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EFFECT OF TOXIC ASSET ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN NIGERIA.

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Abstract: *This study evaluated the effect of toxic asset on financial performance of commercial banks in Nigeria. Other specific objectives include: specifically it assesses the effect of bad and doubtful on return on assets, the effect of Loans and advances on return on assets and studied the effect of doubtful debts on their return on assets. The study employed secondary data. The data was collected from quoted companies in Nigeria, published financial statement of the banks from 2007-2016. The annual report is covers a period of 10 years.The study shows that growing continuation in the amount of bad and doubtful debts in Nigeria money deposit banks are causes by inadequate close monitoring of the borrowers to ensure proper utilization of fund (i.e. on site visit to factory or project site), incessant increase in interest rate (lending rate), lack of adequate knowledge of the loan seeker, failure by commercial banks to give their loan immediate follow-up to avoid diversion and poor credit policy administration The study recommends that Nigerian commercial banks should maintain a higher level of increase in provision for bad and doubtful debt to compensate any default for loan repayment and still maximize profit, banks should have clear corporate credit policy that will incorporate credit objectives and credit control mechanisms and there should be higher provisions for bad and doubtful debts to take care of eventual defaults. . It therefore concludes that that bad and doubtful debt has no significant effect on banks return on asstes. Thus, well-organized and efficient credit management remains a hidden treasure the exact value of which undiscerning boards may be unaware.*

Keywords: *Toxic Assets, Financial Performance, Banks, Nigeria*

1.1 Introduction

The strength or worth of a company is measured by the quality of assets. The quality of assets is also a function of the ability of the assets to support real production and in turn increase the return on investments. To that extent performance is the result of the fulfillment of the tasks assigned. Company performance describes how individuals in the company try to achieve a goal. Company performance illustrates the magnitude of the results in a process that has been achieved compared with the company's goal. Financial performance is a determinant of an organisation's income, profits, and increase in value as evidenced by the appreciation in the entity's worthiness (Tita and Habibuw, 2015). Measures of financial performance fall into investor returns and accounting returns. The basic idea of investor returns is that, the return should be measured from the perspective of shareholders e.g. share price and dividend yield. Accounting returns focus on how firm earnings respond to different managerial policies, which can be measured using different accounting ratios (Alan, 2008).

In other perspective, Iswatia and Anshoria (2017) see performance as the function of the ability of an organisation to gain and manage the resources in several different ways to develop competitive advantage. Thus, financial performance emphasizes on variables related directly to financial report. The

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Capital market plays a critical role in the economy by facilitating mobilization and allocation of capital resources to finance long term productive investments. In this way, it facilitates and promotes the process of economic growth in the country (Berger and Bonaccorsi di Patti, 2016).

However, toxic asset is the financial assets of a company in which the value has fallen significantly and may fall further, especially as the market for them has frozen. This may be due to hidden risks within the assets becoming visible or due to changes in the external market environment, or both. Research has it that many of the firms' problems in the financial crisis were due to such toxic assets, such as securitisations of subprime mortgages, where the original creators of the securities failed to take into account the real rate of mortgage default and the extent to which it would be contagious across securities (Sheikhdon and Kavalae, 2016).It is then obvious that to ascertain how toxic asset could affect financial performance of firms. Hence, this study will examine the effect of toxic asset on financial performance of commercial banks in Nigeria.

1.2 Statement of Problem

Several studies have been conducted on toxic asset in respect to firms' financial performance of different industries. Most of the researches established a positive impact of toxic asset on firm's financial performance in different countries, economic sectors and different periods. For instance, Tahir, M. (2016) in Pakistan on banking sector; Fang, Neo and Tice (2008) in New Orleans on Wall Street Rule or Wall Street Rules; Kartal Demirgüneş (2016) in Turkey on Turkish Retail Industry; Goel, Chadha & Sharma (2015) in India on machinery industry; Khidmat & Rehman(2014) in Pakistan on chemical sector; Ehiedu (2014) in Nigeria on some selected companies; Sheikhdon & Kavale (2016) in Somalia on commercial banks in Mogadishu; Vieira (2010) in Europe on airline companies. Whereas studies of Vintilă and Nenu (2016) in Romania on Listed Companies; Mengesha (2014) in Addis Ababa, Ethiopia on Metal Manufacturing Companies; Durrah, et.al (2016) in Oman on Food Industrial Companies Listed in Amman Bursa; and Ali, S. A (2015) in Jordan on commercial banks established a negative impact of liquidity on firm's financial performance.

However, none of the researches conducted in respect to toxic asset on financial performance taking into account a role played by age of the company was carried out based on the reviewed literature except on individual variable such as, that of Ehiedu (2014) on impact of toxic asset on profitability of some selected companies; Foyeke, Ojeka and Aanu (2015) toxic asset and financial performance; A Study Based on Brewery Sector of Nigeria. These motivated the researcher to conduct a research on the effect of toxic asset on financial performance of commercial banks in Nigeria.

1.3 Objective of the study

The broad objective of this study is on the effect of toxic asset on financial performance of commercial banks in Nigeria. Other specific objectives include:

i. To ascertain the effect of bad and doubtful on return on assets.
ii. To examine the effect of Loans and advances on return on assets
iii. To proffer recommendations with regards to bank doubtful debts on their return on assets.

1.4 Research Questions

This study will be guided by the following research questions

i. What is the effect of effect of bad and doubtful on return on assets?
ii. What is the effect of effect of Loans and advances on return on assets?

1.5 Statement of Hypotheses

The following formulated hypothesis shall be applied in this study

H_{o1}: Bad and doubtful debts have no significant effect on return on assets.

H_{o2}: Loans and advances have no significant effect on return on assets.

REVIEW OF RELATED LITERATURE

2.1 Conceptual Framework

2.1.1 Toxic Asset

Toxic assets are assets that become illiquid when the secondary market for buying and selling them disappears. Toxic assets cannot be sold because they are widely perceived as being a guaranteed way to lose money. The term toxic asset was coined in the financial crisis of 2008 to describe the drying up of the market for mortgage-backed securities, collateralized debt obligations and credit default swaps. These assets became difficult to move, resulting in large collections of these deeply troubled assets sitting on the books of various financial

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institutions. As the decline in value continued, these assets threatened the solvency of the banks and institutions that were unable to unload them (Sheikhdon and Kavalae, 2016).

Toxic assets were originally called troubled assets, as they weighed down the balance sheets of financial institutions. The troubled assets turned toxic when it was clear that financial institutions had no way to sell the vast swath of these troubled assets. The toxic assets destroyed the balance sheets of financial institutions by losing value at a pace that many did not think was possible. This underestimation of the downside risk was a combination of a lack of imagination encouraged by greed and questionable rigor applied against these assets by the ratings firms (Sheikhdon and Kavalae, 2016).

2.1.2 Liquidity

The concept of "liquidity" is use to address financial condition of the bank. Another author defined liquidity as "the ability to settle obligations with immediacy". The management of liquidity is essential for financial and non-financial firms (Drehmann and Nikolaou, 2013). This is a responsibility of the bank to pay the financial obligations; the financial obligations contain long and short-term debts and other financial expenses. Liquidity is a way which is used by the bank or banking sector to transform assets into the shape of cash to made payment in cash (Diamond and Rajan, 2015).

This is a responsibility of all banks to encounter their fiscal duties, banks convert their current assets into the shape of cash to pay the due obligations. The banks having less amount in current assets will face difficulties in ongoing its processes and if the amount of currents assets is too high, this displays that the return on investment for the bank is not in the unspoiled state (Jagongo and Makori 2013; Van, Horne and Wachowicz 2008).

The liquidity ratio is important in mostly organisations like banks because banks typically work through the huge number of funds deposited by savers. Liquidity ratios calculate a bank capacity to see the payment responsibilities by relating the cash with the payment responsibilities. Liquid assets mostly comprise of cash, marketable securities, sovereign debt central bank reserves (Duijm and Wierts, 2016). This is good if the liquid assets of the banks must be marketable securities because marketable securities are easy to The Liquidity risk management is a crucial factor for risk management framework of the banking sector and other financial institutions because it affects the profitability (Majid and Rais 2003). A well-managed liquidity monitoring regulates more or less managing decisions on the basis of one bank liquidity situations to avoid losses.

The International Financial Reporting Standards (2006) define liquidity as the available cash for the near future, after taking into account the financial obligations corresponding to that period. Liargovas and Skandalis, (2008) argues that firm can use liquid assets to finance its activities and investments when external finance are not available. On the other hand, higher liquidity can allow a firm to deal with unexpected contingencies and to cope with its obligations during periods of low earnings.

Almajali et al (2012) found that firm liquidity had significant effect on Financial Performance of insurance companies. The result suggested that the insurance companies should increase the current assets and decrease current liabilities because the positive relationship between the liquidity and financial performance. In contrast to the above reasoning, based on a theoretical model by Jovanovic (2009) suggested that a moderate amount of liquidity may propel entrepreneurial performance, but that an abundance of liquidity may do more harm than good.

2.1.3 Leverage

Leverage refers to the proportion of debt to equity in the capital structure of a firm. The financing or leverage decision is a significant managerial decision because it influences the shareholder's return and risk and the market value of the firm. The ratio of debt-equity has implications for the shareholders' dividends and risk, this affect the cost of capital and the market value of the firm (Pandey, 2007).

Gupta et al (2010) cited some studies showing contradictory results about the relationship between increased uses of debt in capital structure and financial performance. Ghosh, Nag and Sirmans (2010), Berger and Bonaccorsi di Patti (2006) reported a positive relationship between leverage and financial performance, while Gleason et al (2010) showed negative relationship between financial performance and leverage level. Similarly, Zeitun and Tian (2007) found that debt level is negatively related with financial performance.

Several researchers have studied firms' debt use and suggested the determinants of financial leverage by reporting that firm's debt-equity decision is generally based on a trade-off between interest tax shields and the costs of financial stress (Upneja and Dalbor, 2011).According to the trade-off theory of capital

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structure, optimal debt level balances the benefits of debt against the costs of debt (Gu, 2009) hence, use of debt to a certain debt ratio results in higher return on equity, however, the benefit of debt would be lower than the cost after this level of capital structure. In other words, the more a company uses debt, the less income tax the company pays, but the greater its financial risk. Based on the trade-off theory for capital structure, firms can take advantage of debt to make a better return on equity.

2.1.4 Return on Asset

The return on assets ratio, often called the return on total assets, is a profitability ratio that measures the net income produced by total assets during a period by comparing net income to the average total assets (Velnampy, Nimalthasan and Kalaiaras, 2014). In other words, the return on assets ratio or ROA measures how efficiently a company can manage its assets to produce profits during a period.

Enekwe, et al. (2015) defined it as a financial ratio that shows the percentage of profit that a company earns in relation to its overall resources (total assets). Return on Asset is a key profitability ratio which measures the amount of profit made by a company per naira of its assets. It shows the company's ability to generate profits before leverage, rather than using leverage. The ROA ratio often called the return on total asset is a profitability ratio that measures the net income produced by total assets during a period by comparing net income to the average total assets. In other words, the return on assets ratio or ROA measures how efficiently a company can manage its assets to produce profits during a period. It can be calculated as;

$$= \frac{\text{Net Income}}{\text{Total Assets}}$$

Where; Net income = Profit after Interest and Tax.

This ratio shows the relative profitability of the business. A positive ROA ratio is usually indicated as upward profit trend as well. It only makes sense that a higher ratio is more favorable to investors because it shows that the company is more effectively managing its assets to produce greater amounts of net income. The Return on Assets ratio measures how effectively a company can earn a return on its investment in assets. In other words, ROA shows how efficiently a company can convert the money used to purchase assets into net income or profits (Enekwe, et al., 2015). Since all assets are either funded by equity or debt, some investors try to disregard the costs of acquiring the assets in the return calculation by adding back interest expense in the formula. It only makes sense that a higher ratio is more favorable to investors because it shows that the company is more efficiently managing its asset to produce greater amounts of net income. Musa (2009) opined that return on Assets is most useful for comparing companies in the same industry as different industries use assets differently.

2.1.5 Return of equity

Return of equity is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested (Enekwe, et al., 2015). ROE is expressed as a percentage and calculated as;

$$= \frac{\text{Net Income}}{\text{Shareholders Equity}}$$

Where; Net income = Profit after Interest and Tax.

Enekwe, et al., (2015) noted that this ratio shows the earning power on shareholder's book value investment and is frequently used in comparing two or more firms in an industry. Shareholders equity does not include preferred share. It is also known as 'Return on net worth'. The ROE is useful for comparing the profitability of a company to that of the other firms in the same industry. There are several variations on the formula that the investors may use:

- Investors willing to see the return on common equity may modify the formula above by subtracting preferred dividends from net income and subtracting preferred equity from shareholders equity, giving the following;

$$\text{Return on common equity} = \frac{\text{Net Income} - \text{Preferred Dividend}}{\text{Common Equity}}$$

- ROE may also be calculated by dividing net income by average shareholders' equity. Average shareholders' equity is calculated by adding the shareholders equity at the beginning of a period to the shareholders equity at periods and dividing the result by two.
- Investors may also calculate the change in ROE for a period by first using the shareholders equity figure from the beginning of the period as a denominator to determine the beginning ROE. ROE measures the rate of return for ownership interest (shareholders equity) of common stock.

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2.1.7 Financial Performance

Financial performance of an organisation not just plays the function to raise the market value of that particular organisation but also direct development of the financial sector which finally leads to success of market specifically for property business and its function as an engine of financial development.

Several research workers have presented affirmative relationship for financial improvement and economic development and negative connection among economic distress and development. Caprio, (2014) reported that efforts to reorganisation of finance paid off in high competence and development. Financial segment is very important in nature for the financial enlargement as it facilitate funds recruitment. An established and well-organized fiscal sector signifies resourceful distribution of funds establishment of growing financial performance which leads to improve procedures and role of the business. Investment banks as a part of economic system provide as stakeholder in the financial system and effort for growth of the nation in a state. Investment banks offers sponsorship to all investment market places in financial system throughout dealing in shares, savings holdings and commercial banking activities. Investment banks carryout the credit marketplace in the nation throughout short time and medium time advances. The major part such as asset management (AM), institution size (IS) and operating efficiency (OE) will participate significant unction in development of financial performance (Tarawneh, 2006).

Financial performances represent the operation to carry out monetary actions. Generally, financial performance indicates measures to which economic goals being or has been achieved. Economic activities are course of action of measuring the outcome of an organisation's guidelines and action in fiscal shape. It is used to calculate organisation's overall economic fitness over particular time period. The financial performance of the organisations can be calculated by its economic outcome and by its size of earnings. Risk and profitability are two main components which together decide the significance of organisation.

Financial conclusion which enlarges uncertainty will reduce the value of organisation and on the other hand financial conclusions which boost up the profitability will enlarge value of the organisation. Risk and profitability are two essential elements of business organisation.

Almajali et al (2012) argues that there are various measures of financial performance. For instance return on sales reveals how much a company earns in relation to its sales, return on assets explain a firm's ability to make use of its assets and return on equity reveals what return investors take for their investments. Company's performance can be evaluated in three dimensions. The first dimension is company's productivity, or processing inputs into outputs efficiently. The second is profitability dimension, or the level of which company's earnings are bigger than its costs. The third dimension is market premium, or the level at which company's market value is exceeds its book value (Walker, 2011).

Cohen, Chang and Ledford (2017) measured accounting returns using Return on Assets (ROA). They indicated that return on assets (ROA) is widely used by market analysts as a measure of financial performance, as it measures the efficiency of assets in producing income. The most used accounting measures of financial performance is Return on Assets (ROA) (McGuire et al., 1988; Russo and Fouts, 1997; Stanwick and Stanwick, 2000; Clarkson et al., 2008), Return on Equity (ROE) (Bowman and Haire, 1975), and Return on Sales (ROS) (Stanwick and Stanwick, 1998). Thus, the study used return on assets (ROA) as a measure of financial performance.

Furthermore, financial performance is a measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Aburime (2009) observed that the importance of bank profitability can be appraised at the micro and macro levels of the economy.

At the micro level, profit is the essential prerequisite of a competitive banking institution and the cheapest source of funds. It is not merely a result, but also a necessity for successful banking in a period of growing competition on financial markets. Hence the basic aim of every bank management is to maximize profit, as an essential requirement for conducting business. At

the macro level, a sound and profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system. Bank profits provide an important source of equity especially if re-invested into the business. This should lead to safe banks, and as such high profits could promote financial stability (Flamini et al, 2009).

2.1.8 Determinants of Financial Performance

The study will explore size, liquidity, growth, profitability and tax prospects as the major financial performance determinants of non-financial firms listed at NSE.

2.1.8.1 Firm Size

The size of the organisation affects both the profitability and liquidity of firms. Broader market share and likely higher profitability is acquired by larger firms which makes them posses more competitive power in contrast to small firms. Moreover, larger firms have better opportunities to work in the fields that seek high capital requirements as they have huge resources. This scenario provides che chance for them to work in higher profit environments with less competition (Nawaiseh, 2015). Tinier organisations have high liquid assets and are thought more profitable than larger organisations in the short term. Equally, bigger organisations are more profitable especially those with illiquid assets than smaller firms assumed longer durations (Al-Tally, 2014).

Smaller organisations have a higher probability of bankruptcy since they are more diversified as compared to smaller firms. Thus, larger firms take up more debt due to a lower level of bankruptcy costs. Bigger organisations can minimize information asymmetry in the market and acquire financial resources efficiently. They can also access debt easily when good risk profiles are maintained as opposed to small organisations due to stability (Padron et al., 2015).

2.1.8.2 Liquidity

Liquidity indicates the capability of the organisation to encounter recurring financial obligations. Firm liquidity is essential for organisations which enables them avoid default on its financial responsibilities and, successfully, avoid experiencing financial crisis (Dufera, 2010). Firm liquidity is the firm's capability to release maturing short-term debt. Upholding acceptable liquidity is more essential to the corporate goals. Low liquid organisation levels can result in increasing financial costs and affect its capacity to settle its financial obligations (Yahaya & Lamidi, 2015). An organisation can use its liquid assets to fund its activities and investments when external sources of funds are not available. Increased levels of liquidity permit an organisation transact with unexpected eventualities and achieve its responsibilities during times of low earnings (Omondi & Muturi, 2013).

Fagiolo and Luzzi (2006) investigated the evolution of the distributions of size and performance, conditioned on liquidity constraints and age. The findings were that liquidity problems do not seem to have a significant negative impact on firm performance in any given year. Credit shortages constrain firm growth due to limited investment opportunities and largely assuming that lack of financial resources reduces the possibilities for long term development and financial performance.

2.1.8.3 Management Efficiency

Management efficiency measured in terms of total asset growth, firm's growth and earnings flow is also a key factor that determines a firm's financial performance. Better growing firms increase their financial performance especially where the level of total assets increases which means increased growth and it inclines to be of higher profit (Sekerci, 2013).

Financial ratios like operating profit to income ratio and operating expenses to total assets ratio can be used to assess the efficiency of management in terms operational efficiency to income generation. Performance of management can also be expressed qualitatively through subjective evaluation of management systems, organisational discipline, control systems, quality of staff and others (Yahaya and Lamidi, 2015)

2.1.9 Capital Adequacy and its Effect on Financial Performance

Capital adequacy refers to the sufficiency of the amount of equity to absorb any shocks that the bank may experience (Kosmidou, 2009). The capital structure of banks is highly regulated. This is because capital plays a crucial role in reducing the number of bank failures and losses to depositors when a bank fails as highly leveraged firms are likely to take excessive risk in order to maximize shareholder value at the expense of finance providers (Kamau, 2009).

Although there is general agreement that statutory capital requirements are necessary to reduce moral hazard, the debate is on how much capital is enough. Regulators would like to have higher minimum requirements to reduce cases of bank failures,

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whilst bankers in contrast argue that it is expensive and difficult to obtain additional equity and higher requirements restrict their competitiveness (Koch, 2015). Beckmann (2017) argue that high capital leads to low profits since banks with a high capital ratio are risk-averse, they ignore potential (risky) investment opportunities and, as a result, investors demand a lower return on their capital in exchange for lower risk.

However Gavila et al (2009) argues that, although capital is expensive in terms of expected return, highly capitalized banks face lower cost of bankruptcy, lower need for external funding especially in emerging economies where external borrowing is difficult. Thus well capitalized banks should be profitable than lowly capitalized banks. Gavila (2009) using a sample of 10 Tunisian banks from 1980 to 2000 and a panel linear regression model, reported a strong positive impact of capitalization to ROA. Sufian and Chong (2008) also reported the same results after examining the impact of capital to the performance of banks in Philippinesfrom 1990 to 2005. The banking sector in Nigeria provides an interesting case to examine the impact of capital because the minimum statutory requirement has been upgraded to Ksh, 1 billion in 2012. Capital adequacy is divided into Tier I and Tier II. Tier I capital is primary capital and Tier II capital is supplementary capital, but this study will focus on total equity of the banks as opposed to the minimum requirements.

2.1.10 Assets Quality and its Effect on Financial Performance

Credit risk is one of the factors that affect the health of an individual bank. The extent of the credit risk depends on the quality of assets held by an individual bank. The quality of assets held by a bank depends on exposure to specific risks, trends in non-performing loans, and the health and profitability of bank borrowers (Baral, 2015). Aburime (2008) asserts that the financial performance of a bank depends on its ability to foresee, avoid and monitor risks, possibly to cover losses brought about by risks arisen. Hence, in making decisions on the allocation of resources to asset deals, a bank must take into account the level of risk to the assets.

Poor asset quality and low levels of liquidity are the two major causes of bank failures. Poor asset quality led to many bank failures in Nigeria in the early 1980s. During that period 37 banks collapsed following the banking crises of 1986-1989, 1993-1994 and 1998 (Mwega, 2009). According to Waweru and Kalani (2009) many of the financial institutions that collapse in 1986 failed due to non-performing loans (NPLs) and that most of the larger bank-failures, involved extensive insider lending, often to politicians. The CBK measures asset quality by the ratio of net non-performing loans to gross loans. However Koch (2015) argues that a good measure of credit risk or asset quality is the ratio of loan loss reserve to gross loans because it captures the expectation of management with regard to the performance of loans. Hempel et al (2014) observed that banks with high loan growth often assume more risk as credit analysis and review procedures are less rigorous, however returns are high in such loans indicating a risk and return trade-off.

Kosmidou (2008) applied a linear regression model on Greece 23 commercial banks data for 1990 to 2002, using ROA and the ratio of loan loss reserve to gross loans to proxy profitability and asset quality respectively. The results showed a negative significant impact of asset quality to bank profitability. This was in line with the theory that increased exposure to credit risk is normally associated with decreased firm profitability. Indicating that banks would improve profitability by improving screening and monitoring of credit risk.

2.1.11 Liquidity Management and its Effect on Financial Performance

Another important decision that the managers of commercial banks take refers to the liquidity management and specifically to the measurement of their needs related to the process of deposits and loans. The importance of liquidity goes beyond the individual bank as a liquidity shortfall at an individual bank can have systemic repercussions (CBN, 2009). It is argued that when banks hold high liquidity, they do so at the opportunity cost of some investment, which could generate high returns (Kamau, 2009).

The trade-offs that generally exist between return and liquidity risk are demonstrated by observing that a shift from short term securities to long term securities or loans raises a bank's return but also increases its liquidity risks and the inverse is true. Thus a high liquidity ratio indicates a less risky and less profitable bank (Hempel et al, 2014). Thus management is faced with the dilemma of liquidity and profitability. Levine (2009) emphasized the adverse effect of increased liquidity for financial Institutions stating that, "although more liquid assets increase the ability to raise cash on short-notice, they also reduce

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management's ability to commit credibly to an investment strategy that protects investors" which, finally, can result in reduction of the 'firm's capacity to raise external finance" in some cases (Uchenna, 2013).

In Nigeria the statutory minimum liquidity requirement is 20%. However, according to CBN Bank Supervision Annual Report (2009), the average liquidity ratio for the sector was 39.8% in 2009, 37.0 % in 2008, and way above the minimum requirements. This has baffled many financial analysts as to how could banks withhold such amount of cash in a credit needy economy such as Nigeria (Kalu, 2009). The CBN attributes this to the banking industry's preference to invest in the less risky government securities, while Nndubuisi and Ngozi (2011) as cited by Kalau (2009) attributes this liquidity problem to the restrictions placed on commercial banks at the discount window, coupled with thin interbank market, a high reserve requirement and preference of government securities. Thus given the above foregoing analysis, the given Nigerian banking sector provides an interesting case to assess the effects of liquidity on profitability.

2.2 Theoretical Framework

This study is anchored on the following theories: The Trade off Theory, The Pecking Order Theory and The Agency Theory

2.2.1 The Trade off Theory

This theory of trade-off suggest that debt finance is mostly used when a firm has a great level of tangible assets while equity finance is mostly used when a firm has a great portion or level of intangible assets. Thus, a firm should maintain an optimal debt–equity ratio (Al-Tally, 2014). The theory of trade-off states that an optimal debt amount is determined by a comparison of the costs related to debt financing against the benefits that will be obtained if debt financing is used by a firm. Therefore, a great leverage can be taken by a more profitable firm to finance its investments or operations. According to the theory of trade off, most firms try to balance between the tax advantage on the use of leverage against the costs associated with utilization of leverage as a financing means of investments in a firm (Aliu, 2010).

Theory of trade-off holds that firms only borrow to an extent where tax shield on debt financing immediately offset total cost that is usually associated with debt financing (Itiri, 2014). Trade off theory also explains that companies usually borrow from financial institutions in a gradually manner so as to reach its optimal level of debt-equity ratio. At this level, firms are able to maximize market value in summing up present value of expected debt financing costs against the expected benefits of debt financing (Bontempi & Golinelli, 2001).

2.2.2 The Pecking Order Theory

The theory of Pecking order was developed by in the year 1984 (Myers and Majluf, 1984). This theory explains the implications that are brought about by information asymmetries that exist between outsiders and insiders of the firm (Bitok et al., 2011). According to the theory, due to asymmetry in terms of information between the managers of a given firm and the general investors, the investors are likely to under value the firm's new stock issued to the market. Thus, the best way firms use to avoid this kind of problem is to utilize its own internal financial resources to finance its investments and operations of the firm. If the internal sources of finance aren't enough to finance the firm's investments, then the firm can turn to debt financing. In cases where debt financing is not useful to the firm anymore (that is when the cost associated with debt financing is more that the benefits of debt financing), the firm can issue equity in form of stocks (Raza, 2014). In simple terms, the theory of pecking order assumes that for any new investment, most firms will first prefer to finance it using internal resources, followed by the use of debt then equity as the last option of financing new investments (Al-Tally, 2014).

The theory of pecking order states that optimal capital structure does not exist since debt ratio occurs because of cumulative external financing requirements thus the primary determinant of a capital structure of an organisation is the problem of asymmetric information between insiders and outsiders (Itiri, 2014). Pecking order theory does not recognize that there exists target leverage: where retained earnings comes first in terms of financing preference and equity, that is the stocks comes last in preference as far as financing of new investment is concerned (Bontempi and Golinelli, 2001). Basically, this theory suggest that firms will prefer utilize debt rather than equity to finance its investments (Nyamita, 2014).

The theory of Pecking order is based on assumption that decisions on the use of leverage are purely catalyst by asymmetric information between managers of a firm and investors. The firms assume that investors may view the issue of

equity in a negative way. As such, firms prefer to finance its investments using retained earnings as an internal source of finance first, debt as the second option then equity as last option when the first two options are unable to meet the fully required funds for investments (Calabrese, 2011). The theory of pecking order also suggest that most of firms with a high level of financial needs will probably end up with a very great debt ratio since managers do not prefer the issue of new equity in form of stocks (Al-Tally, 2014).

2.3 Empirical Review

Ashok (2009) in his study examined how the financial performance of State Bank Of India (SBI) group, nationalized banks group, private banks group and foreign banks group in India had been affected by the financial deregulation of the economy. The main objective of the empirical study was to assess the financial performance of scheduled commercial banks through CAMEL analysis. CAMEL stands for capital adequacy, asset quality, management efficiency, earnings performance and liquidity. The objectives of his study were to identify the optimal mix of assets and liabilities for the profitability of banks and to offer suitable suggestions to strengthen the funds position of commercial banks. The study was carried out over a periods of 2000-2001 to 2009-2010. He concluded that banking sector has to take greatest care on the variables which relate to asset liability management and that all the banking groups have to take necessary steps to improve the overall performance of the banking sector.

Mihail (2009) did a study on how asset liability management affect profitability of Banks. The main goal of this paper was to analyze the asset-liability management in banks 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, i.e. (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, earnings, liquidity, profit, solvency, the level of loans and deposits.

Haslem et al (2009) used canonical analysis and the interpretive framework of asset/liability management in order to identify and interpret the foreign and domestic balance sheet strategies of large U.S. banks in the context of the "crisis in lending to LDCs." In their study it was revealed that the least profitable very large banks have the largest proportion of foreign loans, but they focus on asset/liability matching strategies.

Maghanga and Kalio (2012) studied the impact of leverage on performance of the Kenya power and lighting company. The study used a sample of 55 respondents and structured questionnaires to collect primary data and secondary data was obtained from firm's annual reports. The study concluded that leverage has a great impact on performance as far as financing is concerned. Thus, the study revealed that an optimal debt financing is crucial in ensuring that companies realize improved financial performance. The study recommended that companies should work on reducing some operational costs by going for relative cheaper sources of financing so as to improve greatly on their financial performance.

Raza (2013) examined effect leverage on company's performance from Karachi Stock Exchange. Panel data methodology was used for companies listed at Karachi Stock Exchange for the year 2004-2009. The study finding established a negative relation between performances and leverage hence a conclusion that long-term debt was more expensive thus utilization of debt in a high level results in a low profitability.

Matemilola, Bany-Ariffin and Azman-Saini (2013) examined the effect of leverage and managerial skills on returns for shareholders. The study used the fixed effects model and multiple linear regression to analyze data collected. Regression analysis results established that leverage had a positive relationship with shareholders' return. Moreover, it was established that managerial skills had a positive relationship with shareholders' return. The study concluded that leverage and managerial skills may be priced in equity valuation.

Enekwe, Agu & Eziedo (2014) explored effect of financial leverage on financial performance of Nigeria pharmaceutical companies. The study used secondary data for the year 2001 to 2012 a sample of three companies. The study employed Pearson correlation and regressions models to analyze data collected. It was established that both debt ratio and debt-equity ratio had a negative relation with profitability when measured using ROA. The study also found that the ration on interest coverage had a positive relation with profitability of pharmaceutical companies in Nigeria. However, the study revealed that debt to equity ratio, debt ratio and interest coverage ratio had insignificant impact on profitability of the pharmaceutical industry in Nigeria.

Gweyi and Karanja (2014) investigated the impact of leverage on performance of Kenyan registered deposit-taking SACCOs using a sample of 40 Savings and Credit Co-operative Societies. The study used secondary data for period of 2 years from the year 2010 to 2012. The findings of the study established that a positive correlation exists between the debt-equity ratio with return on equity and after tax profits.

Wabwile et al. (2014) explored the effect of financial leverage on performance variance tier 1 of Kenyan commercial banks listed at NSE. To measure performance, the study used return on assets (ROA) and return on capital employed (ROCE), earnings per share (EPS) and the Price book value. The study used the Person correlation analysis and the regression model to analyze the collected data. The study findings revealed a negative correlation between debt asset ratio and ROA and ROCE and positive correlation between the debt asset ratio and the EPS though the relationship was insignificant. The study also found an insignificant negative correlation between Price Book value and ratio.

Gyekyi (2011) used the goal programming method to study the effects of asset liability management on profitability of National Investment Bank in the New Juabeng Municipality in Ghana. His the major findings of the study were; the value of assets and liabilities of the bank had a direct effect on the profitability of the bank, decrease in assets value leads to increase in banking profitability. Increased or decreased in liability had direct effect on company's profitability, inflation rate has the direct effect on profitability, Increase in inflation leads to increase in profitability and decreased in inflation, decreases the profit margin of the firm, Bank of Ghana base rate affects the strategic decisions of the banks, changes in the base rate have direct effect on the banking profitability and Bank of Ghana policies normally affect the decisions of the bankers.

Analyzing the behaviour of U.S. commercial banks on the 1990-2005 periods, DeYoung and Yom (2008) in a study in US commercial banks observed the evolution of correlation degree between assets versus liabilities. They concluded that the degree of correlation is higher in large banks, with the observation that over time it improves for the small and medium-sized banks also.

Banafa, Muturi and Ngugi (2015) examined impacts of leverage on financial performance of listed Kenyan non-financial firms. The study employed a causal research design and to examined the effect of leverage of the 42 listed non - financial firms at NSE. Secondary data from firms' financial statements was used for a period of five years from the year 2009-2013. The study used the regression model to analyze the collected data. The study revealed that leverage had a negative and significant impact on corporate financial performance.

Syed et al (2015) investigated impact of financial leverage on corporate financial performance using panel data in a textile sector of economy in Pakistan for a period of 13 years beginning in the year 1999 to 2012. The study employed accounting ratios ROA and Tobin Q to measures of corporate financial performance and total debt to total assets ratio, long-term debt to total assets ratio, short-term debt to total assets and debt to equity ratios to determine financial leverage. The study established that leverage had a negative impact on ROA while Tobin Q has a positive coefficient with SDTA. The study concluded that due to high cost of borrowing in Pakistan and the less development of capital markets, firms are forced to borrow from banks to finance projects, which in turn they pay huge amount of interest and principal, which affects their performance.

Mule and Mukras (2015) investigated the relationship between financial leverage and financial performance of listed Kenyan firms. The study used annual data for a 5 years period starting from the year 2007 to the year 2011. The study using panel data analysis found strong evidence that financial leverage significantly and negatively affects the performance measured using ROA and Tobin Q. Moreover, the study found that financial leverage negative and insignificant effect on performance measured using ROE. The study also revealed that asset tangibility and ownership concentration are important determinants of performance.

Kamau (2009) did a study on the commercial banks in Kenya and set to establish the how capital adequacy effects profitability in the banking sector. He found out that the capital structure of banks is highly regulated. This is because capital played a crucial role in reducing the number of bank failures and losses to depositors when a bank fails as highly leveraged firms are likely to take excessive risk in order to maximize shareholder value at the expense of finance providers. To this extent, he concluded that banks with enough capital were more profitable than banks which were struggling to maintain the statutory capital adequacy requirement, Odhiambo (2016) did a survey of liability

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management practices in commercial banks in Kenya and found that regular and systematic appraisal of asset liability management policies was a common practice among most banks. Most banks also indicated that their asset liability management systems were governed by guidelines set by the management board which is a cross functional outfit covering all the major functions in the bank this showed that asset liability management is a highly strategic issue in most banks, regardless of their size, extensively utilized most of the conventional hedging instruments.

Muhammed (2007) did a study of liquidity management approaches and their effect on profitability of commercial banks in Kenya. The researcher findings reveal that the most popular theory with bankers is commercial loan theory; the next is asset liability management theory. The evidence of use of shiftability and anticipated income theory is weak. However, there was one bank that employed a hybrid strategy i.e. anticipated and commercial loan theory.

METHODOLOGY

3.1 Research Design

A research design is a plan, structure and strategy of investigation so conceived as to obtain answers to research questions or problems. A descriptive design was used in the study. Descriptive research design is a type of research method that is used when a researcher wants to get information on the current status of a person or an object. It is used to describe what is in existence in respect to conditions or variables that are found in a given situation. In this research, descriptive research was used to determine the effect of toxic asset on financial performance of selected banks in Nigeria.

3.2 Population

The population of a research applies to the collection of all possible individuals, objects or measurements of interest (Mason et al, 2009). The identification of the population of the research question helps in narrowing down to the specific objective that is the subject matter of the research. For the purpose of this research, the study population comprised all the selected banks in Nigeria in Nigeria Stock Exchange. Therefore, a census was used. The justification of this population is because this is a regulatory requirement by companies and data from quoted companies are easily accessible.

3.3 Data Collection

The study employed secondary data. The data was collected from quoted companies in Nigeria, published financial statement of the banks from 2007-2016. The annual report is covers a period of 10 years.

3.5 Data Analysis

The data collected was analysed using the computer software known as Statistical Package for Service Solution (SPSS) version 20.0. Descriptive, correlations and regression analysis was applied to study and compare the effect of independent variables on the dependent variable. In order to get a picture of the performance of quoted companies, the researcher employed ROE which is a measure of profitability. ROE reflects the ability of bank's management to generate profits from the bank's assets and was calculated as net profit after tax divided by stakeholders' equity.

Financial performance was the dependent variable while asset liability management components were the independent variables of the research study. The researcher used a two tailed t-test since the sample size was greater than 30 with a 5% statistic test of significance. The researcher computed correlation coefficient (r), coefficient of determination (r2) and analysis of variance (ANOVA) using the regression model below. The study hypothesis that asset leverage and liquidity asset has a positive relationship to financial performance of quoted companies.

Financial Performance $_{ROE} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + + e$ Where;

Y = denotes the dependent variable (Financial Performance) measured as Return on Equity

α = is the value of the intercept.

β = is the coefficient of the explanatory X variable.

e = is the error term assumed to have zero mean and independent across time period.

X_1 (Capital Adequacy)	Ratio of total equity to total risk weighted assets
X_2 (Asset Quality)	Ratio of Non-performing loans to total loans
X_3 (Liquidity)	Ratio of Term liquid assets to total liability deposits

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X_4 (Operational Efficiency) Ratio of operating cost to net operating income X_5 (Income Diversification) Ratio of non-interest income to total income

DATA PRESENTATION AND ANALYSIS

This chapter presents the data analysis and interpretation using statistical tools. For the purpose of this research work, the researcher used the SPSS software in testing the hypotheses. Also, the simple regression technique was adopted because of its simplicity as well as minimizes the squares of the residuals.

Re-Statement Hypotheses

The research work is guided by the following hypothesis:

H_{o1}: Bad and doubtful debts have no significant effect on return on assets.

H_{o2}: Loans and advances have no significant effect on return on assets.

Return of Asset = Net Income / Total Asset

First Bank of Nigeria plc

Year (s)	Returns on assets	Bad & Doubtful Debts	Loan & Advances
2007	0.06	12458	217995
2008	0.10	13959	695876
2009	0.02	41462	1033321
2010	0.09	22596	1046925
2011	0.01	38011	1144461
2012	0.03	12912	1316407
2013	0.02	20521	1473839
2014	0.02	25521	1794037
2015	0.00	125943	1457285
2016	0.01	159841	1692712

Source: Compiled By the Researcher from Annual Report 2007-2016

GTBank

Year (s)	Returns on assets	Bad & Doubtful Debts	Loan & Advances
2007	0.01	49,387	113,705,183
2008	0.03	3,244	291,530,777
2009	0.02	334,906	550,281,123
2010	0.03	191,801	574,255,521
2011	0.03	715,322	679,358,919
2012	0.05	2,415	742,436,944
2013	0.05	311	926,967,093
2014	0.04	2,703	1,182,393,874
2015	0.04	11,993,084	1,265,207,443
2016	0.05	13,389,143	1,417,217,952

Source: Compiled By the Researcher from Annual Report 2007-2016

Fidelity bank plc

Year (s)	Returns on assets	Bad & Doubtful Debts	Loan & Advances
2007	0.02	6761	70237
2008	0.02	8962	230713
2009	0.01	60257	161297
2010	0.01	69345	158516
2011	0.01	311	255257
2012	0.02	14287	345500
2013	0.01	22672	426076
2014	0.01	44520	541686
2015	0.01	5764	578203
2016	0.01	8671	718401

Source: Compiled By the Researcher from Annual Report 2007-2016

4.2 Discussion of Findings

Discussion of findings in First Bank of Nigeria plc

Result of Hypotheses 1

Statistic	**Hypothesis one**
R	0.446
R^2	0.199
AR^2	0.099
Std. error of the estimate	2.611
Regression sum of square	13.571
Residual sum of squares	54.529
DW	2.470
C	3.819
Coeff.	-2.364
P-value	0.196

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The R indicates strong positive relationship between Bad & doubtful debts and return on assets. R^2 shows that 19.9% of the variation in return on assets can be explained by bad & doubtful debt. Adjusted R^2 is 0.099. This show that the independent variables specified in the model can explain only about 9.9% of the variations in the dependent variable. The std. error indicates 2.611, as Regression sum of square is low with a value of about 13.571 while 54.529 the residual sum of squares. This means there are other variations of the dependent variable that can explain by the model; hence variation explained that the model is not due to chance.

The auto-correlation indicates that the Durbin-Watson Statistic is 2.470 and it falls within the acceptable range, the model is free from autocorrelation and is reliable. We conclude that the model shows positive serial autocorrelation. The constant or intercept is 3.819. This implies that when all the model parameters are zero, there will still be an effect of 3.819 on the service delivery. Based on above information that the estimated regression model is represented as follows: ROA= 3.819-2.364BDD + U_t.

The significance value (p-value) of 0.196 is more than 0.05, the model is not significant. Therefore, the null hypothesis is accepted and the alternative hypothesis is rejected which states that bad and doubtful debts have no significant effect on return on assets.

Result of Hypotheses 2

Statistic	Hypothesis one
R	0.447
R^2	0.200
AR^2	0.100
Std. error of the estimate	2.610
Regression sum of square	13.592
Residual sum of squares	54.508
DW	2.661
C	5.779
Coeff.	-2.593
P-value	0.196

The R indicates strong positive relationship between Bad & doubtful debts and return on assets. R^2 shows that 20.0% of the variation in return on assets can be explained by bad & doubtful debt. Adjusted R^2 is 0.100. This show that the independent variables specified in the model can explain only about 10.0% of the variations in the dependent variable. The std. error indicates 2.610, as Regression sum of square is low with a value of about 13.592 while 54.508 the residual sum of squares. This means there are other variations of the dependent variable that can explain by the model; hence variation explained that the model is not due to chance.

The auto-correlation indicates that the Durbin-Watson Statistic is 2.661 and it falls within the acceptable range, the model is free from autocorrelation and is reliable. We conclude that the model shows positive serial autocorrelation. The constant or intercept is 5.779. This implies that when all the model parameters are zero, there will still be an effect of 5.779 on the service delivery. Based on above information that the estimated regression model is represented as follows: ROA= 5.779-2.593LA + U_t.

The significance value (p-value) of 0.196 is more than 0.05, the model is not significant. Therefore, the alternative hypothesis is rejected and the null hypothesis is accepted which states that Loans and advances have no significant effect on return on assets.

Discussion of findings in GTBank plc

Result of Hypotheses 1

Statistic	Hypothesis one
R	0.387
R^2	0.150
AR^2	0.044
Std. error of the estimate	1.324
Regression sum of square	2.475
Residual sum of squares	14.025
DW	0.967
C	3.236
Coeff.	9.900
P-value	0.296

The R indicates weak positive relationship between Bad & doubtful debts and return on assets. R^2 shows that 15.0% of the variation in return on assets can be explained by bad & doubtful debt. Adjusted R^2 is 0.044. This show that the independent variables specified in the model can explain only about 4.4% of the variations in the dependent variable. The std. error indicates 1.324, as Regression sum of square is low with a value of about

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2.475 while 14.025 the residual sum of squares. This means there are other variations of the dependent variable that can explain by the model; hence variation explained that the model is not due to chance.

The auto-correlation indicates that the Durbin-Watson Statistic is 0.967 and it falls within the acceptable range, the model is free from autocorrelation and is reliable. We conclude that the model shows positive serial autocorrelation. The constant or intercept is 3.236. This implies that when all the model parameters are zero, there will still be an effect of 3.236 on the service delivery. Based on above information that the estimated regression model is represented as follows: ROA= 3.236 + 9.990BDD + U_t.

The significance value (p-value) of 0.296 is more than 0.05, the model is not significant. Therefore, the null hypothesis is accepted and the alternative hypothesis is rejected which states that bad and doubtful debts have no significant effect on return on assets.

Result of Hypotheses 2

Statistic	Hypothesis one
R	0.770
R^2	0.592
AR^2	0.541
Std. error of the estimate	0.917
Regression sum of square	9.773
Residual sum of squares	6.727
DW	1.898
C	1.594
Coeff.	2.461
P-value	0.009

The R indicates a very strong positive relationship between Bad & doubtful debts and return on assets. R^2 shows that 59.2% of the variation in return on assets can be explained by bad & doubtful debt. Adjusted R^2 is 0.541. This show that the independent variables specified in the model can explain only about 54.1% of the variations in the dependent variable. The std. error indicates 0.917, as Regression sum of square is low with a value of about 9.773 while 6.727 the residual sum of squares. This means there are other variations of the dependent variable that can explain by the model; hence variation explained that the model is not due to chance.

The auto-correlation indicates that the Durbin-Watson Statistic is 1.898 and it falls within the acceptable range, the model is free from autocorrelation and is reliable. We conclude that the model shows positive serial autocorrelation. The constant or intercept is 1.594. This implies that when all the model parameters are zero, there will still be an effect of 1.594 on the service delivery. Based on above information that the estimated regression model is represented as follows: ROA= 1.594+2.461LA + U_t.

The significance value (p-value) of 0.01 is more than 0.05, the model is significant. Therefore, the alternative hypothesis is accepted and the null hypothesis is rejected which states that Loans and advances have significant effect on return on assets.

Discussion of findings in Fidelity Bank plc

Result of Hypotheses 1

Statistic	Hypothesis one
R	0.394
R^2	0.155
AR^2	0.049
Std. error of the estimate	0.471
Regression sum of square	0.325
Residual sum of squares	1.775
DW	1.618
C	1.485
Coeff.	-7.664
P-value	0.260

The R indicates weak positive relationship between Bad & doubtful debts and return on assets. R^2 shows that 15.5% of the variation in return on assets can be explained by bad & doubtful debt. Adjusted R^2 is 0.049. This show that the independent variables specified in the model can explain only about 4.9% of the variations in the dependent variable. The std. error indicates 1.324, as Regression sum of square is low with a value of about 0.471 while 0.325 the residual sum of squares. This means there are other variations of the dependent variable that can explain by the model; hence variation explained that the model is not due to chance.

The auto-correlation indicates that the Durbin-Watson Statistic is 1.618 and it falls within the acceptable range, the model is free from autocorrelation and is reliable. We conclude that the model shows positive serial autocorrelation. The constant or intercept

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is 1.485. This implies that when all the model parameters are zero, there will still be an effect of 1.485 on the service delivery. Based on above information that the estimated regression model is represented as follows: ROA= 1.485 -7.664BDD + U_t.

The significance value (p-value) of 0.260 is more than 0.05, the model is not significant. Therefore, the null hypothesis is accepted and the alternative hypothesis is rejected which states that bad and doubtful debts have no significant effect on return on assets.

Result of Hypotheses 2

Statistic	Hypothesis one
R	0.433
R^2	0.188
AR^2	0.086
Std. error of the estimate	0.462
Regression sum of square	0.395
Residual sum of squares	1.705
DW	1.902
C	1.644
Coeff.	-9.882
P-value	0.211

The R indicates a weak positive relationship between Bad & doubtful debts and return on assets. R^2 shows that 18.8% of the variation in return on assets can be explained by bad & doubtful debt. Adjusted R^2 is 0.086. This show that the independent variables specified in the model can explain only about 8.6% of the variations in the dependent variable. The std. error indicates 0.462, as Regression sum of square is low with a value of about 0.395 while 1.705 the residual sum of squares. This means there are other variations of the dependent variable that can explain by the model; hence variation explained that the model is not due to chance.

The auto-correlation indicates that the Durbin-Watson Statistic is 1.902 and it falls within the acceptable range, the model is free from autocorrelation and is reliable. We conclude that the model shows positive serial autocorrelation. The constant or intercept is 1.644. This implies that when all the model parameters are zero, there will still be an effect of 1.644 on the service delivery. Based on above information that the estimated regression model is represented as follows: ROA= 1.644-9.882LA + U_t.

The significance value (p-value) of 0.21 is more than 0.05, the model is significant. Therefore, the alternative hypothesis is rejected and the null hypothesis is accepted which states that Loans and advances have no significant effect on return on assets.

5.1 Summary of Findings

The study which focused on the effect of toxic assets on financial performance, considerably, the study comes out with the following empirical result:

For First bank of Nigeria PLC,

i. That bad and doubtful debts have no significant effect on return on assets since the significance value (p-value) of 0.196 > 0.05, the model is not significant.

ii. That loans and advances have significant effect on loan and advance since the significance value (p-value) of 0.2 > 0.05, the model is not significant.

For GTbank PLC,

iii. That bad and doubtful debts have no significant effect on return on assets since the significance value (p-value) of 0.296 > 0.05, the model is not significant.

iv. That loans and advances have significant effect on loan and advance since the significance value (p-value) of 0.01 < 0.05, the model is significant.

For Fidelity PLC,

v. That bad and doubtful debts have no significant effect on return on assets since the significance value (p-value) of 0.260 > 0.05, the model is not significant.

vi. That loans and advances have significant effect on loan and advance since the significance value (p-value) of 0.21 < 0.05, the model is significant.

5.2 Conclusion

It concludes that that bad and doubtful debt has no significant effect on banks return on asstes. Thus, well-organized and efficient credit management remains a hidden treasure the exact value of which undiscerning boards may be unaware. The study shows that growing continuation in the amount of bad and doubtful debts in Nigeria money deposit banks are causes by inadequate close monitoring of the borrowers to ensure proper utilization of fund (i.e. on site visit to factory or project site), incessant increase in interest rate (lending rate), lack of adequate knowledge of the loan seeker, failure by commercial banks to give their loan immediate follow-up to avoid diversion and poor

credit policy administration. It therefore concludes that that bad and doubtful debt has no significant effect on banks return on asstes. Thus, well-organized and efficient credit management remains a hidden treasure the exact value of which undiscerning boards may be unaware.

5.3 Recommendations

The following are recommended based on the findings of the study:

i. Nigerian commercial banks should maintain a higher level of increase in provision for bad and doubtful debt to compensate any default for loan repayment and still maximize profit.
ii. Banks should have clear corporate credit policy that will incorporate credit objectives and credit control mechanisms.
iii. There should be higher provisions for bad and doubtful debts to take care of eventual defaults.

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