings**

Based on the stated hypotheses and objectives of the study the following are the summary of findings:

- i. Customers' loans and advances have significant effect on the financial performance of DMBs in Nigeria.
- ii. Deposits from customers has significant effect on the financial performance of DMBs in Nigeria
- iii Shareholders' funds has significant effect on the financial performance of DMBs in Nigeria

#### **5.2 Conclusion**

Effective risk management is crucial for banks to ensure their profitability and reliability and maximize shareholder value. In recent decades, the banking business has developed by introducing advanced trading technologies and sophisticated financial products. Although these advances improve the bank intermediation role, increase profitability, and diversify banking risk, they pose significant challenges for banking risk management.

Conclusively, it can be deduced that there is a significant relationship existing between asset quality and DMBs performance in Nigeria. This

agrees with the fact that good assets quality is relevant to the deposit money banks (DMBs) performance. Furthermore, maintaining sound assets quality position is critical to the long term performance, survival and sustainability of DMBs in Nigeria.

### **5.3 Recommendations**

On the basis of the findings of the study the researcher recommends the following:

- i. Deposit money banks should improve their capital bases, reduce operational costs, improve assets quality reduce the rate of nonperforming loans, employing revenue diversification strategies as opposed to focused strategies and keep the right amount of liquid assets.
- ii. For asset quality banks need to improve their processes of screening credit customers and monitoring of credit risk .This is an important indicator because banks have had serious problem with non-performing loans in the past which led to collapse of many banks.
- iii. Banks should focus on improving their capital levels in order to improve their financial performance. This will enable the banks, not only to be cushioned against exogenous shocks, but also to take full advantage of business opportunities as they come and increase their

financial performance in the process. Income diversification can be achieved by increasing interest income, fees and commissions and foreign exchange activities

## References

- Abata, M. A., (2014). Assets Quality and Bank Performance: A Study of Commercial Banks in Nigeria. *Research Journal of Finance and Accounting*, 5 (18), 39 – 44.
- Adegbie, F.F., Dada, O. T. (2018). Risk Assets Management, Liquidity Management and Sustainable Performance in Nigeria Deposit Money Banks. *International Journal of Accounting Research*. DOI: [10.35248/2472-114X.18.6.178](https://doi.org/10.35248/2472-114X.18.6.178).
- Adeolu M.A. (2014). *Asset Quality and Bank Performance: A Study of Commercial Banks in Nigeria*. Lagos State University.
- Albrecht, W. S., Albrecht, C. C., Albrecht, C. O., & Zimbelman, M. F., (2006). *Fraud Examination*. Canada: South Western.
- Anchori, D. (2018). Effects of Assets and Liabilities management on the financial performance of commercial banks in Kenya. MSc Project report, Department of Accounting and Finance, University of Nairobi.
- Athanasoglou, P. P., Brissimis, S. N., & Delis, M. D. (2008). Bank-specific, industry-specific and macroeconomic determinants of bank profitability. *International Financial Markets, Institutions and Money*, 18(2), 121-136.
- Babalola, Y. A. (2012). The determinants of bank's profitability in Nigeria. *Journal of Money, Investment and Banking*, (24),6-16.
- Baker, J. (2005). Impact of aggressive working capital management policy on firm's profitability. *IUP J. Applied Finance*, 15: 19-30.
- Bernstein, M., Beck, T. & Fuchs, M. (2000). *Structural Issues in the Kenyan Financial System: Improving Competition and Access*. W/P 3363. Financial Asset: A Working Capital Approach. *Business Credit*, 107(8).
- Charumathi, B. (2008). Asset Liability Management in Indian Banking Industry - with special reference to Interest Rate Risk Management in ICICI Bank. *Proceeding of the World Congress on Engineering*, II(September).
- Chattha, J. A., Alhabshi, S. M., & Meera, A. K. M. (2020). Risk management with a duration gap approach. *Journal of Islamic Accounting and Business Research*, 11(6), 1257–1300. <https://doi.org/10.1108/JIABR-10-2017-0152>
- Coase, R. H. (1960). The Nature of the Firm. *Economica*, 4(16): 386–405
- Dancan, M.O. (2012). The effects of level of deposits on financial performance of commercial banks in Kenya. MBA project report, University of Nairobi.

- Folajimi, H. & Asaolu, H, (2014). Effects of shareholders funds on the investment and performance of DMBs in Nigeria. *Research journal of finance and accounting*. ISSN 2222-2847(online). Vol. 7, No. 8 2016
- Folajimi, F.A., Asaolu, T.O., Enyi, E.P. 2013. Distress solution in Nigerian Banking sector: The role of assets and liabilities management. *International Journal of Financial Research*. Vol. 4, No. 3; 2013. [www.sciedu.ca/ijfr](http://www.sciedu.ca/ijfr)
- Gamayuni, R. R. (2015). The effect of intangible asset, financial performance and financial policies on the firm value. *International Journal of Scientific & Technology Research*, 4(1):202-212.
- Isaac, V. & Akinwunmi, N. ( 2018) Effect of Assets and Liabilities management on the financial performance of commercial banks in Kenya. MSc Project report, Department of Accounting and Finance, University of Nairobi.
- Jensen M. C., and Meckling, W. (1976). Theory of the Firm: Managerial Behavior, Agency Cost and Ownership Structure. *Journal of Financial Economics*, 3.
- Kwan, S. (2003). Operating Performance of Banks among Asian Economies: An International and Time Series Comparison', *Journal of Banking and Finance*, 27: 471-489.
- Lina, N., Indre, P. (2013). Contemporary issues in business, management and education 2013. Assessment of Banks' assets and liabilities: Problems and Perspectives (Case of Lithuania). Published by Elsevier Ltd. [www.sciencedirect.com](http://www.sciencedirect.com)
- Makau, N.F., Memba, F. (2014). Influence of Assets and Liabilities Management on financial performance of commercial Banks in Kenya. *International Journal of Economics, Commerce and Management*. Vol. II, Issue 10, Oct 2014. ISSN 2348 0386. <http://ijecm.co.uk/>
- Maghyereh, Aktham Issa, and Ehab Yamani. 2022. Does bank income diversification affect systemic risk: New evidence from dual banking systems. *Finance Research Letters* 47: 102814.
- Mihail , I.C. (2009). *Effects of Asset liability management in Banks: An Empirical study of Banks in Europe Faculty of Finance, Cesta NaAmfiteature* 21 June
- Mirzaei, A. (2012).Performance evaluation and ratio analysis of Pharmaceutical Company in Bangladesh” Master’s thesis (Unpublished), University West, Bangladesh
- Myers, S. & Majluf, N. (1984). Corporate Financing and Investment Decisions: When Firms Have Information that Investors Do Not. *Journal of Financial*

- Economics*, pp. 187-221.
- Njogo, B.O., Ohiaeri, N., Omisakin, J.O. (2014). A panel data analysis of Assets and Liabilities management performance of Nigerian commercial Banks. *Researchjournali's Journal of Finance* Vol. 2 | No. 11 November | 2014 ISSN 2348-0963
- Nkegbe, I. & Yazidu, J. (2015). Performance of the South African Banking Sector since 1994. *Journal of Applies Business Research*, 30(4), 23-45.
- Ombaba K.B Mwengei, (2013). *Assessing the Factors Contributing to Non –Performance Loans in Kenyan Banks*, *European Journal of Business and Management* 5 (32), 2013
- Onyeka V.N., Nnado, I.C. & Iroegbu, F. N. (2018). Effect of cash and liquid substitutes on profitability of selected quoted manufacturing firms in Nigeria. *European Journal of Business, Economics and Accountancy*, 6(2): 1-12.
- Osuka, B.O., Osadume, C.R. (2013). Determinants of Financial Performance of Quoted Banks in Nigeria. *International Journal of Education and Research*. Vol. 1 No. 10 October 2013.
- Punt, H. & Rooij, T. ( 2001). The impact of credit risk management in financial performance of Commercial Banks in Nepal. *International Journal of arts and commerce*, 6(1), 23-41.
- Rajaraman, I. & Vasishtha, G. (2002). Non-Performing Loans of PSU Banks, Some Panel Results, *Economic and Political Weekly*, 37(5), 2-8.
- Takon, A. & Ogakwu, K. (2019). *Modelling Bank Asset Quality and Profitability: An Empirical Assessment*. Economics Discussion Papers, No 2015-27, Kiel Institute for the World Economy
- Thiagarajan, S., Ayyappan, S. & Ramachandran, A. (2011). *Credit Risk Determinants of Public and Private Sector Banks in India*, *European Journal of Economics, Finance and Sciences*, Issue 34.
- Zawalinska K. (1999). Asset liability management: The institutional approach to ALM by commercial Banks in Poland, A special focus on risk management, CASE - *Center for Social Science Research*, Warsaw.

APPENDIX

<b>Year</b>	<b>LOANS &amp; ADVANCES</b>	<b>SHAREHOLDER FUND</b>	<b>CUSTOMER'S DEPOSIT</b>	<b>ROA</b>
2012	779,050,018	1,734,877,860	1,054,122,573	0.526
2013	1,002,370,638	2,102,846,415	1,261,927,035	0.045
2014	1,275,681,135	2,355,876,526	1,439,522,070	0.044
2015	1,299,151,371	2,544,793,438	1,704,669,096	0.021
2016	1,417,217,952	2,613,340,074	1,681,184,820	0.005
2017	1,265,971,688	2,824,928,985	1,697,560,947	0.056
2018	1,067,999,019	2,712,521,494	1,865,816,172	0.061
2019	1,300,820,647	3,097,248,495	2,086,810,070	0.057
2020	1,410,577,734	4,061,543,605	2,881,686,058	0.049
2021	1,590,435,678	4,785,834,809	2,910,453,890	0.054

Source: Guaranty Trust Bank Annual Report 2012-2021

**ASSET AND LIABILITY MANAGEMENT OF NIGERIAN BANKS**

**(A STUDY OF GUARANTY TRUST BANK PLC)**

**ABDULLAHI BASHIR**

**MAT NO: SBS/2282060234**

**DEPARTMENT OF BANKING AND FINANCE**

**SCHOOL OF BUSINESS STUDIES,**

**AUCHI POLYTECHNIC AUCHI,**

**EDO STATE**

**NOVEMBER 2022**

**ASSET AND LIABILITY MANAGEMENT OF NIGERIAN BANKS**

**(A STUDY OF GUARANTY TRUST BANK PLC)**

**ABDULLAHI BASHIR**

**MAT NO: SBS/2282060234**

**PROJECT SUBMITTED TO THE DEPARTMENT OF BANKING  
AND FINANCE  
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD  
OF HIGHER NATIONAL DIPLOMA (HND)  
IN BANKING AND FINANCE  
SCHOOL OF BUSINESS STUDIES,**

**AUCHI POLYTECHNIC AUCHI, EDO STATE**

**CERTIFICATION**

we, the undersigned certify that this research work titled **ASSET AND LIABILITY MANAGEMENT OF NIGERIAN BANKS (A STUDY OF GUARANTY TRUST BANK PLC)** was carried out by **ABDULLAHI BASHIR** with **MAT NO./SBS/228206024** in the department of banking and finance, school of business studies, Auchi Polytechnic, Auchi. We also certify that the work is adequate in scope and content in partial fulfillment of the requirements for the award of Higher National Diploma (HND) in Banking and Finance.

.....

**Dr. Agbadua, O.B**

**(Project Supervisor)**

.....

**Date**

.....

**Mr. Musa Abdulai**

**(Ag. Head of Department)**

.....

**Date**

## **Dedication**

I dedicate this project to God Almighty my creator, my strong pillar, my source of inspiration, wisdom, knowledge and understanding. i also dedicate this project to my wonderful parents and siblings who have helped me both in prayers and in finances.



## **ACKNOWLEDGEMENTS**

First and foremost, praises and thanks to God Almighty for His showers of blessings, love throughout my research work to a successful completion. I would like to express my deep and sincere gratitude to my project supervisor Dr.

Agbadua, O.B. for giving me the opportunity to do this research and providing invaluable guidance throughout this research.

I am extending heartfelt thanks to the Ag. Head of Department Mr. Abdulai Musa and other lecturers for their encouragement and advisory role. I am extremely grateful to my parents Mr and Mrs. Abdullahi Ojielu for their love, prayers, care and sacrifices for educating and preparing me for my future. I am very much thankful to my siblings and my friends for their unending love, understanding, prayers and financial support to complete this research work.

### ***Abstract***

*This study examines assets liability management of Nigerian banks a study of Guaranty Trust Bank Plc. The objectives of the study are to examine the effect of customer's loans and advances, deposits from customers and shareholders' funds on the financial performance of DMBs in Nigeria. Using secondary data sourced from Guaranty Trust Bank Plc annual statement of account, the study employed the ordinary least square regression method to carry out the analysis. The findings reveal that customer's loans and advances, deposits from customers and shareholders' funds have significant effect on the financial performance of DMBs in Nigeria. It is recommended, among others, that Deposit money banks should improve their capital bases, reduce operational costs, improve assets quality reduce the rate of nonperforming loans, employing revenue diversification strategies as opposed to focused strategies and keep the right amount of liquid assets.*



## **TABLE OF CONTENTS**

Title page	i
Certification	ii
Dedication	iii
Acknowledgements	iv
Abstract	v
Table of Contents	vi

### **CHAPTER ONE: *INTRODUCTION***

1.1 Background to the Study	1
1.2 Statement of the Problem	5
1.3 Objectives of the Study	7
1.4 Research Questions	7
1.5 Research Hypothesis	8
1.6 Significance of the Study	8
1.7 Scope of the study	9
1.8 Limitations of the Study	9
1.9 Definition of Terms	10

### **CHAPTER TWO: REVIEW OF RELATED LITERATURE**

2.1 Conceptual Review	11
2.2 Theoretical Framework	23
2.3 Empirical Review	27

2.4 Gap in Literature	34
<b>CHAPTER THREE: RESEARCH METHODOLOGY</b>	
3.1 Research Design	36
3.2 Population and Sample Size	36
3.3 Sample/Sampling Techniques	36
3.4 Sources of Data Collection	36
3.5 Method of Data Presentation	37
3.6 Model Specification	37
<b>CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND HYPOTHESIS TESTING</b>	
4.1 Data Presentation	38
4.2 Data Analysis	39
4.3 Test of Hypotheses	41
<b>CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS</b>	
5.1 Summary of Findings	44
5.2 Conclusion	44
5.3 Recommendations	45
References	47
Appendix	50