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An assessment of the impact of gearing intensity on the performance of deposit money banks in Nigeria

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SCHOOL OF ECONOMICS, ADMINISTRATION AND COMPUTER SCIENCE.

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Dissertation which was submitted for obtaining a distance postgraduate degree in Banking, Investment and Finance (M.Sc.) at Neapolis University

SIJI AJIBIKE KOFOWOROLA

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Postgraduate Dissertation title: AN ASSESSMENT OF THE IMPACT OF GEARING INTENSITY ON THE PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

This Postgraduate Dissertation was prepared in the context of the studies for obtaining a distance master's degree at Neapolis University and was approved on..... [date of approval] by the members of the Examination Committee.

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First supervisor (Neapolis University Pafos) ..... [name, surname, rank, signature]

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DECLARATION

I, SIJI AJIBIKE KOFOWOROLA, being fully aware of the consequences of plagiarism, declare responsibly that this paper entitled “AN ASSESSMENT OF THE IMPACT OF GEARING INTENSITY ON THE PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA”, is strictly a product of my own personal work and all sources used have been duly stated in the bibliographic citations and references. Where I have used ideas, text and/or sources of other authors, they are clearly mentioned in the text with the appropriate citation and the relevant reference is included in the bibliographic references section with a full description.

DEDICATION

This Thesis is dedicated to the almighty God, the author and finisher of my faith for seeing me through the course of my studies.

ACKNOWLEDGEMENT

I am actually short of words on where to start. Probably the vantage position is to utter the word, GOD I THANK YOU. Thank you for the courage you gave me when I wanted to give up, thank you for providing the finances to pull through. Thank you for turning my foolishness into wisdom. Finally, thank you for my life in general.

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To my immediate family, from my guardian angel, the love of my life, my pillar, my strength, my supporter, my comforter, my MAN, my everything and the best confidant any woman can desire Mr. Gbenga Siji, it is only God that can reward you for everything. For holding forth for me, the right way you are bringing up our children, despite my absence, the words of encouragement, the permission to travel this far in pursuance of my master's degree, thank you and God bless you. To my children Oyindamola, Daniel and Oluwaseyifunmi Siji, I can't forget the contribution of the three of you. They were always ready to correct the inefficiency in the use of my input to produce commensurate output. You are the best children in my world. I owe you a lot.

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From others, my mind inadvertently escaped to mention, it is not that your contributions are not notice, I have just behaved like any human being that is amenable to mistakes. So, do forgive me if you think your name supposed to have appeared on the list, you are all recognized, and God bless you all.

SUMMARY OF THE STUDY

Deposit money banks must perform efficiently in order to thrive in today's financial sector. To withstand the test of time, most financial institutions resort to debt financing in order to retain the loyalty of their existing customers. As a result, this study examines the impact of gearing intensity on the performance of Nigerian deposit money banks from 2011 to 2020. Seven Nigeria Stock Exchange-listed banks (Access Bank, Eco Bank, Fidelity Banks, Stanbic IBTC, United Bank for Africa, Union Bank, and Zenith Bank) were used.

To address this, bank performance was measured using gross profit, return on asset (ROA), and return on capital employed (ROCE). Three hypotheses were developed on this basis.: i) gearing intensity has no significant effect on operating performance (Gross Profit) of DMBs: ii) gearing has no significant impact on accounting performance (ROA) of DMBs and iii) gearing intensity has no significant effect on the efficiency (ROCE) of DMBs in Nigeria. To produce robust findings, panel regression analysis and multiple regression were used to determine both group and individual specific results.

The summary of the results revealed that gearing had a negative impact on the operating performance, accounting performance, and efficiency of Nigerian DMBs, and this impact was significant when the panel regression of the seven banks was grouped in terms of grouped specificity. However, when individual bank data is examined, gearing improves the performance of Eco Bank, Fidelity Bank, and Zenith Bank, while Access Bank, United Bank for Africa, Union Bank, and Stanbic IBTC do not benefit as much from gearing.

As a result of the findings, it was recommended that deposit money banks in Nigeria should avoid relying on long-term loans and instead strive to have readily available capital for financing and assisting their customers. Those who wish to seek external debt should look for low-interest loans in which the tax benefits outweigh the financial hardship. This will undoubtedly improve their performance and keep them from being liquidated.

ABSTRACT

Capital structure plays a key role in the financial stability of the banking sector. To this end, gearing, which is the ratio of debt to equity is often given consideration when structuring the capital base of Deposit Money Banks (DMBs). Debate over the years have been inconclusive thereby putting policy makers on a crossroad. More so, previous studies on gearing have not only concentrated on time series approach to evaluate gearing within the context of non–financial institutions, they also neglected the individual effect of gearing on accounting variables in their panel data set. This study, therefore, examined the impact of gearing intensity on the financial performance of deposit money banks in Nigeria. The objectives were to: investigate the effect of gearing on the operating performance of DMBs; assess the impact of gearing on accounting performance of DMBs and investigate the effect of gearing on the efficiency of DMBs in Nigeria.

The study anchored on the static trade-off theory of capital structure. Data were collected from seven deposit money banks that includes Access Bank, Eco Bank, Fidelity Banks, Stanbic IBTC, United Bank for Africa, Union Bank and Zenith Bank for the period 2011 to 2020. The variables used in the study were gearing intensity, return on asset, return on capital employed, gross profit, non-performing loans, and net interest income obtained from the annual audited financial statements of 7 Deposit Money Banks. The data was analyzed using descriptive analysis, panel regression and multiple regression analysis.

Analysis of results from the panel regression revealed gearing to be negatively related to gross profit, return on asset and return on capital employed. As regard individual specific result, a positive relationship was also found to exist between gearing intensity and gross profit in Eco, Zenith and Fidelity banks, while gearing intensity was found to be negatively related to gross profit in Access, United Bank for Africa, Union Bank and Stanbic IBTC.

The study concludes that gearing is negatively related to operating performance and efficiency in deposit money banks in Nigeria. The study recommends that financial institutions that seek external debt should look for low-interest loans such that the tax benefits of the loan outweigh the

financial hardship. Also, banks should ensure that they do not rely on long term loan but try to ensure they have readily capital in financing and given aid to their customers.

CHAPTER ONE
INTRODUCTION

1.1 Problem Presentation

In both the financial and non–financial sector, shareholders, other stakeholders, and the country in general all care about how well a company or any financial especially the banking sectors performs in terms of their ability to provide their customers effective service delivery. A good return from investment by the banks indicate that their decisions are wise and worthwhile. This means that their profit margin will increase as a product of a better performance in terms of their effective treatment of their customers (Gikama, 2019). In Nigeria, emphasis on the financial sector is majorly placed on the banks, since their place in the economy cannot be undermine due to their contributions to the gross domestic product of the economy. Therefore, ensuring a stable, healthy and highly efficient and effective financial sector is of immense importance so as to be able to stand in the presence of distress and financial instability in the economy.

Gearing which are referred to capital structure in some instance refers to how a financial or non – financial institution uses long-term sources of finance to fund its overall business operations (Weking, Stöcker, Kowalkiewicz, Böhm, & Krcmar, 2020). It also refers to debt-to-equity ratio. Researchers over the years however, opined that it may include short – term loans from the bank or other financial sector. However, in recent time, scholars have tried to define gearing in different ways, however, there shared view, are based on the ground that gearing combined both long-term borrowings and equity used by a given financial or non – financial institutions in a precise accounting period.

Today most financial institutions are faced with the issue of providing their customers with best services to ensure effective and efficient loyalty of their customers to their financial institutions. Providing the best services means that the bank must have enough fund to meet up with their customer's needs. Financing decision function of the banks is therefore based on the best financing mix that can sometimes be used to meet up with their customer's needs and maximize the profit of the bank (Abdullah, & Tursoy, 2021). In Nigeria and other developing countries, some deposit money banks make use of debts and equity sources of finance to increase their cash base when they noticed their required cash is not enough to meet up with the need of their client or boost their investment plan. However, debt finance has its own cost on the effective and efficient performance

of the DMBs either positively or negatively depending on how effective the long-term loan is been used.

As regards whether gearing improve the overall performance of DMBs or not, studies over the years in the literature have been unsettled. To some scholars, positive relationship exists between gearing and performance of both financial and the non – financial organization (Alphonsus, 2021; Phuong, & Hung, 2020; Gikama, 2019; Gadzo, & Asiamah, 2018; Nwanna & Ivie, 2017). However, Kahuria, & Waweru, 2015; Pinto, Hawaldar, Rahiman, TM & Sarea, 2017; Velnampy & Niresh, 2012 findings concluded that gearing does not really assist the performance of financial sector positively. According to them, an existing highly geared banks may have trouble raising new capital because potential lenders may look at its structure and conclude that the banks would be uncapable of paying its long-term debts at the due date because it is already exposed to many creditors.

These unending debates put policy makers on a crossroad and call for further investigation on the place of gearing on financial performance. Hence, it becomes imperative to ask the following questions: what effect does gearing has on the performance of Nigeria deposit money banks in terms of their gross profit, return on asset and return on capital employed. Does gearing intensity matters for DMBs financial performance? These questions need to be addressed so as to guide management of the financial sector on policy that will guide them in their attempt to finance their banks with long -term loan or not bearing in mind their objectives of profit maximization.

1.2 Aims and Objectives

The main aim of this dissertation is to assess the implication of gearing intensity on deposit money banks performance in Nigeria. Specifically, the objectives are to:

i. Examine the implication of gearing intensity on the operating performance of Deposit Money Banks in Nigeria in terms of Gross Profit.
ii. Evaluate the effect of gearing intensity on accounting performance of deposit money banks in terms of Return on Asset (ROA).
iii. Assess the effect of gearing intensity on efficiency performance of Nigeria deposit money banks in terms of return on capital employed.

1.3 Research Significance

Every organization, whether financial or non-financial has a device for its owners to fund it. Today, due to the inefficiency of most banks to stand the test of term, they device means of getting long

term loan in other to meet up with the current need of their customers. This study is significant in many areas. First, studies over the years have focused on the non – financial institutions but inadvertently neglected the financial sectors which is assumed to be one of the important institutions in the country. This study focused on the financial sector thereby bridging the gap that previous studies failed to address. Previous studies on gearing not only concentrated on time series approach to evaluate gearing within the context of non–financial institutions, but they also neglected the individual effect of gearing on accounting variables in their panel data set. This study, therefore, employed a panel approach to study the individual and joint effects on gearing on the operating performance, accounting performance as well as efficiency in deposit money banks in Nigeria.

The study is also of immense importance in the following areas:

To Shareholders. Findings from the study guides the shareholders of the Deposit money banks to determine whether to continue in debt financing or not. Implication of gearing on their efficiency and financial performance will direct them on the direction they are to follow as regard using debt financing in their operation.

To prospective investors: The outcome of the result gives useful information to prospective investors about the banks as to their strength in the financial sector and provide a useful guide to them on the true and fair situation of the financial institution.

To Academia: The outcome compliment with other existing literature in the area of gearing intensity and performance of financial institutions in Nigeria. Enabling environment for further studies became imperative.

1.4 Research Questions and Hypotheses

The following research questions are addressed in this study

i. What is the effect of gearing intensity on the operating performance (Gross Profit) of Deposit Money Banks in Nigeria?
ii. What is the effect of gearing intensity on the accounting performance of Deposit Money Banks in Nigeria in terms of their Return on Asset?
iii. What is the effect of gearing intensity on the efficiency of deposit money banks in terms of their return on capital employed?

Coming from the above questions, the following hypotheses are formulated

$H0_1$: Gearing intensity has no significant impact on gross profit of Deposit Money Bank in Nigeria.

$H1_1$: Gearing intensity has significant impact on gross profit of Deposit Money Bank in Nigeria.

$H0_2$: Gearing intensity has no significant effect on return on asset (ROA) of Deposit Money Bank in Nigeria.

$H1_2$: Gearing intensity has significant impact on return on asset (ROA) of Deposit Money Bank in Nigeria

$H0_3$: Gearing intensity has no significant impact on return on capital employed (ROCE) of Deposit Money Bank in Nigeria.

$H1_3$: Gearing intensity has significant impact on return on capital employed (ROCE) of Deposit Money Bank in Nigeria.

1.5 Methodology Overview

This study makes use of secondary data. The data span from the period 2011 to 2020. Seven deposit money banks in Nigeria were used. These includes Access Bank, Eco Bank, Fidelity Bank, United Bank for Africa, Union Bank, Stanbic IBTC and Zenith Bank. The selected banks were based on availability of data in their financial statement. The data was collected from their audited financial statement of all the selected banks. The variables needed are gross profit, return on asset, and return on capital employed, gearing Intensity, non – performing loan and net interest income The collected data was analyzed with descriptive analysis, panel regression and multiple regression analysis.

1.6 Organization of Dissertation

This dissertation is organized in five chapters. The first chapter contained the introduction where the problem statement, aim of the study, research questions and the hypotheses are discussed. The second chapter focused on the theoretical foundation. Chapter three discussed the research methodology used in achieving the research objectives. Chapter four deals with the analysis of results and discussion of findings. Conclusions, recommendations, limitation of the study, contributions to knowledge and suggestions for further empirical research are contained in chapter five

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

The chapter contained the review of literature. The chapter is divided into five sections. The first section focused on some conceptual clarifications of the variables used followed by the theoretical review. The empirical findings by previous researcher are discussed in section three while section four discussed gap in the literature, followed by the conceptual framework of the model in the fifth section.

2.2 Conceptual Review

The concept of gearing, liquidity ratio, deposit money bank, gross profit, return on asset, return on equity, non – performing loan are presented in this section.

Gearing Intensity also known as Gearing ratio is defined as is the bank debt to its equity ratio. It is computed by dividing its debts by equity. The ratio measures the financial leverage or the proportion of business finance that originates from borrowers (lenders) as opposed to banks owners (shareholders) and reveals how much of a bank operating cost are covered by lenders rather than shareholders. The ratio is seen as an important indicator of a bank financial health because it is considered when seeking outside investment (Kiarie, Kirori, & Wachira, 2019).

Deposit Money Bank is a financial institution that is approved and authorized by the monitoring and regulatory body to collect deposits from the individual in the public and is authorized to direct the funds to the deficit unit, while undertaking other financial services activities, (CBN, 2021). Deposit money banks plays a significant role in the development and growth of a nation. Ogege and Boloupremo (2014) posits that the primary role been carried out by financial institutions is to ensure there exist suitable flow of cash to service the deficit areas or sectors of which the economy is shortfall and facilitate the movement of funds amongst economic units.

Return on Asset assesses the effectiveness and profitability of a bank in relation to its total assets. It allows investors to estimate how profitable a bank is as compared to how much capital has been put in assets. Theoretically, a higher return of a bank asset indicated that the performance and productivity of the bank is progressing and as such efficient utilization has been carried out by the service unit on the limited resources been provided to them. Return on asset is derived by dividing the net income of the bank by their average total assets.

Return on Equity is a ratio that measures a bank/s ability to generate profits based on its share capital (Fatihat, 2021). It is a profitability ratio that reflects a banks' capacity to create profits from the investments of its shareholders. Generally, investors will view firms with higher return on investments as an indication of effective management of equity financing to fund operations and grow the banks. Return on investment is estimated by dividing net income or profits by shareholders equity.

Gross Profit. This refers to profit a bank make after they have deducted costs that is associated with the making as well as selling of its services from revenue. This could also be the difference between Bank's total interest income and total interest expense.

Non – Performing Loan is a measure of the risk associated with credit in Deposit money banks. A nonperforming loan (NPL) is a loan in which there are indications that the borrowers is unlikely to pay back the loan. A loan may also be considered non-performing where the borrower has fallen behind on payments and has not made any scheduled principal or interest payments for a period of time, usually 90 days.

Net Interest Income This is the distinction between the revenue a bank receives from borrowing and the interest it ends up paying to depositors is referred to as net interest income. In terms of calculating its margin, it is computed by dividing the net interest income by halve of the income received from those assets that are interest producing in nature

Return on Capital Employed is another profitability ratio that measures how effectively a bank is able to utilize its capital. In essence, it measures the profit generated by each unit of capital invested in the business. In general, the higher the value of the calculated figure of return on capital employed, the better investor's view of the profitability of the bank. Return on capital employed is calculated by dividing earnings before interest and tax, by capital employed.

2.3 Theoretical Review

2.3.1 Modigliani - Miller (MM)

Merton Miller and Franco Modigliani established this hypothesis in the 1950s. In the exclusion of taxation, credit risks, agency costs, and asymmetric knowledge, the MM theory asserts that a capital structure of the firm is immaterial. In essence, the idea claims that it makes no difference whether a company expands by borrowed money, selling stock, or reinvesting gains. The value of a corporation is impacted by its operating income or the current value of its potential income, according to Modigliani-Miller, and hence the choice or mixture of alternatives that a firm chooses

in financing its expansion has no effect on its true market value. The second half of the theory asserts that when a firm's debt financing utilization increases, the cost of equity rises, meaning that the price of equity is influenced by two indicators: the volatility of the company's operation (financial) and the levels of economic risk. The theory is built on the notion of a totally market efficiency that is devoid of taxes as well as other charges. Companies, on the other hand, are not free from paying taxes and other transactional fees in the real world. In addition, in the real world, a totally market efficiency does not exist.

2.3.2 Capital structure theories. According to the theory, a company's funding strategy has no bearing on its worth. To put it another way, the value of a company is decided by the income generated by its assets, not by how the assets are funded or dispersed. It is just the outcome in "a ideal world," with four underlying principles: no company taxes, no financial distress, no adverse selection, and no agency expenses. The idea is deemed incorrect when applied to reality - "an imperfect world." Following that, theories were created to account for market imperfections by loosening such constraints. The extended M&M theorem (1963), which looks at corporation taxes in context of tax shelter benefits, is one of these ideas. Classical trade-off theory balances the impact of tax shelters against the financial distress costs, agency theory relaxes the concept of no audit fees, and pecking order theory and trade off theory look into the impact of asymmetric information concerns on capital markets.

2.3.3 Agency theory. In 1976, Jensen and Meckling came up with the agency theory. According to this idea, agency costs, or costs stemming from conflicting interests among individuals, have an impact on capital structure. Also, financial liabilities are believed to arise as a result of a dispute between management and investors, who both have the same goal in mind: to maximize their own profit. Executives have limited claim to the business earnings, but they are entirely responsible overall revenue engineering activities. Consequently, they have a weaker motivation to fully utilize resources to generate profit while diverting these assets towards their own advantage. Jensen went on to explain that debts should be used as a remedial tool to cut agency management discretion expenses. The rationale for all of this is that once a company is obligated to pay out money on a constant schedule, debts can help minimize the flow of "free" money available to executives to invest on personal benefits. Further potential conflicts arise in between shareholder and the loan holder, resulting in debt agency expenses. Furthermore, according to Myer (1977), a company may incur depreciation and amortization costs if it has a good investment prospect which can only be

funded by capital and an underlying default-risky borrowing. However, if the operation is successful, executives will not support it if the residue advantages to investors after loan holders are paid are much less than project costs. The lack of investment issue occurs when an organization, working in the interest of investors, decides to divert funds from debenture holders. Grossman and Hart (1982) invent the term "bankruptcy cost to managers" to describe the loss of jobs, status, and anxiety of takeover. It motivates management to focus more on allocation of resources and investment in much more profitable business, minimizing rivalry with existing shareholders. This narrows the gap between management and investors, reiterating the advantages of financing through debt. As a result, they discovered that whenever the gearing ratio is low, the firm's value is higher.

2.3.4 Static trade-off theory of capital structure. This is predicated on the assumption that businesses should loan up to a level where the marginal income tax benefits far outweigh the percentage costs of financial distress. The assumption of no financial distress, and also the rising costs of financial leverage that result from a higher probability of insolvency, are rejected by the theory. These costs encompass both direct and indirect charges that a firm may suffer while in financial distress. Borrowing helps save the organization money on corporate taxes, according to the argument. Although debt buildup can lead to insolvency, the danger of going bankrupt and financial ruin is low at low debt levels; consequently, the advantages of debts exemptions might outweigh the costs. Trade-off theory suggests a positive connection between a company's financial performance, growth, and gearing ratio when it comes to capital structure factors. Because a profitable and large firm is less prone to failure, it is assumed to depend so much on debt financing to benefit from tax benefits. Financing decisions are also likely to be desirable as a threat option since profitable businesses face higher transaction cost of corporate governance. Banks are seen as companies with a high risk of excessive gearing ratios. As a result, minimum liquidity requirements for banks are carefully maintained, reducing the risk of bankruptcy. As such, the cost-benefit analysis of debt financing is important for banks, however in a different manner than those for non-financial businesses.

2.3.5 Pecking order theory. This model emphasizes on information asymmetry, that can lead to cost inflation in organizations that rely on outside finance. Therefore, owing to the increasing cost of capital, new projects should be funded first from interest income, then from borrowing, and last through stocks. Hence, debt financing has a detrimental effect on profitability of the financial

institution. Because of the limited retentions, a less profitable company with a weak internal working capital is more likely to use external money when presented with favorable investment opportunities. According to the hypothesis, firms do not establish gearing targets. They only use debt whenever income statements are inadequate, and they only borrow external equity capital as a last resort. Moral hazard is commonly mentioned by economists as part of knowledge asymmetry. In this context, moral hazard refers to "any situation in which one individual selects how much risk to undertake while another takes the consequence if problems happen." The adverse selection problem in banking is inextricably linked to deposit insurance. This insurance is backed by legislation that includes an explicit guarantee of deposits. As a result, insured deposits do not require a high-risk premium, cutting banks' cost of borrowing. Banks are required to maintain a certain level of capital to mitigate the adverse selection of such insurance, restricting their asset composition flexible. This demonstrates the linkage between asset risks and capital structure of the bank.

2.3.6 Market timing theory: This theory hinges on information asymmetry. Here, corporations are able to take advantage of variations in the values of the shares of the company issuing equities when the shares increase in prices, and subsequently repurchasing them when the shares reduce in value. The theory has two variants. The proponents of the dynamic rational system (Myers and Majluf, 1984) assumes that economic agents are rational in their thinking and will therefore react to an indication of positive information by issuing equity. This is expected to increase stock price while dampening knowledge asymmetry between investors and managers, leading the company to generate its own timing opportunity. On the other hand, Baker and Wurgler (2002) posits that economic agents are irrational in their behaviour giving rise to a time-varying mispricing of the firm's shares. Their theory goes further to assert that when managers feel they have a certain level of control over market timing, they issue stocks they believe shares are at a high price and then repurchase them when they believe shares are at a low price. Going by this, fluctuation in the market-to-book ratio is therefore a function of managers' opinion of undervaluation. Both variants of the theory in a way explain the probable relationship between capital structure and market-to-book ratio.

2.3.7 The signaling theory. Ross (1977) developed the theory. The core of the theory is based on existence of information asymmetry between company management and shareholders. The theory states that the market reflects the capital structure of companies are through direct signals from

new market insights at the possession of the managers. Therefore, if management believes that their companies are under-valued, they will issue debt first and then as a last resort complement through stock. Conversely, if management feel that their company is overvalued, they will issue equity first. By implication, management of corporations will therefore try to time the issuance of equity based on the market's assessment of their shares. The signaling theory further exerts that gearing may be theoretically linked to rising debts, which are often seen as a positive sign by the market that managers are optimistic about future earnings. This is because, failure on the part of the bank to pay debt may result in bankruptcy. According to Ross, rising debts instils confidence in the market and ensures that the corporation will have enough cash flows to cover debt.

2.4 Empirical Review

Abdulrahman (2021) assessed the controlling impact of liquidity on the connection between the capital structure and bank profitability in the Nigerian deposit money banks between 2010 to 2019. A total of 15 banks were used. Both descriptive statistics and panel regression using the random effects model was applied. His findings revealed that savings had a favorable and statistically significant influence on return on assets. Inverse relationship exists between loan advances and bank performance as regard to their return on asset. A positive but insignificant association exists between the capital structure of the bank and their return on assets, however, retained earnings had a negative but statistically significant connection with return on assets. Finally, moderating effect of liquidity have a considerable impact on the profitability of Nigerian deposit listed money banks. The study however, concentrated on only the profitability level.

Adedeji (2021) explores the impact of bank-specific characteristics on capital structure of the Nigeria deposit money banks (DMBs) listed on the floor of the Nigerian Stock Exchange market between 2006 and 2019. The study employed an ex-post facto design, with panel data produced from thirteen sampled DMBs listed in Nigeria. The study used both descriptive statistics and dynamic panel Generalized Method of Moments estimation techniques. Findings showed that a positive and significant effect exists between profitability and equity capital of the bank while an inverse relationship was seen between return on asset (ROA) and gearing ratios of Nigerian. Asset tangibility has a significant negative impact on equity capital but has a significant positive impact on equity capital. However, asset tangibility was seen to affects gearing ratio negatively and significantly. The tax rate has significant and negative impact on equity capital and inversely related to gearing ratio. Risk showed a positive and significant relationship with equity capital and

positively related to gearing ratio. Also, bank deposit ratio had a negative and significant impact on the equity capital ratio, positive and significant impact on gearing ratio. However, bank's capital structure was seen to be influenced heavily by individual characteristics, especially as regard profitability and deposit ratio.

Pradhan, Shyam, and Khadka, (2017). Investigated how debt financing affects commercial banks profitability in Nepalese. A total of 22 commercial banks were used for the period covering 2008 to 2014. Interest margin, return on asset and return on equity were used in measuring the bank performance. The independent variables used were ratio of short-term debt to total assets of the bank, ratio of bank long term debt to its total assets, ratio of bank total debt to its total assets, the debt-to-equity ratio of the bank and the ratio of interest coverage to the bank size. The study employed regression analysis and correlation techniques. findings showed that the short-term debt to total assets, interest coverage and size impacted positively on the profitability of banks. However, an inverse relationship exists between long term debt of the bank to its total asset, total debt of the bank to its total assets and the bank debt to equity ratio. The result shows that the variables are significant in determining the bank profitability.

Imeokparia, Adesanmi, and Fadipe (2021) investigated the impact of financial leverage on banks financial performance using the deposit money banks and the manufacturing companies in Nigeria between 2009 and 2019. Convenience random sampling was used to select 10 banks and 10 manufacturing companies listed on the floor of the Nigerian Stock Exchange. Secondary data sourced from the annual financial statement of the organizations was used. Return on assets (ROA) as a metric, total debt ratio (TDR), total debt to equity ratio (TDER), and interest cover ratio (ICR) as a proxy for gearing were used to determine financial performance (dependent variable). The data was analyzed using descriptive statistics, correlation matrices, and Pooled Ordinary Least Square regression. They concluded that overall debt ratios and total debt-to-equity ratios impacted negatively and significant on the financial performance of both deposit money banks and the manufacturing companies sampled. However, total debt ratio has a negligible beneficial impact on financial performance, whereas the total debt to equity ratio has a negative impact on financial performance of Nigerian manufacturing enterprises.

In another vein, Alphonsus (2021) explored the effect of capital on profitability of commercial banks in Nigeria for the period 2008 to 2019. The ex -post factor research design was employed.

A sample of 14 commercial banks was used. Descriptive analysis, Ordinary least square (OLS) along with co-integration estimation techniques was employed. Secondary data on total debt and total equity were used as proxies for capital structure while the performance of the selected bank was measured by their net profit. He concluded that capital structure of the selected banks has

positive and significant effect on their net profit.

Attah and Odi (2021) examined the implications of capital structure on the performance of deposit money banks in Nigeria between 2009 to 2019. The analysis was carried out employing Ordinary Least Square regression analysis and an ex-post facto research design. To evaluate the varying effects of these debt arrangements on bank financial performance, the study used various capital structure metrics such as short-term debt, long-term debt, total debt, and equity financing. The findings revealed that short-term debt/total capital impacted negatively but significant with the returns on equity. However, it impacted positively and significant with the total debt of the financial institutions.

Kurfi, Yadudu and Sabo (2021) investigated the impact of debt on bank performance in Nigeria for the period 2010 to 2018. A total of 14 deposit money banks were used. The ex-post facto design was used. The pooled Ordinary Least Square (OLS), fixed effect, and random effect estimation techniques was employed. They concluded that long-term debt impacted positively on the return on equity and was significant while the impact was insignificant with the return on asset of the financial institutions selected.

Nguyen, Dinh, and Vu (2021) evaluated the impact of capital structure on bank performance from 2010 to 2019 for 28 Vietnamese commercial banks. Descriptive statistics and regression analysis was employed. Their study revealed that capital structure (as assessed by total debt to assets and debt to equity ratios) has a negative and significant impact on selected commercial bank performance (measured by ROA and ROE). Meanwhile, with the exception of the negative impact of the operating cost rate, the majority of control variables (bank size, non-performing loans, liquidity, and GDP growth rate) show significant and positive relationships with bank performance.

Takon, Eba, Akagha, Matthias, and Chukwuma (2021) looked at the impact of capital adequacy structure on the deposit money bank performance in Nigeria. Access Bank PLC was selected and used in their study, The study's objectives were to investigate the impact of banks' total assets on

deposit money bank performance in Nigeria, as well as the function of equity capital in deposit money bank performance. The desk survey method was employed in sourcing data which was analyzed using multiple regression technique. Empirical tests revealed that there was a significant relationship between total asset and return on equity, as well as a significant relationship between equity capital and return on equity. The study only focused on one bank which may not be the situation for other banks.

Adeleke (2021) investigated the relationship between leverage and financial performance of some selected deposit money banks in Nigeria adopting ex post facto design. Findings revealed that there is a substantial negative relationship between debt-equity ratio and return on equity, implying that increasing debt in the capital structure would result in a decrease in financial performance as calculated by ROE. The study concluded that if banks want to boost their ROE, they should replace a reasonable amount of debt with equity in their capital structure.

Mustapha, Adio & Abdulazeez (2020) examined the relationship between capital structure and financial health using some selected deposit money banks in Nigeria. A sample of 15 commercial banks rated by Fitch in 2017 was used. Panel regression models were used in analyzing the data collected from the annual reports of quoted commercial banks. The findings revealed that the debt-equity ratio (DER) has a significant negative impact on the financial health of Nigerian commercial banks, with a significant negative impact of 5%. In addition, the debt-to-asset ratio has a major negative impact on the financial health of Nigerian commercial banks.

Ayunku & Uzochukwu (2020) investigated the impact of credit management on company performance in Nigerian Deposit Banks for the period 2014 to 2019. Ex-post facto research design was used. A total of 14 commercial banks were selected from the entire banks listed on the floor of the Nigerian Stock Exchange. The study used descriptive statistics, correlation, and the Ordinary Least Square regression technique in estimating the data collected. In both the Return on Asset and Tobin-Q models, random effect models revealed that non-performing loans, loan loss provision, and equity to asset ratio have a significant impact on bank performance.

Hafiz, Murtala, Rabiu & Ladan (2020) examined the influence of debt on the performance of Nigerian listed deposit money banks, with a focus on how debt at various levels affects return on equity for the period 2007-2016, a convenience sampling technique was used to determine the sample size of 13 banks. Feasible Generalized Least Squares estimation techniques was employed

in analyzing the data retrieved from all the financial institutions selected. The result revealed that debt has a significant negative impact on the return on equity of the banks.

Adeniyi, Marsidi, and Babatunji (2020) examined the impact of capital structure on commercial bank performance in Nigeria between 2009 to 2016. A total of 14 traded commercial banks were sampled. The variables used were profit after tax and earnings per share as performance indicators. A panel regression technique was used to analyze data collected. The findings revealed debt impacted negatively on the profitability of the banks and was significant in explaining the pattern of profitability of the selected banks. Also, that liquidity and shareholder wealth have a major impact on debt.

Adeoye and Olojede (2019) assessed how capital structure affects the performance of the Nigeria deposit money banks between 2012 to 2018. A total of ten deposit money banks that are listed on the Nigerian Stock Exchange were randomly selected. Data were collected from the audited financial statements of the selected financial institutions. Data sourced were analyzed using descriptive statistics, Pearson moment correlation and multiple linear regressions. They concluded that capital structure is negatively correlated with the financial performance of the selected deposit money banks as regards their return on asset and return on equity. From the regression result, they found that debt to equity though significantly impacted inversely on the financial performance of the banks as regards to both return on assets and return on equity. Asset tangibility had a significant effect on return on asset but a relatively insignificant impact on return on shareholder's equity, and that age had a significant impact on return on asset but a relatively insignificant impact on return on equity.

2.5 Literature Gap

Drawing from the empirical review carried out, it is glaring that most studies in the literature make use of correlation analysis or ordinary least square regression in addressing the issues of gearing intensity and performance of banks. This study deviates by using the panel regression analysis which previous studies have not used. Also, for most of the studies, only one measure is used to capture financial performance of the organization either ROA or Return on Equity (ROE). This study differs from other research work by using three measures to measure performance of deposit money banks in Nigeria. Also, most studies in the literature uses limited time frame for five years or less. This study extends the scope by using ten years ranging from 2011 to 2020.

2.6 Conceptual Framework

In the work of Kamau (2016), he emphasizes that conceptual framework is a visual or written product that graphically explain the main contents of the study being embarked upon. For better description of the concept, the following model will be used as medium to describe the effect of gearing intensity on the performance of deposit money banks in Nigeria. The independent variables are gearing intensity, coupled with two control variables Non performing loan and Net interest income. The dependent variables which are measures of performance are Gross Profit, Return on Asset and Return on Capital Employed.

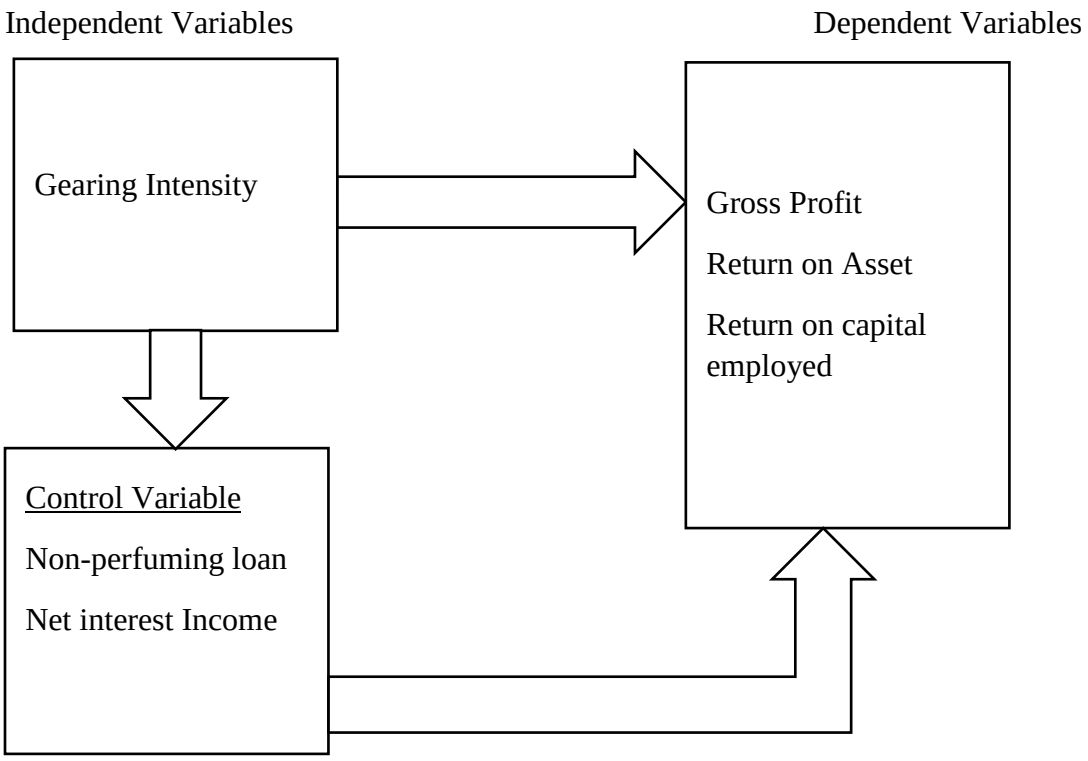

Figure 2.1 **The Conceptual Framework of the Model.**

2.7 Chapter Summary

In this chapter relevant literature review on the subject matter were addressed. The section includes the conceptual review, theoretical review, empirical findings from different researchers and their views concerning gearing intensity and financial performance of both financial and non – financial institutions performance. Furthermore, to conclude the chapter, gap in the literature as well as the conceptual framework for the model was provided.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design

Research designs are the 'techniques for gathering, analyzing, interpreting, and presenting methods and data investigations'. It is a broad strategy for linking proposed research concern regarding to relevant and empirical studies. Furthermore, it specifies how well the relevant data will be collected and analyzed, and how it will all be used to give a response to the set questions asked. There are four types of research design used in the literature. These are quantitative descriptive, which is a form of research that makes use of words in describing population, certain phenomenon, situations that may be occurring. The major area it focused on are questions such as what, how, where, and when. It assumes that when conducting a research work, emphasis should be placed more on the what instead of focusing on the why. Another form of research design is the exploratory research design. This form focused on investigating the questions raised on the research been carried out instead of providing solutions to existing underlying issues. It is basically useful when conducting research that the problem is yet to be noticed or characterized fully. There are also correlational, experimental, and quasi – experimental. However, for this study, the quantitative descriptive research design will be used in this study because it is correlational in nature.

3.2 Population of the Study

The population of the study include the overall Deposit Money bank in Nigeria listed on the floor of the Nigeria Stock Exchange as at 31st December 2020. The study was based on the analysis of ten years audited financial statements of the DMBs. There are 23 deposit money banks in Nigeria. However, not all the banks are geared. The population of the study therefore hinges on the geared banks in the country.

3.3 Sample Size

The sample size for this study was seven (7) Deposit Money Banks in Nigeria that are listed on the floor of the Nigerian Stock Exchange. The selected banks are Access Bank, Eco Bank, Fidelity Bank, Stanbic IBTC, United Bank for Africa, Union Bank and Zenith Bank, The selected banks are based on availability of data needed for the research work. The audited financial statements of the selected banks for the period 2011 -2020 was used and data were obtained from their annual reports.

3.4 Sampling Techniques.

A sampling technique is the name or other identifier for the method used to choose the sample's constituents or size. There are different sampling techniques used in the literature. This study employed purposive sampling techniques. This method is also called judgmental, selective, or subjective sampling, wherein the researchers choose people from the public to participate in their surveys primarily according to their own judgment.

3.5 Instrument of Data Collection and Source

Secondary source of data was used in this study. The data were collected and computed from the Annual Financial Statement of the selected banks for the period covering 2011 to 2020. The variable used were gross profit, return on asset and return on capital employed as the dependent variable. Gearing Intensity (computed by debt divided by debt plus equity (Bai, et al, 2021), Non – perfuming loan and net interest income. Gearing intensity is the independent variable while Non – perfuming loan and net interest income are the control variables. These variables are added because they are also major factors that determine the performance of banks (Gautam, 2018)

3.6 Model Specification

This study adopted the model by Nguyen and Nguyen (2020) with a slight modification. In the light of this, three models are used for this study based on the objectives specified.

Model I

The first objective of the study is to determine the effect of gearing on gross profit of the selected banks. To address the first objective, the model takes the form

$$GP = f(GI, NPL, NI) \qquad 3.1$$

Where:

GP = Gross profit.

GI = Gearing Intensity measured by gearing ratio

NPL = Non – performing loan

NI = Net Interest Income

In mathematical form, the model takes the form

$$GP_{it} = \beta_0 + \beta_1 GI_{it} + \beta_2 NPL_{it} + \beta_3 NI_{it} + \varepsilon_{it}. \qquad 3.2$$

Where i represent individual bank (1,…, 7), t represents the time (2011,…,2020) β_0 = constant, $\beta_1, \beta_2, and\ \beta_3$ are coefficient of the independent variables and ε_{it} is the error term.

To reduce the error, equation 3.2 is re-specified in its logarithm form as

$$LogGP_{it} = \beta_0 + \beta_1 LogGI_{it} + \beta_2 LogNPL_{it} + \beta_3 LogNI_{it} + \varepsilon_{it}. \quad 3.3$$

On apriori, we expect $\beta_1 < 0;\ \beta_2 < 0\ and\ \beta_3 > 0$

Model II

The second objective of the study is to determine the effect of gearing on the efficiency performance of the selected deposit money banks in terms of their return on asset (ROA). To achieve the second objective, the efficiency performance was measured by Return on Asset and the functional form is specified as

$$ROA = f(GI, NPL, NI) \quad 3.4$$

Where:

ROA = Return on Asset.

GI = Gearing Intensity measured by gearing ratio

NPL = Non – performing loan

NI = Net Interest Income In mathematical form, the model takes the form

$$ROA_{it} = \beta_0 + \beta_1 GI_{it} + \beta_2 NPL_{it} + \beta_3 NI_{it} + \varepsilon_{it}. \quad 3.5$$

Where i represent individual bank (1,…, 7), t represents the time (2011,…,2020) β_0 = constant, $\beta_1, \beta_2, and\ \beta_3$ are coefficient of the independent variables and ε_{it} is the error term.

To reduce the error, equation 3.5 is re-specified in its logarithm form as

$$LogROA_{it} = \beta_0 + \beta_1 LogGI_{it} + \beta_2 LogNPL_{it} + \beta_3 LogNI_{it} + \varepsilon_{it}. \quad 3.6$$

On apriori, we expect $\beta_1 < 0;\ \beta_2 < 0\ and\ \beta_3 > 0$

Model III

The third specific objective of the study is to investigate the effect of gearing on efficiency performance of the deposit money bank. To achieve the third objective, the return on capital employed was used to measure the efficiency performance and the functional form is specified as

$$ROCE = f(GI, NPL, NI) \quad 3.7$$

Where:

ROCE = Return on capital employed

GI = Gearing Intensity measured by gearing ratio

NPL = Non – performing loan

NI = Net Interest Income

In mathematical form, the model takes the form

$$ROCE_{it} = \beta_0 + \beta_1 GI_{it} + \beta_2 NPL_{it} + \beta_3 NI_{it} + \varepsilon_{it}. \quad 3.8$$

Where i represent individual bank (1,…, 7), t represent the time (2011,…,2020) β_0 = constant, $\beta_1, \beta_2, and\ \beta_3$ are coefficient of the independent variables and ε_{it} is the error term.

To reduce the error, equation 3.8 is re-specified in its logarithm form as

$$LogROCE_{it} = \beta_0 + \beta_1 LogGI_{it} + \beta_2 LogNPL_{it} + \beta_3 LogNI_{it} + \varepsilon_{it}. \quad 3.9$$

On apriori, we expect $\beta_1 < 0;\ \beta_2 > 0\ and\ \beta_3 > 0$

3.6 Estimation Techniques

The study makes use of both descriptive and inferential statistics. The descriptive statistics was used to determine the mean, standard deviation, minimum and maximum value of the variables used. However, to achieve the first second and third objectives, panel regression analysis was used along with multiple regression analysis. The analysis was carried out with the use of statistical package for social sciences (SPSS) and EVIEWS software.

3.7 Definition of Variables

Gross Profit

This refers to the net gains on trading and derivatives a bank made after deducting all interest expenses associated with services rendered by the bank. It is calculated by deducting interest expenses from Net Interest Revenue of a bank. This is one of the dependent variables in the model.

Return on Asset (ROA)

This refers to the financial measure that illustrates how much profit a firm makes in comparison to its total assets. It is computed by dividing the net income by total asset of the Bank. It is computed thus $\frac{Net\ Income}{Total\ Asset}$. This is the second dependent variable.

Return on Capital Employed measures the profit generated by each unit of capital invested in the business. It is calculated by dividing earnings before interest and tax, by capital employed.

$\frac{Earnings\ before\ Interest\ or\ Tax}{Capital\ Employed}$. This is the third dependent variable.

Gearing Intensity

This refers to the debt of a business or company divided by company equity. The debt-to-equity ratio can be converted into a percentage by multiplying the fraction by 100. It is the major independent variable and its impact on the dependent variable is expected to be negative. The formula is computed thus $\frac{Total\ bank\ debt}{Total\ Asset}$. It is the major independent variable and is expected to be negative.

Non-performing loan

A loan may also be considered non-performing where the borrower has fallen behind on payments and has not made any scheduled principal or interest payments for a period of time, usually 90 days. This is one of the control variables in the model and it is expected to be negative. It is computed thus $\frac{Bank\ Capital}{Risk\ Weighted\ Asset}$

Net Interest Income is the difference between the interest earned on assets and the interest paid out on deposits. It is the second control variables and is expected to be positive.

CHAPTER FOUR

RESULTS AND ANALYSIS

This chapter presents the results and analysis of data obtained from the regression analysis carried out on the equation specified. The outcome of the results was used to draw out the conclusions of the study. The first section presents the descriptive statistics of the variables used followed by the presentation of the results. The third section deals with the discussions of findings.

4.1 Descriptive Analysis

Table 4.1 presents the descriptive analysis of all the variables used. In terms of Gearing Ratio, the mean values for Access Bank, Eco Bank, UBA, Union Bank and Stanbic IBTC are 1.052 million, 29.015 million, 20.837 million, 4.751 million and 7.565 million respectively. Eco Bank has the highest mean value of 29.015 million while Access Bank has the lowest mean value of 1.052 million. The standard deviation values for the selected banks are 0.538 million, 14.490 million, 11.002 million, 2.462 million and 12.291 million respectively. The minimum values for the selected banks are 0.443 million, 10.468 million, 5.025 million, 11.444 million and -3.667 million respectively. Union Bank has the highest minimum value with 11.444 million while Stanbic IBTC has the lowest minimum value of -3.667 million. The maximum values for gearing was in Fidelity As reported on the table, as regard to Return on Asset. Access Bank has the highest mean value of 1.828 million followed by while Union Bank has the lowest mean value of 0.203 million. The standard deviation values for the selected banks are 0.494 million, 0.658 million, 0.800 million, 3.075 million and 0.395 million respectively. The minimum values for the selected banks are 0.944 million, -0.093 million, -0.354 million, -7.827 million and 1.021 million respectively. Stanbic IBTC has the highest minimum value of 1.021 million while Union Bank has the lowest minimum value of -7.827 million. The maximum values for each bank are 2.542 million, 1.782 million, 2.409 million, 2.660 million and 2.153 million respectively. Union Bank has the highest maximum value of 2.660 million while Eco Bank has the lowest maximum value of 1.782 million

As regard to non – performing loan of the banks, the mean values for Access Bank, Eco Bank, UBA, Union Bank and Stanbic IBTC are 245819 million, 6507.58 million, 247972.6 million, 359.333 million and 87425.89 million respectively. Stanbic IBTC has the highest mean value of 87425.9 million while Union Bank has the lowest mean value of 359.333 million. The standard deviation values for the selected banks are 71085.28 million, 57660.33 million, 114314.1 million, 199276 million and 55188.88 million respectively. The minimum values was reported in Fidelity

Bank with 24711 million naira and the maximum value was reported in Zenith Bank 680270 million naira.

As reported in Table 4.1, as regards to Net Income. The mean values for Access Bank, Eco Bank, UBA, Union Bank and Stanbic IBTC were 571709.2 million, 398989.8 million, 624927.3 million, 261295.4 million and 218806 million respectively. UBA has the highest mean value of 624927.3 million while Stanbic IBTC has the lowest mean value of 218806 million. The standard deviation values for the selected banks are 137304.6 million, 187158.9 million, 91933.26 million, 93359.95 million and 28706.63 million respectively. The minimum values for the selected banks was reported in Eco Bank with 124254 million while Zenith Bank reported the highest 1ith 1286997 million naira

In terms of Return on Capital Employed, the mean values for Access Bank, Eco Bank, UBA, Union Bank and Stanbic IBTC are 18.154 million, 7.107 million, 17.203 million, -0.017 million and 17.861 million respectively. Access Bank has the highest mean value of 18.154 million while Union Bank has the lowest mean value of -0.017 million. The standard deviation values for the selected banks are 2.661 million, 7.699 million, 13.297 million, 20.461 million and 9.933 million respectively. The minimum values for the selected banks were in Ecobank with 0.649 million, while Zenith Bank recorded the highest value with 144.97 million naira

Finally in terms of Gross Profit, the mean values for Access Bank, Eco Bank, UBA, Union Bank and Stanbic IBTC are 245819 million, 62607.58 million, 247972.6 million, 359.333 million and 87425.89 million respectively. UBA has the highest mean value of 247972.6 million while Union Bank has the lowest mean value of 359.333 million. The standard deviation values for the selected banks are 71085.28 million, 57660.33 million, 11414.1 million, 199276 million and 55188.88 million respectively. The minimum values for the selected banks were found in Ecobank with -5817.589 million. The maximum values were found in Zenith Bank with 516255 million respectively.

Table 4.1. Descriptive analysis of variables

Banks	Mean	Std. Dev	Min	Max
Gearing Intensity				
Access Bank	1.052	0.538	0.443	2.191
ECO Bank	29.015	14.49	10.468	55.268
UBA	20.837	11.002	5.025	35.445
Union Bank	14.751	2.462	11.444	18.482
Stanbic IBTC	17.565	12.291	-3.667	35.226
Zenith	26.9975	15.3761	3.34068	49.1249
Fidelity	33.69	18.1784	13.2251	55.3255
Return on Asset				
Access Bank	1.828	0.494	0.944	2.542
ECO Bank	0.763	0.658	-0.093	1.782
UBA	1.654	0.8	-0.354	2.409
Union Bank	0.203	3.075	-7.827	2.66
Stanbic IBTC	1.717	0.395	1.021	2.153
Zenith	2.93751	0.48248	2.09327	3.86565
Fidelity	1.11775	0.40898	0.53013	1.96029
Non-Performing Loan				
Access Bank	245819	71085.3	97167	334359
ECO Bank	6507.58	57660.3	5817.6	175230
UBA	247973	114314	42972	35271.5
Union Bank	359.333	199276	52159	158103
Stanbic IBTC	87425.9	55188.9	31635	171039
Zenith	560132	113190	307733	680270
Fidelity	66897.9	27249.6	24711	115438
Net interest Income				
Access Bank	571709	137305	440693	903026
ECO Bank	398990	187159	124254	632213
UBA	624927	91933.3	430709	722720

Union Bank	261295	93360	171075	433355
Stanbic IBTC	218806	28706.6	174885	259070
Zenith	971396	185750	786567	1286997
Fidelity	242136	40588.1	192832	308954
Return on Capital Employed				
Access Bank	18.154	2.661	12.552	21.037
ECO Bank	7.107	7.699	-0.649	23.915
UBA	17.203	13.297	-17.623	27.022
Union Bank	-0.017	20.461	-54.012	12.242
Stanbic IBTC	17.861	9.933	4.719	30.989
Zenith	111.64	24.7827	74.1855	144.97
Fidelity	19.8304	15.0701	1.00974	42.2467
Gross Profit				
Access Bank	245819	71085.3	97167	334359
ECO Bank	62607.6	57660.3	-5817.6	175230
UBA	247973	11414.1	-42972	352715
Union Bank	359.333	199276	-521593	158103
Stanbic IBTC	87425.9	55188.9	31635	171039
Zenith	203176	158771	32893	516255
Fidelity	23271.1	22551.2	-21764	50187

Source: Author's computation using SPSS

4.2 The impact of gearing on operating performance of deposit money banks

The first objective of the study was to determine the effect of gearing on the operating performance of deposit money banks, Table 4.2 and Table 4.3 reported the group specific result and individual specific results for all the selected deposit money banks used.

From Table 4.2, result revealed that a negative and significant relationship exist between gearing and gross profit of the deposit money banks when combined in panel. This result conforms to the apriori expectation. Specifically, a percentage increase in gearing intensity will decrease gross profit of the banks by 0.015%. The result was significant with$\rho < 0.05$. The significant of the result indicated that gearing is an important factor that determine the gross profit of the deposit

money banks in Nigeria. Also, a negative relationship exists between non-performing loans and gross profit of the DMBs. As reported from the Table 4.2 a percentage increase in non-performing loans of the bank will decrease gross profit by 0.978%. The result is in line with apriori and is significant at $\rho < 0.01$. The implication of the results is that gearing and non-performing loans are important factors that influences gross profit in Nigerian banks. The result also shows net interest income to be positively related to gross profit. A one percentage increase in net interest income will increase gross profit by 0.008%. However, the result was not significant($\rho > 0.1$), but follows apriori. The R^2 of 0.899 suggests that about 89% of variations in the dependent variable (gross profit) can be accounted for by the dynamics of the independent variables; gearing, non-performing loans, and net interest income. The F-statistics ($\rho < 0.001$) indicates that the overall model is valid and significant.

Table 4.2: Regression

	Dependent Variable
Variable	LogGRP
C	0.290
	(0.000)
LogGR	-0.015
	(0.027)
LogNPL	-0.978
	(0.000)
LogNI	0.008
	(0.405)
R^2	0.899
Adj R^2	0.819
F-Stat	15142.190
	(0.000)

Source: Author's computation using Eviews. Note: values in parenthesis represents the probability.

In terms of individual specific bank result as reported in Table 4.3, the results show that a percentage increase in gearing intensity will reduce gross profit by 0.031%, 0.011%, 0.011%, and 0.139% in UBA, Stanbic, Union and Access banks respectively. The result conforms to apriori expectation. Based on the result, the impact of gearing was higher in Access (0.139), followed by

Stanbic and Union, both with coefficients 0.011, and lastly UBA (0.031). This finding is in line with Aziz & Abbas (2019). The result also indicates a positive relationship between gearing and gross profit in Eco, Zenith and Fidelity. From the result a one percentage increase in gearing will increase gross profit by 0.005%, 0.145% and by 0.104% in Eco, Zenith and Fidelity respectively. This does not conform to apriori expectation. Based on the result, the effect of gearing was higher in Zenith (0.145), followed by Fidelity (0.104), and Ecobank (0.005). This finding is in line with Rahim & Isiaka (2021)

Additionally, the result suggests a negative relationship between net interest income and gross profit in four banks. A percentage increase in net interest income will reduce gross profit by 2.056% in Zenith, by 0.731% in Fidelity and by 0.005 %, in Eco and Union bank. The result is not in line with apriori. Based on the result, the impact of net interest income was highest in Zenith (2.056), followed by Fidelity (0.731), and then Eco and Union bank both with coefficient 0.005. This finding is in line with Yuhasril (2019). Also, a positive relationship exists between net interest income and gross profit in UBA, Stanbic, and Access banks. A one percent increase in net interest income will increase gross profit by 0.169%, 0.041%, and 0.029% in UBA, Stanbic and Access banks respectively. The result conforms to apriori. Based on the result, net interest income has the highest impact in UBA (0.169), followed by Stanbic (0.041), and Access (0.029). The result is in accord with the finding of Ngoc (2019).

Furthermore, the result indicates that non-performing loans are negatively related to gross profit in all the banks under study. A one percent increase in non – performing loan will decrease gross profit by 0.758%, 1.096%, 0.878%, 0.980%, 0.594%, 2.427%, 0.381% in Ecobank, UBA, Stanbic, Union, Access, Zenith and Fidelity banks respectively. Based on the result, the effect of non – performing loan has the highest influence in Zenith (2.427), followed by UBA (1.096), Union (0.980), Stanbic (0.878), Ecobank (0.758), and Fidelity (0.381) banks respectively. The result agrees with Besmir & Aliu (2021).

The R-squared value of 0.89 indicated that about 89% in the variation of gross profit is explained by gearing intensity, non-performing loan and net interest income of the bank. The F-Statistics value of 15452 with at $\rho < 0.01$ indicated that the overall model is significant.

Table 4.3. Dependent Variable LogGRP

Bank	C	LogGR	LogNI	LogNPL	R^2	Adj R^2	F-Stat
Eco Bank	1.518	0.005	-0.005	-0.758	0.789	0.684	183.903
	(0.000)	(0.474)	(0.411)	(0.000)			(0.000)
UBA	-1.408	-0.031	0.169	-1.096	0.770	0.655	65.264
	(0.105)	(0.430)	(0.472)	(0.001)			(0.000)
Stanbic	0.606	-0.011	0.041	-0.878	0.682	0.593	109.259
	(0.099)	(0.079)	(0.314)	(0.000)			(0.000)
Union	0.266	-0.011	-0.005	-0.980	0.900	0.860	399.980
	(0.041)	(0.885)	(0.852)	(0.000)			(0.000)
Access	2.431	-0.139	0.029	-0.594	0.790	0.686	219.752
	(0.000)	(0.056)	(0.139)	(0.000)			(0.000)
Zenith	2.879	0.145	-2.056	-2.427	0.743	0.614	5.780
	(0.631)	(0.432)	(0.063)	(0.017)			(0.033)
Fidelity	6.677	0.104	-0.731	-0.381	0.435	0.152	1.540
	(0.448)	(0.402)	(0.159)	(0.825)			(0.298)

Source: Author's computation using Eviews. Note: values in parenthesis represents the probability.

4.3 The Impact of gearing on efficiency of Deposit Money Banks in Nigeria: Return on Asset

The second objective of the study was to examine the effect of gearing intensity on the efficiency of Deposit Money Banks in Nigeria in terms of their Return on Asset. Table 4.4 and Table 4.5 reported the group specific result and individual specific results for all the selected deposit money banks used.

From Table 4.4, an adverse relationship exists between gearing and return on asset. Specifically, a one percentage increase in gearing intensity will reduce return on asset by 0.004%. However, the result is not significant with $\rho > 0.1$. The result conforms with apriori expectation. Also, a negative relationship exists between non-performing loans and return on asset. A one percentage increase in non-performing loans will decrease return on asset by 0.229%. The result is in line with apriori and is significant at the$\rho < 0.01$. The result also shows net interest income to be positively related to return on asset. A one percentage increase in net interest income will increase return on

asset by 0.024%. The result conforms to apriori and is also significant($\rho < 0.05$). These findings implies that non-performing loan and net interest income are important determinants of return on asset. An R^2 of 0.771 suggests that about 77% of variations in the dependent variable (return on asset) can be accounted for by changes in the independent variables (gearing, non-performing loans, and net interest income. The F-statistics value of 511.206 with $\rho < 0.001$confirms that the overall model is significant.

Table 4.4. Regression

	Dependent Variable
Variable	LogROA
C	-0.136
	(0.045)
LogGR	-0.004
	(0.643)
LogNPL	-0.229
	(0.000)
LogNI	0.024
	(0.041)
R^2	0.771
Adj R^2	0.649
F-Stat	511.206
	(0.000)

Source: Author's computation using Eviews. Note: values in parenthesis represents the probability.

In terms of individual specific bank result as reported in Table 4.5, gearing intensity was negatively related to return on assets in three of the banks. Explicitly, a percentage increase in gearing intensity will reduce return on assets by 0.005%, 0.175%, and 0.027% in Union, Access and Zenith banks respectively. The result conforms to apriori expectation. Based on the result, the impact of gearing on return on asset was higher in Access (0.175), followed by Zenith (0.027) and then Union (0.005). This finding is in line with the findings of Abhilash, Anzer & Raju (2021), Osamor

& Adebanjo (2020), and Syah, Kharismasyah, Darmawan, & Aziz, (2021). The result also indicates a positive relationship between gearing and return on asset in UBA, Stanbic and Fidelity. From the result a one percentage increase in gearing will increase return on asset by 0.012%, 0.014% and 0.005%, UBA, Stanbic and in Fidelity respectively. This does not conform to apriori expectation. Based on the result, the effect of gearing was higher in Stanbic (0.014), followed by UBA (0.012), and Fidelity (0.005) bank. This finding is in line with Tsakiri, A. (2020).

Additionally, the result suggests a negative relationship between net interest income and return on asset in six banks. A percentage increase in net interest income will reduce return on asset by 0.021% in Eco, by 0.093% in UBA, 0.008% in Union, 0.131% in Access, 0.068% in Zenith and by 0.052% in Fidelity bank. The result is not in line with apriori. Based on the result, the impact of net interest income on return on assets was highest in Access (0.131), followed by UBA (0.093), Zenith (0.068), Fidelity (0.052), Eco (0.021) and Union (0.008) banks. This finding is in accord with Pak (2020).

Also, a positive relationship exists between net interest income and return on asset in Stanbic. A one percent increase in net interest income will increase return on asset by 0.034% in Stanbic bank. The result conforms with apriori. The result is in accord with the findings of Borio, Gambacorta & Hofmann (2017) and also in line with Puspitasari, Sudiyatno, Aini & Anindiansyah (2021)

Furthermore, the result indicates that non-performing loans are adversely related to return on asset. A one percent increase in net non - performing loan will decrease return on asset by 0.643%, 0.469%, 0.198%, 0.226%, 0.310%, 0.346%, 0.846% n Ecobank, UBA, Stanbic, Union, Access, Zenith and Fidelity banks respectively. Based on the result, non-performing loans has the highest impact on return on assets in Fidelity (0.846), followed by Eco (0.643), UBA (0.469), Zenith (0.346), Access (0.310), Union (0.226) and Stanbic (0.198) banks respectively. The result is in accord with Swandewi & Purnawati (2021).

Table 4.5. Dependent Variable LogROA

Bank	C	LogGR	LogNI	LogNPL	R^2	Adj R^2	F-Stat
Eco Bank	-2.580	0.013	-0.021	-0.643	0.745	0.697	34.088
	(0.000)	(0.354)	(0.112)	(0.000)			(0.000)
UBA	-1.171	0.012	-0.093	-0.469	0.718	0.677	22.382
	(0.024)	(0.546)	(0.455)	(0.002)			(0.001)
Stanbic	-0.273	0.014	0.034	-0.198	0.675	0.513	4.159
	(0.651)	(0.191)	(0.635)	(0.092)			(0.065)
Union	-0.201	-0.005	-0.008	-0.226	0.834	0.791	347.367
	(0.457)	(0.979)	(0.893)	(0.000)			(0.000)
Access	0.131	-0.175	-0.131	-0.310	0.723	0.584	5.212
	(0.917)	(0.428)	(0.074)	(0.200)			(0.041)
Zenith	-0.534	-0.027	-0.068	-0.346	0.812	0.718	8.622
	(0.200)	(0.054)	(0.152)	(0.003)			(0.014)
Fidelity	-3.571	0.005	-0.052	-0.846	0.776	0.614	14.098
	(0.003)	(0.617)	(0.249)	(0.001)			(0.004)

Source: Author's computation using Eviews. Note: values in parenthesis represents the probability.

4.4 The Impact of gearing on efficiency of Deposit Money Banks in Nigeria: Return on Capital Employed

The third objective of the study was to examine the effect of gearing intensity on the efficiency of deposit money banks in terms of their Return on Capital Employed. Table 4.6 reported the group specific result while the individual specific result for all the selected deposit money banks used was reported in Table 4.7.

From Table 4.6, result shows a negative relationship exists between gearing and return on capital employed. Specifically, a one percentage increase in gearing intensity will reduce return on capital employed by 0.010%. However, the result is not significant with $\rho > 0.1$. The result conforms with apriori expectation. Also, a negative relationship was revealed to exist between non-performing loans and return on capital employed. A one percentage increase in non-performing loans will decrease return on capital employed by 0.584%. The result is in line with apriori and is significant at the$\rho < 0.01$.. The result also indicates that a negative relationship exists between net interest income and return on capital employed. A one percentage increase in net interest income will reduce return on capital employed by 0.063%. The result does not confirm with apriori. However, the result is significant($\rho < 0.01$). These findings implies that non-performing loan and net interest income are important factors that determines good return on capital employed in Nigerian banks. The R^2 value of 0.819 suggests that about 82% of variations in the dependent variable (return on capital employed) can be accounted for by changes in the independent variables. The F-statistics($\rho < 0.001$) also indicates that the overall model is significant.

Table 4.6. Regression

	Dependent Variable
Variable	LogROCE
C	-1.203
	(0.000)
LogGR	-0.010
	(0.589)
LogNPL	-0.584
	(0.000)
LogNI	-0.063
	(0.000)
R^2	0.819
Adj R^2	0.758
F-Stat	721.179
	0.000

Source: Author's computation using Eviews. Note: values in parenthesis represents the probability.

In terms of individual specific bank result as reported in Table 4.7, gearing intensity was adversely related to return on capital employed in three banks. Specifically, a percentage increase in gearing intensity will reduce return on capital employed by 0.011%, -0.008%, 0.121% and 0.117% in UBA, Stanbic, Access, and Zenith banks respectively. The result conforms with apriori expectation. Based on the result, the impact of gearing intensity on return on capital employed was highest in Access (0.121), followed by Zenith (0.117), UBA (0.011), and Stanbic (0.008) banks. This finding is in line with Abosede (2021). The result also suggests a positive relationship between gearing intensity and return on capital employed in Eco, Union, and Fidelity Banks. From the result a one percentage increase in gearing will increase gross profit by 0.049%, 0.008% and by 0.355% in Eco, Union and Fidelity respectively. This does not conform to apriori expectation. Based on the result, the relative impact of gearing on return on capital employed was highest in Fidelity (0.355), followed by Eco (0.049), and Union (0.008) banks. This finding is in conformity with Gikama (2019), as well as with the findings of Siyanbola, Olaoye & Olurin (2015).

Additionally, the result suggests a negative relationship between net interest income and return on capital employed in four out of the seven banks. A percentage increase in net interest income will

reduce gross profit by 0.090% in Eco, by 0.143% in UBA, 0.076% in Union and by 0.055 % Access bank. The result is not in line with apriori. Based on the result, the negative influence of net interest income on return on capital employed was highest in UBA (0.143), followed by Eco (0.090), and Union bank (0.055). This finding is in line with Kerbl & Sigmund (2017). Also, a positive relationship is shown to exist between net interest income and return on capital employed in Stanbic, Zenith, and Fidelity banks. A one percent increase in net interest income will increase gross profit by 0.158%, 0.568%, and 0.016% in Stanbic and Zenith and Fidelity banks respectively. The result conforms to apriori. Based on the result, net interest income has the highest positive impact in return on capital employed in Zenith (0.568), followed by Stanbic (0.158), and Fidelity (0.016). The result is in accord with the finding of Borio, Gambacorta, & Hofmann (2017).

Furthermore, the result suggest that non-performing loans are negatively related to return on capital employed in all the banks under study. A one percent increase in non-performing loans will decrease return on capital employed by 1.249% in Eco, 1.413% in UBA, by 1.304% Stanbic, 0.573% in Union, and 0.319% in Access bank, 0.172% in Zenith and by 1.378% in Fidelity bank. Based on the result, non-performing loans has the highest impact return on capital employed in UBA (1.413), followed by Fidelity (1.378), Stanbic (1.304), Ecobank (1.249), Union (0.573), Access (0.319) and Zenith (0.172) banks. The result is in line with the findings of Gabriel, Victor & Innocent (2019), and Adebayo, Adeniyi, Nyikyaa & Yohanna (2020).

Table 4.5 Dependent Variable LogROCE

Bank	C	LogGR	LogNI	LogNPL	R^2	Adj R^2	F-Stat
Eco Bank	-4.983	0.049	-0.090	-1.249	0.724	0.636	24.296
	(0.001)	(0.137)	(0.011)	(0.000)			(0.001)
UBA	-5.619	-0.011	-0.143	-1.413	0.666	0.549	56.500
	(0.001)	(0.803)	(0.582)	(0.000)			(0.000)
Stanbic	-6.517	-0.008	0.158	-1.304	0.815	0.758	19.152
	(0.002)	(0.691)	(0.307)	(0.001)			(0.002)
Union	-1.112	0.008	-0.076	-0.573	0.750	0.630	101.190
	(0.119)	(0.085)	(0.028)	(0.005)			(0.000)
Access	0.398	-0.121	-0.055	-0.319	0.881	0.821	14.805
	(0.564)	(0.320)	(0.140)	(0.034)			(0.004)
Zenith	-2.051	-0.117	0.568	-0.172	0.845	0.718	34.487
	(0.044)	(0.003)	(0.001)	(0.299)			(0.000)
Fidelity	-6.726	0.355	0.016	-1.378	0.747	0.621	35.782
	(0.042)	(0.000)	(0.917)	(0.039)			(0.000)

Source: Author's computation using Eviews. Note: values in parenthesis represents the probability.

4.5 Discussion of Findings

This study investigates the effect of gearing intensity on the operating performance of Deposit Money Banks in Nigeria, on bank's efficiency in terms of Return on Asset (ROA) as well as on banks efficiency in terms of Return on capital employed.

In order to achieve the first objective, a panel and multiple regression was used. Variables analyzed were gross profit, gearing, non-performing loans, and net interest income. Results revealed gearing intensity to be negatively related to gross profit of the deposit money banks. This result conforms to the apriori expectation. This finding is in line with Aziz & Abbas (2019). Also, a negative relationship was found to exist between non-performing loans and gross profit of the DMBs. The result agrees with Besmir & Aliu (2021). Lastly, the result also indicates a positive relationship

between net interest income and gross profit in the DMBs, which is in accord with the findings of Yuhasril (2019).

In other to achieve the second objective, panel multiple analysis was conducted. Variables analyzed were return on asset, gearing, non-performing loans, and net interest income. Analysis of results suggests the existence of a negative relationship between gearing and return on asset. The result conforms with apriori expectation. The finding was in line with the findings of Abhilash, Anzer & Raju (2021), Osamor & Adebanjo (2020), and Syah, Kharismasyah, Darmawan, & Aziz, (2021). The result also shows a negative relationship between non-performing loans and return on asset thereby conforming to apriori. The finding is in accord with Pak (2020). Final result relating also indicates that net interest income is be positively related to return on asset. The result conforms with apriori expectation and is in accord with the findings of Borio, Gambacorta & Hofmann (2017) and also in line with Puspitasari, Sudiyatno, Aini & Anindiansyah (2021)

To achieve the third objective, panel multiple analysis was used. Variables analyzed were return on capital employed, gearing, non-performing loans, and net interest income. Result shows that an adverse relationship exists between gearing and return on capital employed. The result conforms with apriori expectation and is in line with Abosede (2021). Also, a negative relationship was found to exists between non-performing loans and return on capital employed. The result conforms with apriori and conforms with the findings of Gabriel, Victor & Innocent (2019), as well as with the findings of Adebayo, Adeniyi, Nyikyaa & Yohanna (2020). Lastly, a negative relationship was fund to exists between net interest income and return on capital employed. The result does not confirm with apriori. This finding is in accord with Kerbl & Sigmund (2017).

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

This study investigated the impact of gearing on the performance of deposit money banks in Nigeria. To achieve the objectives, three hypotheses were formulated and tested. Banks performance were measure by their gross profit, return of asset (ROA) and return on capital employed (ROCE). to achieve a robust result, both the group specific of the bank result and the individual bank was analyzed. The conclusion reached are as follows: First, in terms of group specific result, gearing impacted negative on the gross profit, return on asset and return on capital employed of the deposit money banks in Nigeria. However, as regard individual banks result, debt financing improves the performance of Eco Bank, Zenith Bank and Fidelity banks in terms of their gross profit. These indicated that they utilize the debt effectively in the banks.

Secondly, it was discovered that persistent rise in non-performing loans has been linked to poor performance of Nigerian deposit money banks. This is due to its negative effect on bank's return on asset, return on capital employed as well as the gross profit of the banks. Third, net interest income of the banks helps in improving the performance of the bank.

5.2 Recommendation

Based on the conclusion of the study, the following recommendations are suggested

i. Banks should ensure that they do not rely on long term loan but try to ensure they have readily capital in financing and given aid to their customers.

ii. Banks that can efficiently use debt should use more debt capital to optimize their financial performance in terms of their returns, while those who are failing should cease accumulating debt because it negatively affects their financial performance.

iii. Financial institutions that seek external debt should look for low-interest loans such that the tax benefits of the loan outweigh the financial hardship.

iv. Deposit money banks in Nigeria should hire qualified risk managers who would always use their talents to limit the incidence of non-performing loans.

v. There is a need for the financial institutions in Nigeria to constantly check the end-use of funds entrusted to its customers to prevent fund diversion, which can lead to non-performing loans.

vi. Deposit Money Banks should intensify efforts on the recovery of non-performing loans in other to reduce the ration of NPLs and improve their efficiency in terms of return on capital employed.

5.3 Research Limitation

The study examined the impact of gearing on the performance of deposit money banks in Nigeria for the period covering 2011 to 2020. Despite the contribution of the study to the existing literature, some of the limitation to the study are as follows. Firstly. Most banks do not report their debt in their financial statement for some years which make it difficult to compute their gearing ratio. Second, financial statement of some banks are not readily available which would have assist in examining more financial institutions. Third, the limited time frame for the research also affected the researcher during the study.

5.4 Suggestions for Further Research and Study

This study has been able to investigate the effect of gearing on the performance of deposit money banks in Nigeria. First, the study focused on only the financial sector of the economy, further research should compare both financial and non – financial sector of the economy. Second, only banks that reported debts in their financial statement were used, further research should compare the implications for banks that do not gear and banks that geared in the country Furthermore, the period covered 2011 to 2020. Further research should compare period before the adoption of the International Financial Reporting Standard (IFRS) and the period of its adoption in the year 2012.

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