CORPORATE GOVERNANCE AND BANK PERFORMANCE IN NIGERIA

BY

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DECLARATION

I, OBI CORDELIA CHUKWUEKWU, declare that this dissertation titled “Corporate Governance and Bank Performance in Nigeria” was done by me under the supervision of Prof. E. L. Dabor. The dissertation has not been presented, either wholly or partly, for any degree elsewhere before. All sources of scholarly information used in this dissertation were duly acknowledged.

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OBI, Cordelia Chukwuekwu **Date**

CERTIFICATION

The undersigned certify that they have read and hereby recommended for acceptance by Delta State University a dissertation titled: "Corporate Governance and Bank Performance in Nigeria" in partial fulfilment of the requirements for the award of Master of Science (M.sc) degree in Banking and Finance.

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DEDICATION

This study is dedicated to the Almighty God, who has given me the strength and wisdom for this achievement. Unto thy name alone, Oh Lord, be ascribed all the glory, honour and adoration.

I also dedicate this study to my wonderful parents of blessed memory Late Mr. Christopher &Mrs. Augusta Obi, may their souls rest in perfect peace. Amen.

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ABSTRACT

The main objective of this study is to ascertain the impact of corporate governance on bank performance in Nigeria. The data used for the study were gathered from a random sample of ten (10) banks. The data were extracted from the annual reports of these banks from 2005 – 2014. Pearson Correlation and the regression analysis were used. Regression analysis was used to analyze the relationship that exists between corporate governance and the financial performance of the studied banks while Pearson correlation measures the degree of association between the considered variables. The profitability variables used to measure the financial performance of the banks is the accounting measures of performance such as Return on Equity (ROE) and Return on Asset (ROA). The results of this study revealed a positive relationship between the directors' equity holdings, corporate governance disclosure and bank performance, while board size, board composition with proportion to non-executive directors and audit committee size have negative significant relationship with bank performance in Nigeria. Director's equity holdings revealed a positive relationship with bank performance and this shows that individuals with stock ownership who are also part of the bank management have compelling business interest to run them well. Corporate governance disclosure index also shows a positive relationship with bank performance and this shows that bank which disclose more perform better. The results are consistent with previous literature that the correlation between corporate governance and bank performance is still not clearly established and the impact of corporate governance on bank performance in Nigeria is still relatively scarce. The study recommends that board size should not be neglected even though the relationship is not significant statistically, it is important to consider board size when taking financial decisions. The study also suggests that efforts to improve corporate governance should focus on the value of the stock ownership of board members since it relates positively to both the probability of disciplinary management turnover and future operating performance in poorly performing banks. The study evolves two models to examine the relationship that exists between corporate governance and performance of banks in Nigeria. The study developed a unique corporate governance index as its study specific to ascertain the level of compliance by the studied banks.

TABLE OF CONTENTS

Title Page	i
Declaration	ii
Certification	iii
Dedication	iv
Acknowledgements	v
Abstract	vi
Table of Content	vii
List of Tables	x
List of Figures	xi
Appendices	xii

CHAPTER ONE: INTRODUCTION

1.1	Background of the study	1
1.2	Statement of problems	3
1.3	Objectives of the study	5
1.4	Research Questions	6
1.5	Research Hypothesis	7
1.6	Scope of the study	7
1.7	Significance of the study	8
1.8	Limitations of the study	8
1.9	Definition of Major Terms	9
1.10	Organisation of the study summary	10

CHAPTER TWO: LITERATURE REVIEW

2.1	Introduction	11
2.2	Conceptual Framework	11

2.2.1 Bank Performance in Nigeria 12
2.2.2 Corporate Governance in Nigeria 14
2.2.3 Corporate Governance Actors 16
2.2.3.1 Shareholders 16
2.2.3.2 Debt holders 17
2.2.4 Corporate Governance Mechanism 18
2.2.4.1 Internal Mechanism 20
2.2.4.2 External Mechanism 22
2.3 Theoretical Review 23
2.3.1 Stewardship Theory (ST) 23
2.3.2 Stakeholder Theory 24
2.3.3 Resources Dependency Theory (RDT) 25
2.3.4 Agency Theory (AT) 26
2.3.5 Agency Problem/Cost 27
2.4 Empirical Review 29
2.4.1 Bank Performance and Board Size 29
2.4.2 Bank Performance and Board Composition 30
2.4.3 Bank Performance and Directors' Equity Holding 33
2.4.4 Bank Performance and Audit Committee Size 34

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction 36
3.2 Research Design 36
3.3 Population of study 36
3.4 Sample Size and Sampling Technique 37
3.5 Data Source 37
3.6 Model Specification 37
3.7 Measurement of Variables 38
3.8 Data Analysis Technique 39

CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS

4.1 Introduction 40

4.2 Data Presentation 40

4.3 Data Analysis 42

4.4 Inferential Analysis 43

4.4.1 Pearson’s Correlation Coefficient Analysis 43

4.4.2 Regression Analysis 47

4.5 Hypotheses Testing 48

4.6 Discussion of findings 51

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction 56

5.2 Summary of Findings 56

5.3 Conclusion 57

5.4 Recommendations 57

5.5 Contributions to Knowledge 58

References 59

LIST OF TABLES

Table 4.1 Level of Corporate Governance Disclosure

Index of Listed Banks 41

Table 4.2 Descriptive Statistics for model 1 and 2 42

Table 4.3 Pearson's correlation coefficient matrix for model 1 44

Table 4.4 Pearson's correlation coefficient matrix for model 2 45

Table 4.5 Regression Result <coefficient model

for ROE and ROA> 47

Table 4.6 Coefficient model for ROE 49

Table 4.7 Coefficient model for ROA 49

LIST OF FIGURES

Figure 1.1 Corporate Governance Mechanism 19

Figure 2.2 Agency Theoretical Perspective 28

APPENDICES

Appendix I:	Sampled Banks, Data Collected and their Corporate Governance Disclosure check list	69
Appendix II	Corporate Governance Disclosure Issues	79
Appendix III	Comprehensive Result of Regression Analysis	81

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Corporate governance has become a most topical issue in the modern business world today. Financial institutions around the world, irrespective of the size, are concerned about financial performance, increasing profitability and shareholders' return is usually a main concern.

Corporate governance has been defined as the way by which an organization certifies a fair return on the investment of its owners or shareholders and also meets the expectations of other stakeholders (Johnson & Makus, 2001). It is the means of directing and controlling the affairs of a business so as to protect the rights of all stakeholders (Sullivan, 2009). Corporate governance is perceived by the narrow view as the matter relating to shareholders protection, suppliers of finance to corporation, management efficiency, agency problems relating to economic theory, roles of board of directors, independence of external meetings etc. (Oyejide & Soyibo, 2001 and Asekunowo, 2006).

From the foregoing, corporate governance can then be seen as the process of protecting shareholders' rights. The shareholders have zero tolerance for poor performance. It is posited that the product of good governance is good performance (Tandelilin, 2007; De Andres, 2008; Aebi, Sabato & Schmid, 2010; Cunliffe, 2011)

The worldwide financial crisis of 2008, which began in the United States, was attributable to United States banks' excessive risk-taking. Consequently, for the people's attention to be drawn to the consequences of agency problem within banks and to control such risk, certain statements were made by bankers, related authorities and officials of Central Bank highlighting the importance of effective corporate governance in the banking industry since

2008 till now (Bharwani & Henry, 2010; and Hatch & Chung 2012). Emphasis is not just on how well the organization succeeds in its profitability goal, but how well it is managed, run and internally regulated, both formally and informally (Parker, 2006). Inotherwords, any similar crisis occurred or may occur in the future might be explained to be the result of bank governance failure.

In Nigeria the collapsed banks in 2008, which were believed to be run efficiently or on sound policy, demonstrate that there will always be discrepancies or misalignments between the various organizational stakeholders' interests (Sanusi, 2010). Therefore, managing these conflicting interests to produce mutually satisfying outcomes for all stakeholders is at the hub of the good corporate governance.

Corporate governance issue has been given the front burner status by all sectors of the economy. The government set up the Peterside Committee on Corporate Governance in public companies through Securities and Exchange Commission (SEC) in its effort to ensure good corporate governance. A sub-committee on corporate governance for banks and other financial institutions in Nigeria was also set up by the Bankers' Committee. This is in recognition of the vital role of corporate governance in the growth of financial sectors (Okeke, 2006).

Financial economists like Aebi, Sabato & Schmid, (2010) have been concerned with ways to deal with the problems which results from conflict of interest between equity owners and managers. The literature emanating from such efforts has grown and much of the econometric evidence has been built on the theoretical works of Mallon (1980), and Newman (1984).

Daniel and Morgan (1998) acknowledged that the principal-agent theory which was also adopted in this study is generally considered as the starting point for any debate on the issue of corporate governance. The governance mechanisms as identified in agency theory such as board size, board composition, directors' equity holding have been proposed to

ameliorate the principal-agent problem between managers and their shareholders (Muktar, Gerkings & Butt, 2003). Some studies have focused on banks' corporate governance (see Broad, 2013; Capiro, Leaven, & Levine, 2007; Drabenstott & Tsai, 2013). This study focuses on banks operating in Nigeria as a developing country so as to provide empirical evidence on the impact of corporate governance on bank performance.

1.2 Statement of the Problem

Corporate governance is particularly important in the Nigeria Banking Industry because of the past financial failures, frauds and questionable business practices which had adversely affected investors' confidence. The deterioration of the banks' asset portfolios, largely due to distorted credit management was identified to be the main structural sources of the crisis (Kashif, 2008 and Sanusi, 2010). To a large extent, this problem resulted from poor corporate governance in the country's financial sectors.

In Nigeria, there was lingering distress in the banks due to inadequate supervisory structures and issues of official recklessness of the managers and directors, while the industry was notorious for ethical abuses (Akpan, 2007). As a result of the manifestation of weak corporate governance inform of poor internal control systems, absence of risk management processes, excessive risk taking, disregard for cannons of prudent lending and insider abuses, fraudulent practices remain a worrisome feature of the banking system. Poor corporate governance was identified in almost all known instances to be a major factor of bank distress in the country. This view was supported by the Nigerian Security and Exchange Commission (SEC) in April 2004 in a survey which shows that corporate governance was at a basic stage, as existing corporate governance codes is recognised by only about 40% of quoted companies including banks (Soludo, 2004).

The year 2009 recorded series of cases of accounting improprieties in the Nigerian Banking Industry (example, Oceanic Bank, Afri Bank, Union Bank, Fin Bank and Spring

Bank) and this was due to the board of directors' lack of vigilance in their oversight functions, the board relinquishing control to corporate managers who pursued their own self-interests and the board being negligent in its accountability to stakeholders (Kriesel & Uadiale, 2010).

Prior studies / researches conducted to ascertain the relationships between different aspects of corporate governance and its impact on the banks' financial performance yielded mixed results. Some studies established that smaller board size leads to higher performance, (Daniel, 2000; Muktar, Namara & Usman, 2008; and James & Okafor, 2011); others show that the better the performance when a higher number of directors sit on the board (Cooper, 2006; Adams & Mehran, 2010). Jonker & Mills (2001) argued to the contrary that the significance of board size and bank performance relationship is sensitive to the estimation methods used.

Pearce & Zahra (1992) and Ogus (1998) also discovered that boards of directors dominated by outsiders have better performance while some researchers find no such relationship in terms of accounting profits or firm's value. This study therefore seeks to contribute to the debate by examining the impact of corporate governance on financial performance of banks in Nigeria.

Among the empirical studies on corporate governance are the studies of Muktar, Namara & Usman (2008) and Okeke (2006) that studied the corporate governance mechanisms and firm's performance. This study seeks to ascertain the code of corporate governance level of compliance in Nigerian banks. Some studies developed corporate governance index but this study built a unique corporate governance index as its study specific. This study therefore, seeks to examine the impact (if any) of corporate governance on performance of banks in Nigeria.

1.3 Objectives of the Study

The main objective of this study is to determine the impact of corporate governance mechanisms on the financial performance of banks in Nigeria. The specific objectives are to:

i. examine the impact of board size on return on equity of banks in Nigeria;

ii. find out whether the impact of board composition determine on return on equity of banks in Nigeria is significant;

iii. examine if the impact of directors' equity holding on the return on assets of banks in Nigeria is significant;

iv. ascertain whether the impact of the level of corporate governance disclosure on return on equity of banks in Nigeria is significant; and

v. determine the relationship between audit committee size and return on assets of banks in Nigeria.

1.4 Research Questions

The study would examine the following research questions:

i. To what extent does board size impact return on equity of banks in Nigeria?

ii. Is the impact of the proportion of non-executive directors on return on equity of banks in Nigeria significant?

iii. Is the impact of directors' equity holding on return on assets of banks in Nigeria significant?

iv. Is the impact of the level of corporate governance disclosure on return on equity of banks in Nigeria significant?

v. To what extent does audit committee size affect return on assets of banks in Nigeria?

1.5 Research Hypotheses

The following hypotheses are formulated and tested:

H_{01}: Board size has no significant impact on return on equity of banks in Nigeria;

H_{02}: The proportion of non-executive directors has no significant impact on return on equity of banks in Nigeria;

H_{03}: Directors' shareholding does not significantly affect the return on assets of banks in Nigeria;

H_{04} The level of corporate governance disclosure does not significantly affect return on equity of banks in Nigeria;

H_{05}: There is no relationship between Audit Committee size and return on assets of banks in Nigeria;

1.6 Scope of the Study

The study focuses on corporate governance and bank performance in Nigeria. The data used for this study were secondary data derived from the published financial statements of the ten (10) selected banks from 24 banks listed on the Nigerian Stock Exchange (NSE) between the ten (10) years period of 2005 to 2014. Corporate governance is proxied by board size, director's equity holding, corporate governance index and board of directors' composition as the independent variable while financial performance is proxied by return on equity and return on asset as the dependent variable.

1.7 Significance of the Study

The research study is of great benefit to the bank regulators, other relevant stakeholders, investors, academics, business practitioners, and the general public as it explains the impact of corporate governance on the financial performance of banks. This study provides an insight to bank regulators into understanding the degree of compliance by banks reporting on their corporate governance to different sections of the codes of best practice and where they are experiencing difficulties. The study is of great value to boards of directors who will use the information provided to benchmark the performance of their banks with that of their peers.

This study provides investors with knowledge on how their investments with the financial institutions are being managed and a decision whether to invest more or not. Moreso,

the study provides future researchers with an alternative summary measure and the achieved result will also serve as a data base for further researchers in this field of research.

1.8 Limitations of the Study

a. **Time:** Limited time was one of the major difficulties encountered in this research study. One would have expected that a research of this nature and magnitude should take at least not less than 10-12 months. But considering the status of the researcher as a student with a job and family to be bothered with, the time frame could not have been sufficient.

b. **Inadequate Library Facilities:** Lack of adequate library facilities also contributed its part of the setbacks on this research study in some ways. The library is meant to provide at least sufficient if not adequate literature materials. But this was not the case, as the researcher had to contend with the problem of out sourcing the internet.

c. **Financial Constraint:** The hash economic condition in Nigeria has it's negative toll on the researcher's financial potency. The planned estimates of funds needed for this research were not met. This is as a result of the fact that the scope (in terms of volume, data sourcing, sample size and literature materials) were limited to the extent which the available finance could effectively cover but this study was completed through borrowing from a corporative society.

Despite these limitations, we equally concluded this research study through the use of secondary data which were generated from the respective audited financial reports of the available banks.

1.9 Definition of Major Terms

For this research purpose, the underlisted terms will be defined as it is applied to the study.

1. **Board Composition:** This has to do with the disparity between inside and outside directors, and it is usually expressed as the percentage of outside directors on the board.
2. **Board Size:** This represents the total number of directors on the board of any corporate organization both executive and non-executive directors. It is very important for an organization to determine the ideal board size because the quality and number of directors in a firm influences the proper functioning of the board and hence corporate performance.
3. **Return on Assets:** This is expressed as a percentage of a firm's profitability, equal to a fiscal year's earnings divided by its total assets.
4. **Return on Equity:** This shows how well reinvested earning is used by an organization to generate additional earnings, equal to a fiscal year's after-tax income (after preferred stock dividends but before common stock dividends) divided shareholder's equity, expressed as a percentage.
5. **Agency Theory:** Agency relationship occurs when "one or more persons (principal) engages another person (agent) to carry out some functions on their behalf, which involves delegating some decision- making authority to the agent".

1.10 Organization of the Study

This research study is organized into various chapters. The logical organization of the study gives it uniqueness and makes it very simple and clear for readers and researchers. The orderliness is as follows:

Chapter one talks about the introduction to the investigation. Also included in this chapter is the statement of the research problem, objectives of the study, the research hypotheses, scope of the study, significance of the study and definition of terms among others.

Chapter two talks about the various literature reviews related to the study. Here, emphasis is on the conceptual, theoretical and empirical reviews of literature.

Chapter three talks about the research methodology used in the study.

Chapter four covers the data presentation and analysis of various secondary data used in the study while chapter five summarizes, concludes and makes recommendations for the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter took a comprehensive look at the basic concepts and theories as it applies to the subject matter. It also looks at what other scholars and resource persons have said on the subject area so as to give its readers an all round knowledge of the topic under review. This chapter is divided into three major headings with their sub headings: conceptual, empirical and theoretical issues. Corporate governance in the banking industry is based on the fact that much of the depositors' money is used more than the shareholder's fund therefore any crisis in the banking sector affect not only the shareholders but also the creditors and depositors (Karlino, 2005). Therefore, it is important to ensure that banks are operating properly.

2.2 Conceptual Framework

In this section, we examine conceptual issues related to this study. In particular we look at Bank performance in Nigeria, corporate governance in Nigeria and corporate governance actors and mechanisms.

2.2.1 Bank Performance in Nigeria

Bank performance generally implies how well a bank faired over a trading period given its objectives and the only document that explains this is presumably the income statement. Performance links an organisation's goals and objectives with organisation's decisions (Abdulkadir 2007). Over the years, Nigerian banking system has undergone notable changes in terms of the number of institutions, depth and breadth of operations as well as ownership structure. These changes have largely been influenced by challenges created by globalization of operations, technological innovations, financial sector deregulation and adoption of supervisory and prudential requirements that conform to international standards.

Prior to the banking industry reforms, the state of the Nigerian banks was characterized by low capital base, high non performing loans, insolvency and illiquidity, over dependence on public sector deposits and foreign exchange trading, poor asset quality, weak corporate governance, a system were the investors' confidence is low (Ebong 2006). ''The Nigerian banking system today is fragile and marginal" (Soludo 2004). The system faces huge challenges that need urgent attention and if not addressed could amount to crisis in the near future. He also identified bank problems as unprofitable operations, persistent illiquidity and having a poor assets base''.

Ashang (2005) cited rapid economic development and price stability as objectives of banking system. Regrettably, due to some deficiencies in our banking system such as low capital base, eroded shareholder's fund as a result of operating loss, small and medium scale private savers neglect etc, these objectives have remained largely unattained in Nigeria.

Soludo (2004) observed that the essential intermediation role of banks to mobilize savings and inculcate banking habit at the household and micro enterprise levels have been neglected by them. The problems of high lending rates and low domestic savings in the country were compounded because of the banks' indifference towards small savers, mainly at the grass-roots level. Access to relatively cheap and stable funds that would have provided a reliable source of credit to the productive sectors at affordable rates of interest was also reduced. Ashang (2005) also observed that the current structure of the banking industry has promoted tendencies geared towards a sticky behaviour of deposit rates, mostly at the retail level, such that, while lending rates of banks remain high and positive in real terms, most deposit rates are low and negative, particularly those on savings. Secondly, grass-roots savings mobilization has been discouraged by the unrealistic requirements, by many banks, for opening accounts.

Ordinarily, firm performance is believed to be reflected by stock prices and its behaviour. This may not be reliable always because it is a market indicator but performance indicators such as bank size, the volume of deposit and its profitability could be deemed as more reliable. For this research purpose, profitability indicators, precisely the Return on Equity Capital (ROE) and the returns on Assets (ROA) are used to assess bank performance. These ratios are indicators of management efficiency and rate of returns and when the ROE is higher than the ROA, the company has favourable financial leverage.

Bank performance in this study is measured in terms of the profitability and value of a firm. Since the aim of the study is to determine the impact of corporate governance on bank performance, the measures of performance are ROA and ROE.

2.2.2 Corporate Governance in Nigeria

Corporate Governance is defined as the structures and processes of directing and controlling the business and affairs of institutions in order to improve the long term shareholders' value by enhancing corporate performance and accountability while taking into consideration other stakeholders' interests (Organisation for Economic Co-operation and Development, 1999). In the past decade, public outrage over financial misdeeds around the world have arose because of the sudden failure of major corporate institutions in both the developed countries and developing economies example Nigeria. This had made the practice of good corporate governance mandatory.

In Nigeria, the regulatory organs namely Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC) supervised corporations and their board of directors governed them through management. It was discovered by SEC in 2003 that in the Nigerian banking industry, one of the major factors identified virtually in all known instances of financial institutions' distresses was poor corporate governance. Consequently, in 2003, a code of corporate governance was released by SEC in collaboration with the Corporate Affairs

Commission. It was expected of the banks to comply with the provisions but was later found that the code was recognized by only about 40% of quoted companies, including banks.

However, in 2006, a review of the existing code for the Nigerian Banks was necessitated by the consolidation of the banking industry. A new code was therefore developed to compliment the previous ones and compliance with the code made mandatory in order to improve the Nigerian banking industry effectiveness. An increased in equity holding by individuals and corporate bodies is one of the provisions. The recognition that individuals with equity ownership who are also part of the management have persuasive business interest to run them well influenced this provision.

In addition, the code specified 10% as the maximum percentage of government direct and indirect equity holding in any bank and subject to CBN prior approval if exceeded by any investor. Also in the provision is the maximum number of board of directors. The code stipulates a maximum of 20 directors as the board size against the 15 stipulated in the earlier code by the Securities and Exchange Commission (SEC) in 2003. The provision also stipulates that a Chief compliance officer (CCO) be appointed by the banks to among other things ensure effective compliance to the code. The officer forwards to CBN on a monthly basis report of related breaches in the code of corporate governance provision, whistle blowing and ensure that the audited annual reports of the banks have the corporate governance compliance status reports included in them.

The essence of the reforms in the banking industry by CBN and the code issued by SEC were to ensure an optimized corporate governance practices in the industry. However, in 2008, a stress test was conducted in the banking industry by CBN and Nigerian Deposit Insurance Company (NDIC) and some noxious developments were revealed due to some banks non compliance with the corporate governance code. Some banks were found to be financially unsound and therefore declared unhealthy while some where declared healthy.

In any organisation, corporate governance is seen as a key factor that determines the health of the system and its eagerness to survive economic shocks. Corporate Governance sets up the structure through which the firm's objectives are set, objectives attained and performance monitored (OECD, 1999). In this context, taking into consideration numerous sets of conflicts of interest such as separation of ownership and management our understanding of corporate governance has been broadened.

2.2.3 Corporate Governance Actors

Good governance comprises of a set of mechanisms that guarantee suppliers of funds adequate return on their investments. According to Richard (2001), corporate governance mechanisms including accounting and auditing standards are designed to check managers' activities and improve corporate transparency.

Newman & Daniel (1983) opined that separation of ownership and control gave rise to agency problem giving room for management to operate the bank for their own interests, rather than the shareholders' interests. The managers ceases this opportunities to outrightly expropriate and erect illegitimate empires for themselves. To control this problem, various assertions were made and some mechanisms put up (based on Shleifer & Vishny, 1997) and their impediments to oversee and shape banks' behaviour are discussed below:

2.2.3.1 Shareholders

Shareholders play a key role in the provision of corporate governance. Small or disperse shareholders apply the provisions of corporate governance directly when deliberating on critical issues, such as mergers, liquidation, basic changes in business strategy and indirectly when enlisting individuals to the board of directors to represent their interests and oversee the myriad of managerial decisions. A common mechanism which aligns managers' interest with the Shareholders' interest is called incentive contracts. To achieve a specific objective, a negotiation for managerial compensation may be made by the Board of directors,

though through voting rights small shareholders directly exert corporate governance and indirectly exert corporate governance through the board directors elected by them.

However, small shareholders could be prevented from exercising corporate control effectively by certain factors. There is breach of information flow between the small shareholders and the managers because managers are always cautious in giving out information. Also, lack of expertise for the small shareholders to monitor managers could induce a free-rider problem.

2.2.3.2 Debt Holders

Debt purchasers provide finance in return for a promised stream of payments and a variety of other covenants relating to corporate behaviour, such as the value and risk of corporate assets. If these covenants are violated or the corporation defaults in paying back their debts, the debt holders observe the rights to repossess the collateral, decides to vote for the reorganization and removal of the managers and the corporation thrown into bankruptcy proceedings. Debt holders could also be prevented by certain barriers from exerting corporate governance effectively as expected.

Monitoring complex organization by the small debt holders might be difficult and this could make them to face the free-rider incentives, as small equity holders. Again, small debt holders depend basically on the legal and bankruptcy systems efficiency to effectively exert corporate control. Large debt holders, like large equity holders, could make better some information and contract enforcement problems associated with diffuse debt. Large debt holders might likely not find it difficult to monitor complex organization because they have large investment and incentives to engage the services of a monitoring manager. Effective exertion of corporate control over the firm is done through the monitoring managers. Large creditors obtain various control rights in the case of default or violation of covenants. In terms of cash flow, they can renegotiate the terms of the loans, which may avoid inefficient

bankruptcies. The effectiveness of large creditors however, relies importantly on effective and efficient legal and bankruptcy systems. If the legal system does not efficiently identify the violation of contracts and provide the means to bankrupt and reorganize firms, then creditors could lose a crucial mechanism for exerting corporate governance. Also, large creditors, like large shareholders, may attempt to shift the activities of the bank to reflect their own preferences. Large creditors for example, as noted by Makus (2003) may induce the company to forego good investments and take on too little risk because the creditor bears some of the cost but will not share the benefits.

2.2.4 Corporate Governance Mechanisms

Broadly speaking, the conflicts among different corporate claim-holders are resolved by two types of mechanisms, especially the conflicts between owners and managers, and those between minority shareholders and controlling shareholders.

Furthermore, a number of corporate governance mechanisms have been identified analytically and empirically. To better describe the current corporate governance practices, it is required to focus on a particular set of corporate governance mechanisms. These, according to Baic and Songs (2004), may be broadly classified as internal and external mechanisms as summarized in Figure 1:

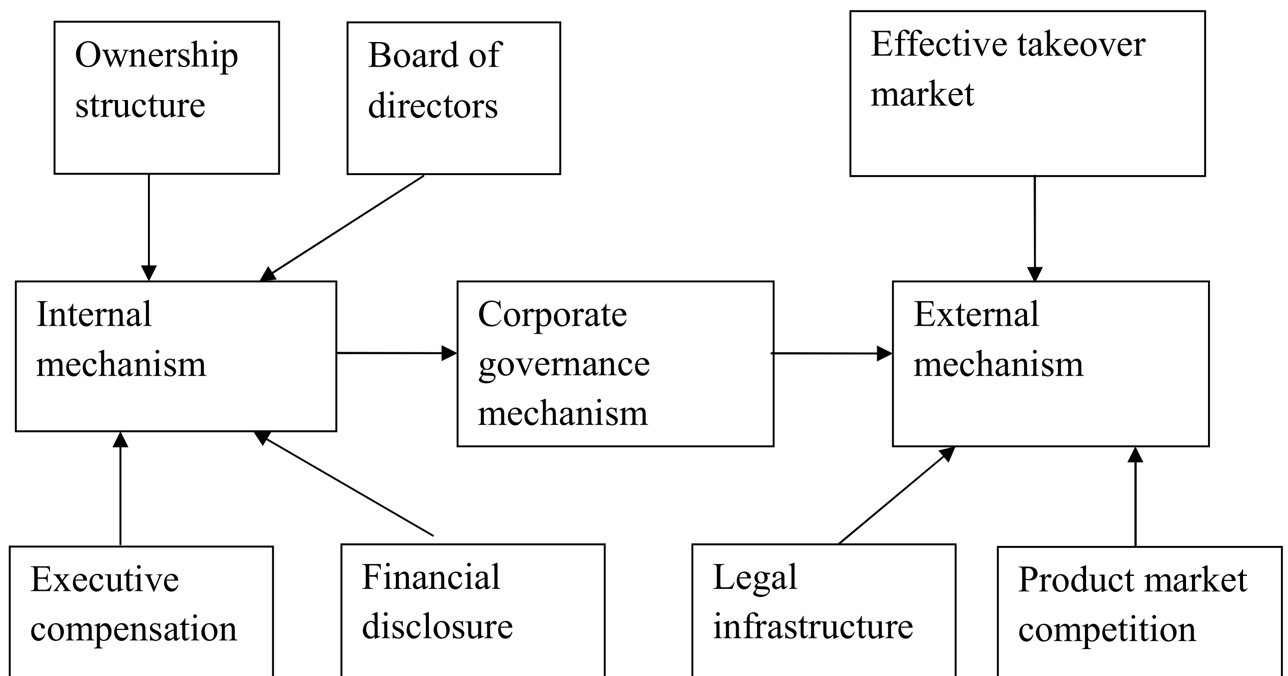

Figure 1: Corporate Governance Mechanisms

Adapted from Baic and Songs (2004)

The first type known as internal mechanism which is determined by insiders consist of various internal variables such as:

(1) ownership structure

(2) board of directors

(3) executive compensation

(4) financial disclosure

The second type known as external mechanisms determined by outsiders consists of external variables such as

(1) Effective takeover market

(2) Legal infrastructure and

(3) Product market competition.

However, in order to address the specific objectives of this research, this study will focus on the internal/ insider mechanisms of corporate governance as they relate to banking operations.

2.2.4.1 Internal/Insider Mechanism

Ownership Structure

Among the above mentioned four internal mechanisms, ownership structure is crucial to the banks' value maximization. The largest shareholders are given substantial discretionary power by the concentrated equity ownership to use the firm's resources for personal gain at the expense of other shareholders (Claessens, Djankov & Lang 2000). Morck, Sheifer, & Vishny (1998) posited that firm performance is positively impacted by higher ownership concentration, because it increases shareholders' ability to properly monitor managers. Large/concentrated investors have the incentives to acquire information and monitor managers. Large investors can also elect their representative to the board of directors thereby thwarting the managerial control of the board. Large and well-informed shareholders have the bravery to effectively exercise their voting rights than an ownership structure dominated by comparatively small and uninformed investors. Managerial incentive contracts that align owner and manager interests can easily and effectively be negotiated by large investors than small shareholders who are poorly informed and whose representatives the management can easily manipulate. However, concentrated ownership raises some corporate governance problems. Business relationships with other firms that could profit them more could be exploited by large investors at the expense of the firm. In general, the private benefits of control could be maximized by large shareholders at the expense of small investors (De Angelo and De Angelo, 1985).

Board of Directors

The board of directors is the second mechanism through which shareholders can exert influence on the behaviour of managers to ensure that the bank is run in their own interest. Ketchen (1996) argues that large boardrooms tend to be slow in decision making and hence

can hinder change. Ketchen (1996) criticize the policies of large board size and was in support of small board size.

The monitoring role of the board of directors comprises the full or partial control of the board by the Chief Executive Officer (CEO). Therefore, we expect this variable to have a negative impact on the banks' overall corporate governance level if the board is dominated by members of the management team, it is not expected that the board could play an effective monitoring role.

Executive Compensation

Providing the executives with incentive related pay is another mechanism to govern their behaviour (Daniel and Chris 1990). The interest of the top management can be better aligned with that of the shareholders if they have a larger stake in the bank. It may be measured by the percentage of shares held by these top executives as a measure of their economic interest in a bank.

Financial Disclosure

Financial transparency and adequate information disclosure are crucial in developing countries. Sufficient, accurate and timely information regarding the firm's operations, its financial status and the external environment are important for shareholders to be able to monitor the firm to make investment decisions affecting the firm, and to exercise control over the firm through other means (Kelvin and Norbeth 2001). Regarding financial transparency, local accounting firms audit most listed banks in Bangladesh. However, if one wants to look for information on the reputation/performance of these accounting firms, no such recognized report exists.

2.2.4.2 External Mechanism

Effective Takeover Market

An active market for corporate control is considered to be important for the efficient distribution of resources. Able managers are allowed by this market to gain control of efficient shares in a short period of time to remove incompetent managers. Proxy fights are not usually successful in removing the existing management or board of directors because shareholdings are often dispersed among small shareholders. Friendly mergers and takeovers occur in all countries and account for most of the transactions in the market for corporate control. In developed countries, the percentage of these activities range from 60 to 90 percent. Hostile takeover occur fairly frequently in the US and UK, but less in Germany, France and Japan. Empirical studies suggest that takeovers significantly increase the market value of target firms, although the gain for bidding firms is zero and possibly even negative (Sheifer and Vishny, 1997).

This variable should have a positive impact on bank's overall corporate governance level, for three reasons. First, large shareholders other than the largest ones are obstacles to tunnelling activities by the largest shareholders because these shareholders have incentives to monitor and restrain the largest shareholders. Secondly, the efficiency of the market for corporate control is enhanced because these variables help to ensure effectiveness of corporate governance mechanisms.

Lastly, incentive schemes are seen to be reactive in nature, because no mechanism is provided for mistakes prevention.

2.3 THEORETICAL FRAMEWORK

Rashid (2011) suggested the various theories which can be used to explain the conventions of corporate governance and also the issues that arise as the result of these

conventions. Different theories have been used to explain these governance conventions and these theories are agency theory, stakeholder theory and stewardship theory. Muktar, Namara and Usman (2008) also identified these four most prominent theories of corporate governance as stewardship theory, agency theory, stakeholder theory and resources dependency theory. Below is the explanation of each theory:

2.3.1 Stewardship Theory (ST)

Stewardship theory has been rooted in psychology and sociology. It was adopted as a theoretical issue for researchers to examine decision making actions and performance of executives who are acting as faithful stewards for principals (Deutch, 2005). The stewardship theory is anchored on the protection of stakeholders. An effective steward, executive or director of an organisation is invariably effectively managing his own careers (Newman, 1984). Managers return finance to investors to establish a good reputation, allowing the investors to re-enter the market for future finance (Shleifer and Vishny, 1997). It infers that managers are trustworthy and competent administrators of corporate resources and are in the best position to maximize the interest of shareholders since the managers are most conversant with the intricacies of corporate strengths, weakness, opportunities and threats (Boyd, 1995).

Donaldson and Davis (1997) opined that personal perception motivates individual calculative action by managers, thus linking individual self-esteem with corporate prestige. According to the stewardship theory, a steward's objective is primarily to maximize the firm's performance because a steward's need of achievement and success are satisfied when the firm is performing well.

2.3.2 Stakeholder Theory

Stakeholder theory stipulates that, a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholders in order to ensure that each interest constituency receives some degree of satisfaction (Abrams, 1951). Sundaram and Inkpen

(2004) acknowledged that “stakeholder theory attempts to address the question of which groups of stakeholder deserve and require management attention”. The creditors, suppliers, customers, employees, banks, governments, political groups and society are regarded as relevant stakeholders of the firm. John and Senbet (1998) provides a comprehensive review of the stakeholders’ theory of corporate governance which points out the presence of many parties with competing interests in the operations of the firm. The role of non-market mechanisms such as the board, committee structure is important to banks performance.

Stakeholder theory has become more prominent because many researchers have come to the knowledge that the external environment is impacted by the activities of the corporate entity thereby requiring accountability of the banking industry to a wider audience than simply its shareholders. For instance, Mershack and Wallis (1999) posit that firms are no longer the instrument of shareholders alone but exist within society and therefore, have responsibilities to that society. Indeed, it has been realized that economic value is created by people who voluntarily come together and cooperate to improve everyone’s position (Freeman, Wicks and Parmar, 2004).

Daniel (2000) critiques the Stakeholders theory for assuming a single-valued objective (gains that accrue to a firm’s constituencies). He suggests that the performance of a bank is not and should not be measured only by gains to its stakeholders.

2.3.3 Resources Dependency Theory (RDT)

Resources dependency theory emphasises that resources needed by firms is acquired by a means of network contacts and that the quality of corporate performance will be determined by efficient bridge in network gaps. This theory describes bank success as the ability to maximize power through access to scarce and essential resources. These scarce and essential resources that might otherwise be out of organizational reach can be accessed through the assistance of Corporate boards (Brown, 2005). Boards are considered important boundary-spanners that

secure necessary resources, such as knowledge, capital and venture partnering arrangement (Ruigork, Peck and Techeva 2007). Corporate board members diversity has been establish to be an essential element in this theory given that it can direct towards a broader corporate networks and improve bank financial performance.

2.3.4 Agency Theory (AT)

Agency theory is defined as the principal-agent relationship theory. It is based on the conviction that there is a basic conflict of interest between the shareholders and the managers of the company (Kiel and Johnson, 2003). This theory was formalized in the early 1990's by Harold Denisetz, Micheal, Daniel, William and Morgan and others. Agency theory has been recognized as the dominant theoretic-anchor for studies of corporate governance practices and bank performance. Daniel and Morgan (1998) define the agency relationship as "*a contract under which one or more persons (the principal(s) engages another person (the agent) to perform some service on their behalf which involves assigning some decision-making authority to the agent"*.

Daily, Dalton and Canella (2003), acknowledged two factors that influence the prominence of agency theory. Firstly, the theory is conceptually a simple one that limits the firm to two members, managers and shareholders. Secondly, the concept of human beings as self-interested is a generally accepted idea. Agency theory is a long-held concept that occurs when corporate ownership is separated from corporate management. Behaviours, decisions and actions by managers will deviate from those required to maximize shareholders value. In other words, it assumes an imminent divergence of shareholders' interest (Kelvin & Norbeth 2001, Coles and Hosterly 2000).

Agency theory has always been used to analyze the relationship between corporate governance and bank performance. Agency theory explained that through better governance, a strong relationship between corporate governance and accounting outcomes and performance

by banks can be established. Daniel and Morgan (1998) pioneered the first attempt to test this hypothesis and the outcome of the study showed that strong corporate governance leads to better performance and accounting outcomes. Pennick, Newton and Mavis (2009) adopted principal component analysis to establish a strong relationship between corporate governance structure and both performance and accounting outcomes.

The effect of this agency theory is that agency problem can only be mitigated if the board is composed mainly of non-executive directors who will be able to control the activities of managers and thereby maximize shareholders' wealth (Rashid, 2011; Kaymark and Bektas, 2008). The theory also suggests that same persons should not occupy the chairman and CEO's roles as this can reduce the monitory role bestowed on the board of directors and can also have a negative impact on the bank performance. It was noted that the loss of board independence as a result of CEO duality is the reason for the limit in the monitory role of the board (Kang and Zardkoohi, 2005).

2.3.5 Agency Problem/Cost

Shleifer and Vishny (1997) explained agency problem as the difficulties providers of corporate finances (shareholders) have in ensuring that their funds are not expropriated by managers and/or being wasted on illegitimate projects. In modern firms, the separation of finance and management control is primarily the fundamental agency problem. In practice, conflict of interest may arise between shareholders and management and this conflict make room for agency problems.

Conflict among managers and shareholders may arise as a result of the possibilities of managers transferring the shareholders fund to their advantage by increasing their compensation or managers may not act in the best interest of the shareholders to protect their jobs by not undertaking risk and foregoing profitable investment**.** Pandey (1999) points that the agency problems arising from these conflicts involve cost which is called agency cost and

these include the principal monitoring expenses such as budgeting, auditing, compensation systems and control, agent bonding expenses and residual loss as a result of divergence of interests between the principal and the agent. These agency costs are also reflected in the share price that shareholders (principal) pay. Agency cost should be reduced to the least minimum in other to increase firm's value.

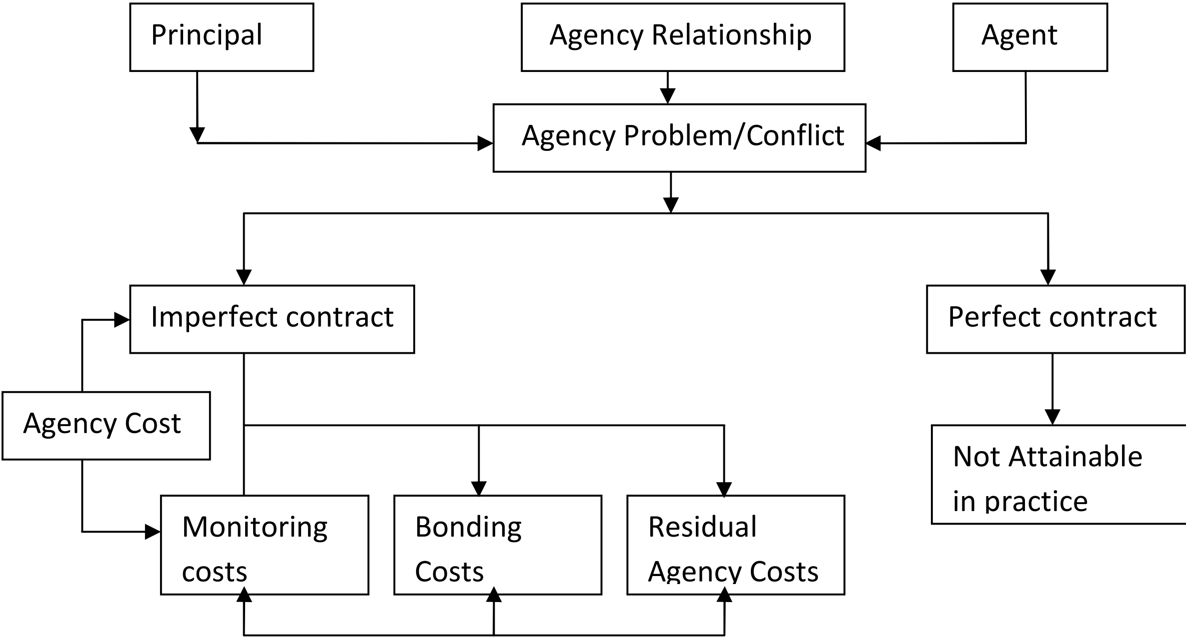

Figure 2.2 Agency Theoretical Perspective

Source: Cullen, Kirwan and Brenan (2006: 11)

2.4 EMPIRICAL FRAMEWORK

Different studies / researches relating to this study were examined in order to establish the relationships between various aspects of corporate governance and its impact on the financial performance of banks. To establish corporate governance relationship with bank performance, board size, board composition, directors' shareholding and audit committee size were discussed.

2.4.1 Bank Performance and Board size

Board size is the number of individuals serving on the board of a firm. Board size plays an important role in determining the value of a firm. The CBN code of corporate governance emphasizes that; the number of executive (insider) directors should not exceed that of the non-executive (outsider) directors subject to a minimum board size of 15 directors (SEC, 2003) and maximum of 20 directors (CBN, 2006).

The role of the board is to discipline the Chief Executive Officer and the management of a firm so that the value of a firm can be improved. While some studies argued that smaller board size leads to a higher performance, (Daniel, 2000; Muktar, Namara & Usman (2008); and James & Okafor, 2011); others show that the higher the number of directors sitting on the board the better the performance (Cooper, 2006; Adams and Mehran, 2010). It is argued that a range of expertise found on a larger board can make better decisions for a bank and larger board cannot be dominated by the CEO since the collective strength of its members is higher and can oppose the CEO's irrational decisions, (Pfeffer, 1972; and Zahra and Pearce, 1989). Vallelado & Andres (2008) examined the effect of the characteristics of the boards on commercial banks performance in some countries and deduced that addition of more directors is positively associated to performance. Fich & Shivdasani (2006), Adam & Meheran (2010) and Thomas & Muhammed (2011) however, added that the performance of a firm can deteriorate if busier directors are appointed to serve in the board.

On the other hand, Ketchen (1996) and Eisenberg, Sundgren and Wells (1998) find a fairly clear negative relationship between board size and firm performance. This is because a larger board affects the value of a firm in a negative fashion as there is an agency cost among the members of a bigger board. This was also supported by the studies conducted by Harris and Raviv (2005) and Bennedsen, Kongsted and Nielsen (2006. They argued that larger board is ineffective as compared to smaller boards. Bhagat and Black (2002) noted that the negative

relationship between board size and firm performance is not strong. Small boards are more efficient in decision-making because there is less agency cost among the board members. Jonker and Mills (2001) argued to the contrary that the nature and significance of the relationship between board size and performance is sensitive to the estimation methods used.

2.4.2 Bank performance and Board composition

The composition of board members is another issue in corporate governance. In this study, board composition is explained as the proportion of executive and non-executive directors sitting on the board. In constituting the board of a firm, the mix of executive and non-executive directors is of great importance for the firm's performance. The quality of decisions taken in a firm is determined by the proportion of the directors since objectivity would play a crucial role and also determine if actually the board can monitor and control the management.

Weisbach, (1988), Hermalin and Weisbach (1991), Mehran (1995), John and Senbet (1998), established that agency problem in corporate governance could be resolved if the appropriate size of the board is determined. According to these studies, an appropriate combination of executive and non-executive directors has a strong positive effect on the board's effectiveness and efficiency and consequently on the firm performance.

The agency theory, posit that the control function of an organization is primarily exercised by the board of directors. Board composition has been proposed to help reduce the agency problem (Weisbach, 1988). Studies carried out by Bhagat and Black, (2002); Gerkings & Butt, (2002); Ketchen (1996); and Hermalin & Weisbach (1991) have provided evidence to show that the relationship between firm performance and board composition is insignificant particularly the proportion of non-executive directors on the board.

Pearce and Zahra (1992) and Ogus (1998) discovered that the board of directors dominated by outsiders have better performance, while some researchers find no such relationships using accounting profits or firm's value. Secondly, link to the outside world is

provided to the firms by outside directors thereby helping the firm to secure essential resources and expand networking (Daily & Ellstrand, 1996). This was supported by Liang & Weir (1999) where it was reported that the presence of outside directors is positively associated with higher returns on investment. Furthermore, Bohren & Bernt (2003) posit that various measures of firm performance are significantly correlated with the amount of stock owned by individual outside directors. As per the study of Rashid, De Zoysa, Lodh, and Rudkin (2010), the Independent non-executive directors are appointed from outside and they should not have any material interest in the firm. The limitations of outside independent directors have been challenged by some presented arguments. Johnson & Kiel (2007) argued that inside directors understand the business better than outside directors because they live in the company they govern and so can make better decisions.

Rashid et al (2010) argued that there is information asymmetry between inside directors and outside independent directors. They argued that the control role of the independent directors may reduce if they lack the day to day inside information of the bank and may fail to perform due to lack of adequate support by the inside directors. Cho & Kim (2007) and Brennan & Solomon (2008) also question the value of outside independent directors claiming that they are part-timers and inside information of the firm is out of their reach as such may not be competent to perform their assigned tasks.

From the perspective of internal (insider) directors also, it was discovered that boards dominated by insiders are not expected to play their role as effective monitors and supervisors of management especially when the board chairperson is also the firm's Chief Executive Officer (CEO).

In the light of the above, studies using financial statement data and Tobin's Q find no relationship between board independence and firm performance while those using stock

returns data or bond yield data find a positive relationship between board independence and firm's performance.

2.4.3 Bank Performance and Director's Equity Holding

Equity holding is also known as equity/share ownership or position. This is defined as the ownership by an investor of a number of shares in a corporation. The provision on equity holding is influenced by the recognition that, individuals who form part of management of banks in which they also have equity ownership have a persuasive business interest to run them well. In the studies conducted by Gordon & Schmid, (1996) and James & Okafor (2011) discovered that a firm's performance is significantly impacted by directors' share holding. Various studies however, upheld diverse positions regarding equity holdings, specifically for dispersed ownership and employees of a corporation (Roberts & Van den Steen (2000); Bolton & Xu (2001); Becht, Bolton & Roell (2005). On dispersed ownership, some studies have posited inconclusively that, there is a link between dispersed ownership, voting control and corporate performance. Monsen, Chiu & Cooley (1968) argued that inferior company performance arises as a result of free-riding among dispersed shareholders. However, Gugler (2001) found that governance and performance in a family owned business can be improved by ownership concentration. Anderson & Ribstein (2003) confirmed that family businesses consistently outperform their peers as measured by accounting yardstick like market valuation and return on asset measures such as Tobin's q. However, Demsetz & Lehn (1985) explained that it all depends on the nature of the business. Some firms require large shareholder control while some do not.

2.4.4 Bank Performance and Audit Committee Size

Audit committees are sub-committee in a firm's board of directors. It is an important corporate governance mechanism with the objective of enhancing the credibility and integrity of financial information produced by the company and to increase public confidence in the

financial reports (Klein, 2002; Francis, Hasan, Koetter, & Wu, 2012). Audit committees are bestowed with the responsibilities of protecting and preserving shareholders' equity and interests and also oversee the activities of the firm's management including the internal and external auditors. The committee must consist of only non executive directors and more than three members to ensure the independence of the audit committee. The establishment of audit committee leads to a better corporate performance.

Siagian & Tresnaningsih (2011) posit that directors and audit committees that are independent from management ought to improve the quality of reported earnings and the firm's reporting system because they are not subject to potential conflict of interests that reduce their monitoring capacity. Usually, in large organizations, independent directors care so much about their reputations because they also serve as experienced professionals (Nguyen and Nielsen, 2010).The committee should contain independent directors along with other members. Islam, Islam, Bhattacharjee & Islam (2009) posit that one of the important mechanisms in this regard is independent audit committee. It is expected to satisfy the needs of both internal and external users of financial statements. Previous prior studies have documented the importance of the independence of audit committee members for maintaining the integrity and quality of the corporate financial reporting process. Some study reports a negative association on the percentage of independent directors on the audit committee and earnings management does not observe a significant effect for audit committees comprising 100 percent independent directors. Xie, Davidson & DaDalt (2003) report that audit committees comprising members with some corporate or investment banking background are negatively associated with earnings management.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This Chapter discusses the methods and procedures employed to complete this research study. It discusses the research design, population of the study, sample size and sampling technique, data source and model specification. The method also encapsulates data analysis and measurement of variables which include correlation and regression analysis.

3.2 Research Design

This study adopted the judgemental sampling technique to select the ten (10) listed banks from the twenty-four (24) banks in the Nigerian Stock Exchange (NSE). The financial annual reports of these ten (10) selected listed banks were gathered from 2005 to 2014 and the contents evaluated in a tabulated form.

The Pearson correlation method was employed to measure the degree of association between the variables under consideration while regression estimates the impact of corporate governance on bank performance proxied by ROE and ROA.

The disclosure index items for the selected banks were also evaluated from the banks' annual reports to arrive at the governance disclosure level of the banks.

3.3 Population of the Study

The targeted population of the research study includes all the 24 universal banks that made the consolidation dead line in Nigeria as at 2005. The data gathered cover all the listed banks in the Nigeria stock exchange from 2005 to 2014.

3.4 Sample Size and Sampling Technique

From the 24 listed banks that made the consolidation dead line in 2005, this study is restricted to ten (10) selected banks drawn from the population using the judgemental sampling techniques and a time frame of ten (10) years ranging from 2005 to 2014. The published annual reports of the ten (10) selected banks for ten (10) years were gathered and the contents evaluated.

3.5 Data Source

This study used only the secondary data which is derived from the published annual reports of the ten (10) selected banks listed on the Nigeria Stock Exchange (NSE) from 2005 to 2014. The study also made use of Nigeria Stock Exchange (NSE) fact books (2014) and the Central Bank of Nigeria statistical Bulletin.

3.6 Model Specification

This study employed different corporate governance and performance proxies, the below models were used to determine the relationship between corporate governance and bank performance in Nigeria. These models are:

Model 1

$$Y_{1t} = a+b_1BS_t+b_2BDC_t+b_3DEH_t+b_4CGDI_t+b_5ACS_t+\mu_1 \quad (1)$$

Model 2

$$Y_{2t} = a+b_1BS_t+b_2BDC_t+b_3DEH_t+b_4CGDI_t+b_5ACS_t+\mu_2 \quad (2)$$

Y_{1t} and Y_{2t} indicate bank performance/dependent variables which are Return on Equity (ROE) and Return on Asset (ROA) respectively at time (t).

$b_1 – b_5$ indicates the partial regression coefficient attached to variable BS_t, BDC_t, DEH_t, $CGDI_t$, ACS_t which are the explanatory/independent variables.

BS_t represents Board Size at time (t)

BDC_t represents Board Composition which is expressed as the proportion of Non-Executive Directors to total number of directors at time (t)

DEH_t represents Directors' Equity Holding at time (t)

$CGDI_t$ represents Corporate Governance Disclosure Index at time (t)

ACS_t represents Audit Committee Size at time (t)

μ is the error term (unexplained variance).

3.7 Measurement of Variables

Corporate governance proxies that were used are Board size, Board of Directors composition, Directors' equity holding, Corporate governance disclosure index and Audit Committee Size while the profitability variables to measure the financial performance of the banks is the accounting measures of performance such as Return on Equity (ROE) and Return on Asset (ROA). To examine the level of corporate governance disclosures of the selected banks, the corporate annual reports were examined and a dichotomous procedure was followed to score each of the disclosure issue of '1' if it happened that the bank have disclosed the concerned issue and '0' otherwise. The net score of the banks was derived by totalling the score of each bank. A corporate governance disclosure index (CGDI) was computed by putting into place the following formula:

$$CGDI = \frac{\text{Total score of the individual Bank}}{\text{Maximum possible score obtainable by the studied Banks}} \times \frac{100}{1}$$

The ROE and ROA were derived thus:

ROE = PAT/Shareholder's Equity x 100, ROA = PAT/Total Asset x 100

3.8 Data Analysis Technique

In analyzing the relationship that exists between corporate governance and the financial performance of the studied banks, a regression analysis of the panel data methodology was adopted while the degree of association between the considered variables were measured with Pearson correlation.

The statistical significance of the independent variable (x) in terms of its contribution to the value of the dependent variable (y) can be determined by the correlation (r).

To determine if the impact is indeed significant, our decision rule is based on the significance of the t-statistics (0.05) which are represented by the p- values flagged by the statistical packages used.

The degree of freedom using a two tailed test at 5% (0.5) significance level, the decision rule states that if the computed data fall in acceptance areas, the null hypothesis will be rejected but if otherwise it will be accepted.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The chapter focuses on the presentation and analysis of the secondary data retrieved from the Nigerian Stock Exchange Fact Book and the financial annual reports of the ten (10) banks selected from the Nigerian stock exchange.

The secondary data is presented in a tabulated form and analysis of this data as well as testing of the formulated hypothesis in chapter one was carried out through the application of financial indicators and regression analysis to enable the researcher arrive at a valid conclusion.

This chapter made use of two types of data analysis; namely descriptive analysis and inferential analysis. The descriptive analysis helps us to provide detailed information about each relevant variable while the Pearson correlation measures the degree of association between the variables under consideration; the regression estimates the impact of the corporate governance variables on profitability proxied by return on equity (ROE) and return on asset (ROA).

4.2 Data Presentation

The selected banks corporate annual reports were examined in order to ascertain the level of corporate governance disclosures. A disclosure index table has been developed from the Central Bank of Nigeria post consolidated code of corporate governance, the OECD and ISAR (2001; 2002). A total of 45 issues have been considered (See Appendix II). Each bank was scored based on each of the disclosure items and a score of “1” if it happens that the bank has disclosed the concerned issue and “0” otherwise was awarded.

Table 4.1 Corporate Governance Disclosure Index of Listed Banks

YR	ACCESS	FIRST	ECO	DIAM	UBA	ZENITH	FCMB	GTB	STERLING	SKYE
2005	10	40	17		20	19	27			
2006	28	40	32	27	27	29	31		29	26
2007	28	40	32	31	25	32	32	28	29	27
2008	29	40	32	35	29	31	32	28	30	27
2009	35	35	35	43	39	27	41	28	34	36
2010	35	38	43	45	39	39	43	31	34	19
2011	37	38	41	40	42	41	45	30	39	
2012	37	33	44	45	45	37	45	32	41	23
2013	39	32	44	45	45	37	36	41	32	
2014	39	32	45	45	45	44	45	43	43	45
TOTAL	317	368	365	356	356	336	377	261	311	203
AVE.	*32*	*37*	*37*	*36*	*36*	*34*	*38*	*26*	*31*	*20.3*
CGDI	70.4	82	81	79	79	75	84	58	69	45

Source: Author's computation (2014)

Table 4.1 presents a summary of the average corporate governance disclosure data by the 10 sampled banks in Nigeria and also the disclosure index as at 2014. The table reveals that all the banks present a statement of their corporate governance practice. However, the extensiveness of the statement differs between banks. From the 45 corporate governance indices used for assessment (see appendix II), FCMB, Eco bank plc and first bank emerged with the highest number of corporate governance disclosure with an average value of 38, 37 and 37 as well as 84, 82 and 81 CGDI respectively during the period under review.

On the other hand, Skye bank and GTB disclosed the least governance item with an average value of 20.3 and 26 also with CGDI values of 45 and 58 respectively.

4.3 Data Analysis

Table 4.2 Descriptive Statistics for Model 1 and 2

	N	Minimum	Maximum	Mean	Std. Deviation
ROE	100	1.15	30.00	13.1615	7.21333
ROA	100	.15	24.80	2.6899	3.69016
BS	100	.00	21.00	12.7500	5.12348
NEXED	100	.00	12.00	7.3434	3.23300
ACS	100	.00	.86	.3806	.16129
CGDI	100	.00	45.00	32.4700	12.22554
DEH	100	.00	100.00	61.7950	38.30285
Valid N (listwise)	100				

Author's computation (2014)

Table 4.2, presents the descriptive statistics for both the dependent and explanatory variables of the study. The number of observations (denoted with N) for the study as shown in table 1 reflects a value of 100, this is as a result of the combination of the ten (10) sampled banks during the analysis while the actual year covered is ten years (2005-2014).

The Return on Equity (ROE) reflects a minimum and maximum value of 1.15% and 30% respectively. The table also reflects a mean of 13% with a fluctuation of 7.2% respectively for ROE. This means that an average return on equity (ROE) stood at 13%.

The Return on Asset (ROA) also reflects a minimum and maximum value of 0.15% and 24.8% respectively. The table also reflects a mean of 2.69% with a fluctuation of 3.69% respectively for ROA. This means that an average return on asset (ROA) stood at 2.6% under the period reviewed.

Also, Board size (BS) reflects a minimum and a maximum figure of 0.0% and 26% respectively. While, 12.7% and 5.1% indicated the mean and standard deviation respectively for the period under review.

Furthermore, the descriptive statistics reveals a minimum and a maximum value of 0.0% and 12% in respect to Non Executive board composition with an average value of 7.3% with a fluctuation value of 3.2%

In addition, the Audit committee size revealed a minimum and a maximum figure of 0.0% and 8.6% respectively with an average value of 3.8% and a fluctuation value of 1.6%.

The table also reflects a minimum and maximum value of 0.0% and 45% relating to corporate governance disclosure index. This further revealed an average of 32% and standard deviation value of 12.2%.

Finally, the result further reflects a mean of 61.7% in respect to Directors equity holding with a fluctuation of 38% respectively. While the minimum and maximum values stood at 0.0% and 100% respectively.

4.4 Inferential Analysis

Under this analysis, correlation analysis was used to measure the degree of association between different variables under consideration. While the regression analysis was used to determine the impact of the corporate governance variables on profitability

4.4.1 Pearson's Correlation Coefficient Analysis

In this section, we measured the degree of relationship/association between our governance variables and performance variables i.e. if the governance proxies (board size, board composition, director's equity holding, governance disclosure, and audit committee size) will increase performance. From the apriori discussed in the previous chapter, the measurement of corporate governance and performance variable (ROE and ROA) is expected to result to a positive relationship. Table 4.3 and 4.4 presents the correlation coefficients for all the considered variables in this study. This study chooses a correlation coefficient of 0.05 as a benchmark for the relationship between different variables.

Table 4.3 Pearson's Correlation Coefficients Matrix for Model 1

		ROE	BS	NEXED	ACS	CGDI	DEH
ROE	Pearson Correlation	1	.113	.085	.005	.005	.234*
	Sig. (2-tailed)		.263	.402	.962	.964	.019
	N	100	100	100	100	100	100
BS	Pearson Correlation	.113	1	.877**	.509**	.613**	.474**
	Sig. (2-tailed)	.263		.000	.000	.000	.000
	N	100	100	100	100	100	100
NEXED	Pearson Correlation	.085	.877**	1	.519**	.673**	.464**
	Sig. (2-tailed)	.402	.000		.000	.000	.000
	N	100	100	100	100	100	100
ACS	Pearson Correlation	.005	.509**	.519**	1	.358**	.499**
	Sig. (2-tailed)	.962	.000	.000		.000	.000
	N	100	100	100	100	100	100
CGDI	Pearson Correlation	.005	.613**	.673**	.358**	1	.325**
	Sig. (2-tailed)	.964	.000	.000	.000		.001
	N	100	100	100	100	100	100
DEH	Pearson Correlation	.234*	.474**	.464**	.499**	.325**	1
	Sig. (2-tailed)	.019	.000	.000	.000	.001	
	N	100	100	100	100	100	100

***. Correlation is significant at the 0.05 level (2-tailed).**

****. Correlation is significant at the 0.01 level (2-tailed).**

Author's computation (2014)

Table 4.4 Pearson's Correlation Coefficients Matrix for Model 2

		ROA	BS	NEXED	ACS	CGDI	DEH
ROA	Pearson Correlation	1	-.209*	-.200*	-.061	-.207*	.023
	Sig. (2-tailed)		.037	.047	.549	.039	.824
	N	100	100	100	100	100	100
BS	Pearson Correlation	-.209*	1	.877**	.509**	.613**	.474**
	Sig. (2-tailed)	.037		.000	.000	.000	.000
	N	100	100	100	100	100	100
NEXED	Pearson Correlation	-.200*	.877**	1	.519**	.673**	.464**
	Sig. (2-tailed)	.047	.000		.000	.000	.000
	N	100	100	100	100	100	100
ACS	Pearson Correlation	-.061	.509**	.519**	1	.358**	.499**
	Sig. (2-tailed)	.549	.000	.000		.000	.000
	N	100	100	100	100	100	100
CGDI	Pearson Correlation	-.207*	.613**	.673**	.358**	1	.325**
	Sig. (2-tailed)	.039	.000	.000	.000		.001
	N	100	100	100	100	100	100
DEH	Pearson Correlation	.023	.474**	.464**	.499**	.325**	1
	Sig. (2-tailed)	.824	.000	.000	.000	.001	
	N	100	100	100	100	100	100

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Author's computation (2014)

The aim of this study is to discover the degree/nature of relationships (if any) between the corporate governance variables and the performance variable.

From model 1, Board size reveals a positive weak relationship with ROE with a correlation coefficient of 11%. This indicates that 1% increase in board size will turn out to be 11% increase to ROE, although not statistically significant in nature. While in model 2, Board size has a significant weak negative relationship of -.209 with ROA. This implies that 1% increase in board size results to 20.9% decrease in ROA. This result for BS on ROA is in consistent with earlier studies by Ketchen (1996); Bennedsen et al (2006); Harris & Raviv (2005). From our findings, it shows that large board size can lead to agency problem.

The proportion of non executive directors is another governance variable that recorded a positive and a negative correlation coefficient (r) of .085 and -.200 for ROE and ROA in model 1 and 2 respectively. Non executive board shows an insignificant positive value in respect to ROE while it was negatively significant to ROA at 5%. This invariably means that the more the number of outside directors who are sitting on a board, the lower the performance of the bank in terms of ROE and ROA. This is however in consistent with Ketchen (1996) and Bhagat and Black (1999) in their study, where they found a negative correlation between the proportion of outside directors and corporate performance. Furthermore, two other studies conducted in UK, Vegas and Theodorou (1998); Laing and Weir, (1999) did not find a correlation between the proportion of non-executive directors and corporate performance.

More also from the correlation result, Audit committee size indicated no significant association/relationship with bank performance on both models (model 1& 2). Although, Audit committee size shows a negative result in ROA.

Furthermore, From model 1, corporate governance disclosure index reveal a positive weak insignificant relationship with ROE with a value of .005. While model 2, reflects a negative significant impact on ROA.

Finally, the result further showed that directors' equity holding has a positive correlation of .234 at 5% significance level. This indicates that equity owners who are also part of bank management have a persuasive business interest to run them well. Performance of banks is invariably expected to improve. This is also seen in Bhagat, Carey, and Elson (1999). Inversely, directors' equity holding reveals insignificant association on ROA.

4.4.2 Regression Analysis

Regression analysis is the main tool for data analysis in this study. The dependent variables (ROE and ROA) were regressed with the explanatory/independent variables: Board size (BS), Board composition (BDC), Directors equity holdings (DEH), corporate governance

disclosure Index (CGDI), and Audit Committee (AC). The result of the regression is hereby presented in this subsection of the study

Table 4.5 Regression Result

INDEPENDENT VARIABLE	ROE	ROA
Board Size	-.651 (.516)	-.180 (.858)
NEXED	-.183 (.856)	-.088 (.930)
Audit Committee Size	-.673 (.503)	-.134 (.894)
Directors' Equity Holding	1.997* (.049)	1.469* (.045)
Corporate Disclosure Index	1.778* (.039)	-.959 (.140)
R	.340	.286
R Square	.116	.082
Durbin Watson	2.028	1.941
No of Observation	100	100

*significant at the 0.05 level (2-tailed).

The regression result for the two models revealed that the "R" value stood at 34% and 28.6% for ROE and ROA respectively. The R value measures the relationship between the dependent and explanatory variables. Also, reflects in the table is a value of 11.6% and 8.2% in respect to the coefficient of determination otherwise known as the R^2. The R^2 measures the percentage of the total variation in the dependent variable [Profitability (ROE and ROA)] that can be explained by the independent or explanatory variables used in the study while the remaining percentages is attributed to other independent variables not inclusive in the study and such could include CEO duality, board independence etc. The Durbin Watson statistic were estimated at 2.028 and 1.941 respectively which indicates the absence of auto-correlation (see table 4.5). The Durbin Watson statistic ensures that the residuals of the proceeding and succeeding sets of data do not affect each other to cause the problem of auto-correlation.

4.5 Hypotheses Testing

This study initially formulated five principal testable hypotheses on the relationship between corporate governance and bank performance in Nigeria. The proposed hypotheses in this section were subject to empirical testing drawing from the results of our descriptive and inferential statistical analyses. Our decision rule is based on the significances of the t-statistics (0.05) which are represented by the p- values flagged by the statistical packages used. This is because the existence of a relationship which is significant can be inferred from a significant t-statistic (Agbonifoh &Yomere, 1999).

Based on the fact that significant relationships are noticed between the governance variables in ROE than in ROA, this implies that ROE is a better performance proxy than ROA. This study therefore based its decisions on ROE. In addition, according to Okorocha (2012) and Westhman (2009), in their distinct doctorial thesis, they opined that ROE is the preferred measure of bank performance to ROA because, ROA is a component of ROE (ROE= ROA X Gearing). This decision is also supported by the descriptive mean value of ROE which stood at 13% against 2.6% of ROA. The acceptance/rejection of the stated hypothesis shall be based on the decision rule earlier stated in chapter three. The decision rule states that if the computed data fall in acceptance areas, (i.e within 0.05 significance level chosen for the study) the null hypothesis will be rejected but if otherwise it will be accepted.

TABLE 4. 6: COEFFICIENTS MODEL FOR ROE

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.455	2.336		5.331	.000
	BS	-.239	.367	-.170	-.651	.516
	NEXED	-.091	.496	-.041	-.183	.856
	ACS	-3.891	5.785	-.087	-.673	.503
	CGDI	-.061	.078	-.103	1.778	.039
	DEH	.046	.023	.243	1.997	.049

a. Dependent Variable : ROE
b. Author's computation (2014)

TABLE 4.7: COEFFICIENTS MODEL FOR ROA

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.819	1.218		3.956	.000
	BS	-.034	.191	-.048	-.180	.858
	NEXED	-.023	.258	-.020	-.088	.930
	ACS	-.404	3.016	-.018	-.134	.894
	CGDI	-.039	.041	-.130	-.959	.140
	DEH	.018	.012	.182	1.469	.045

a. Dependent Variable : ROE
b. Author's computation (2014)

Ho1: Board size has no significant impact on return on equity of banks in Nigeria;

Given the calculated t-value as -.651 with a significant value of .516 for the relationship which is greater than 0.05 significance level (see table 4.6), this study therefore accept the null hypothesis and reject the alternative hypothesis and conclude that board size has no significant impact on the financial performance of banks in Nigeria.

Ho2: **The proportion of non-executive directors has no significant impact on return on equity of banks in Nigeria;**

Given the calculated t-value, the regression result shows a negative regression of -.183 while the correlation result shows a positive weak correlation of .085 (see table 4.3). This confirms that the proportion of outside directors who sit on a board have significant but negative impact on bank performance as measured in terms of return on equity. With a significant value of .856 greater than 0.05 (see table 4.6), the null hypothesis is therefore accepted and the alternative hypothesis rejected and conclude that the proportion of non-executive directors has no significant impact on return on equity of banks in Nigeria.

Ho3: **Directors' shareholding does not significantly affect the return on assets of banks in Nigeria**

Given the calculated t- value as 1.469 with a significant value of .045 which is less than 0.05 (see table 4.7), this study therefore accept the alternative hypothesis and reject the null hypothesis and conclude that directors' shareholding does not significantly affect the return on assets of banks in Nigeria. Directors' shareholding seems to influence ROE more than all the other variables given the calculated t-value as 1.997 with a significant value of 0.049. This shows that individuals with equity ownership who are also members of the bank management have persuasive business interest to run the bank well.

Ho4: **The level of corporate governance disclosure does not significantly affect return on equity of banks in Nigeria**

Given the calculated t- value as 1.778 with a significant value of .039 which is less than 0.05 (see table 4.6), the null hypothesis is therefore rejected and the alternative hypothesis accepted and conclude that the level of corporate governance disclosure does not significantly affect

return on equity of banks in Nigeria. It shows that banks which disclose more on governance issues will perform better than banks that disclose less.

Ho5: There is no relationship between Audit Committee size and return on assets of banks in Nigeria.

Given the calculated t- value as -.134 with a sig. value of .894 which is greater than 0.05 (see table 4.7), this study therefore accept the null hypothesis and reject the alternative hypothesis and conclude that there is no relationship between audit committee size and return on assets of banks in Nigeria.

4.6 Discussion of Findings

The Pearson Correlation and regression analysis were used to determine the relationship between the variables to be measured (i.e. corporate governance and banks' financial performance) and also to find out if the relationship is significant or not.

However, level of corporate governance disclosures of the selected banks were examined with the help of the annual reports of the banks and a total of 45 corporate governance items were considered (See Appendix 2). In the course of the analysis, each bank was graded with a score of "1" if it disclosed the concerned item and "0" otherwise.

Results derived from the computed statistics using SPSS and results from the tested hypotheses are then discussed below:

This study revealed that both board size, board composition with proportion to Non-executive/outside directors and audit committee size are negatively related to financial performance of banks in Nigeria, while directors' equity holding and corporate governance disclosure are significantly positive in relation with performance. However, there is no gainsaying that several studies have been carried out so far and are still ongoing on the examination of the impact of corporate governance on banks performance in Nigeria.

From the descriptive analysis, it was revealed that on the average the board size of listed banks in Nigerian is approximately 13. This result implies that on the average, a relatively moderate board size of 13 is noticed among the listed consolidated banks in Nigeria. This is in line with the suggestion of Harrington and Coleman (2006) that a board size of between 12 and 16 is appropriate.

From the regression result for the relationship between board size and bank performance, the t- value is -.651 with a significant value of .516 for the relationship which is greater than 0.05 level. The negative relationship is also seen to be considerably important to bank performance. This indicates a negative significant effect of board size on the listed bank financial performance. Our finding is in line with Goddard (2007) using a dataset of the Thai commercial banks within the period 1999-2003, also obtained a negative relationship between board size and ROE. Our findings on board size, differs from Harrington and Coleman (2006) who conclude a positive relationship between a firms' value and board size.

On the other hand, the non executive board composition recorded a positive and a negative correlation coefficient (r) of .085 and -.200 for ROE and ROA in model 1 and 2 respectively. It shows an insignificant positive value in respect to ROE while it was negatively significant to ROA at 5%. This invariably means that the more the number of outside directors who are sitting on a board, the lower the performance of the bank in terms of ROE and ROA. This concedes with Ketchen (1996) and Bhagat & Black (1999). The negative effect might also be because outside directors are involved with the bank business on a "part-time" basis because they are too busy with other engagements. Also, non-executive directors are likely not to have a hands-on approach or are not necessarily well versed in the business hence will not necessarily make the best decisions. Our findings on the non-executive board composition therefore disagree with the positive finding as noticed in Goddard (2007) and Hurrell & Schindler (2009).

Our study on directors' equity holding reported a significant positive relationship between directors' equity holding and bank performance. From the descriptive analysis, Directors' equity interest therefore recorded a mean of 61.7%. Furthermore, the findings revealed that on average, the banks included in our sample generate Return on Equity (ROE) of 13% and a standard deviation of 7.2% (see table 4.2). Directors' equity holding has a positive correlation of .234 with ROE and a positive weak relationship with ROA at a 5% significance level (see table 4.3 and 4.4). The study further disclosed that in a bank where directors held stock, the ratio of directors' stock holding is positively related to performance because the equity ownership creates better management monitoring on the part of the board and hence improved results as seen in Saunders, Strock & Travlos (1990), Bhagat, Carey, & Elson (1999) and also Ogbambu (2003).

Our study from the descriptive analysis on the level of corporate governance shows a mean disclosure level of 32% (see table 4.2) which indicates that most of the banks do not present a statement of their corporate governance practices, though, the extensiveness of the statement depends on the banks. From the correlation (r) result, corporate governance disclosure index reveal a positive weak significant relationship to ROE with a value of .005. While model 2, reflects a significant negative impact to ROA. On the regression, t- value is 1.778 with a significant value of .039 which is less than 0.05 and this conclude that corporate governance disclosure of banks has significant impact on the financial performance of banks. Our findings agrees with Okorocha (2012) who revealed that a strong positive relationship exist between the governance disclosure of banks and the performance of banks in Nigeria and Brown & Caylor (2004) whose findings indicate that better governed firms are relatively more profitable, more valuable and pay more cash to their shareholders.

From the correlation result, Audit committee size indicated no significant association/relationship with bank performance on both models (model 1& 2). Although, Audit

committee shows a negative result in ROA. However, the correlation coefficient between the Audit Committee size and bank performance is negative (0.962), indicating a negative relationship between audit committee size and bank performance. This implies that the inappropriate composition of the audit committee size has a negative effect on bank performance.

The regression result shows a t- value of -.673 with a significant value of .503 in ROE which is greater than 0.05 level (see table 4.5), this study therefore conclude that the audit committees of banks has not impacted significantly on the performance of banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the findings from the results of the test, reach conclusion and make necessary recommendations from all the qualitative and quantitative analysis presented in chapter four. Bibliography and appendixes are also included in this chapter.

5.2 Summary of Findings

The Pearson Correlation and regression analysis were used to find out whether there is a relationship between the variables to be measured (i.e. corporate governance and banks' financial performance) and also to find out if the relationship is significant or not. The proxies that were used for corporate governance are; board size, Board composition (defined as the ratio of outside directors to total number of directors), directors' equity holdings, corporate governance disclosure and audit committee size. Accounting measure of performance were return on equity (ROE) and return on asset (ROA).

Results derived from the computed statistics using SPSS and results from the tested hypotheses revealed that both board size, board composition with proportion to Non-executive/outside directors and audit committee size are negatively related to financial performance of banks in Nigeria, while directors' equity holding and corporate governance disclosure are significantly positive in relation with bank performance.

5.3 Conclusion

The purpose of this study was to examine the impact of corporate governance on performance of banks in Nigeria. From the theoretical and empirical evidences gathered, the study reveals that corporate governance have made some impact in improving the performance of banks in Nigeria. Therefore, the issue of corporate governance should be taken seriously by

financial institutions. The study further concludes that a negative relationship exist between board size, board composition with proportion to non executive directors and audit committee size to financial performance of banks. While the directors' equity holding and level of corporate governance disclosure index shows positive significant relationship with performance. Also, a percentage increase in return on equity can be explained by directors' equity holding.

5.4 Recommendations

Going by the findings observed in this research, we then present below the recommendations which will be very useful to stakeholders in the bank and other firms in general.

1) From the study, it shows that the size of a board have no significant relationship with the financial performance of banks. It should be noted that the R^2-value was positive at 0.116, this shows that even though there is no significant relationship statistically, it is necessary to consider board size when taking financial decisions. The implication of this is that the quality of board members should have significant impact on bank performance and not the quantity of members in the board.
2) It is of great importance to be careful when enlisting members into the board of directors and consideration should be given to members who are visionary and who will establish policies and structures that will lead to improved financial performance.
3) To improve corporate governance, the value of the stock ownership of board members must be put in mind, since it relates positively to both the probability of disciplinary management turnover and future operating performance in poorly performing banks.
4) A legal framework specifying the rights and obligations of a bank, its directors, shareholders, specific disclosure requirements should be developed and this should

provide for effective enforcement of the law. Also, there should be steps for compulsory compliance with the corporate governance code.

5) Financial institutions should ensure that the audit committee size is appropriately composed. The size of the audit committee should at all times comprise an equal number of directors and shareholders as it has a positive relationship with bank performance.

5.5 Contributions to Knowledge

Effective corporate governance is greatly needed for banks to have a brighter tomorrow. The major contributions to knowledge are:

1. The study evolves two models to examine the relationship that exists between corporate governance and performance of banks in Nigeria.
2. The study developed a unique corporate governance index as its study specific to ascertain the level of compliance by the studied banks.

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APPENDICES

APPENDIX I: LIST OF SAMPLED BANKS AND THE CORPORATE GOVERNANCE DISCLOSURE IDEX CHECK LIST

ACCESS BANK

YR	BS	EX	NEXC	ACS	DEH%	PROFIT N’000	ASSET N’000	EQUITY N’000
2005	10	*	*	6	72	501515	66918315	14071924
2006	12	*	*	5	92	737149	174553866	28893886
2007	12	3	6	5	100	6083439	328615194	28384891
2008	14	4	7	5	92	16056464	1043465021	172002026
2009	14	4	7	5	*	11290737	700215331	174223304
2010	14	4	7	6	*	7727399	796216768	160262341
2011	14	6	8	6	*	5248866	949382097	187037078
2012	15	5	10	6	93	35815611	1515754463	237624211
2013	21	12	9	6	73	26211844	1704094012	245181998
2014	16	7	9	6	81	39941126	1981955730	274155786

YR	ROA(%)	ROE(%)	CGDI
2005	7.4	3.5	10
2006	0.42	2.6	28
2007	18.5	21.4	28
2008	1.5	9.3	29
2009	1.6	6.4	35
2010	1.1	4.2	35
2011	0.55	2.8	37
2012	2.36	15.2	37
2013	1.55	10.6	39
2014	2.0	14.5	39

Source: Access Bank Annual Report and Author’s computation

DIAMOND BANK

YR	BS	EX	NEXC	ACS	DEH %	PROFIT N'000	ASSET N'000	EQUITY N'000
2005	12	6	5	6	100	2526552	12499957	20709850
2006	14	6	8	6	100	3849545	223047862	3496570
2007	14	6	8	*	100	6930754	312249722	538917777
2008	16	6	10	*	87.5	11822011	603326540	116983008
2009	14	5	9	6	85.7	6931127	650891836	116544920
2010	16	7	9	6	75	6522455	548402560	116881159
2011	16	6	10	6	76	22187848	722965977	92522024
2012	15	6	9	6	82	23073427	1059137257	107316415
2013	16	6	10	7	67	29754522	1354930871	138303224
2014	13	5	8	6	80	22057198	1750270423	205660767

YR	ROA(%)	ROE(%)	CGDI
2005	2.0	12.2	
2006	1.7	11.0	27
2007	2.2	12.8	31
2008	1.9	10.1	35
2009	1.06	5.9	43
2010	1.1	5.5	45
2011	3.06	23.9	40
2012	2.17	21.5	45
2013	2.1	21.5	45
2014	1.3	10.7	45

Source: Diamond Bank Annual Report and Author's computation

ECO BANK

YR	BS	EX	NEXC	ACS	DEH %	PROFIT N'000	ASSET N'000	EQUITY N'000
2005	7	2	5	6	61.5	1668174	67652618	25762863
2006	14	5	9	6	43	3558591	132091706	29321454
2007						7449777	311395894	34822351
2008	11	3	8	6	64	2130461	432466245	31755797
2009	15	5	10	6	47	(4588)	355662	73534
2010	14	6	8	6	36	1619	454239	74320
2011	12	5	7	6	NIL	(2291)	1102027	68096
2012	15	6	9	4	NIL	7805	1325315	153628
2013	15	6	9	4	NIL	11658	1460811	156628
2014	15	7	8	5	NIL	29733	1772922	198394

YR	ROA(%)	ROE(%)	CGDI
2005	2.4	6.5	17
2006	2.6	12.1	32
2007	2.4	21.3	32
2008	0.49	6.7	32
2009	1.3	6.2	35
2010	0.35	2.2	43
2011	0.21	3.4	41
2012	0.6	5.1	44
2013	0.8	7.4	44
2014	1.6	14.9	45

Source: Eco bank annual report and Author's computation

FCMB

YR	BS	EX	NEXC	ACS	DEH %	PROFIT N’000	ASSET N’000	EQUITY N’000
2005	10	3	7	6	90	797795	52318898	7216216
2006	12	4	8	6	58	2841380	106611290	26398328
2007	12	4	8	6	66	5805857	26280590	30968864
2008	12	4	8	6	82	13720470	465210901	132127473
2009	13	5	8	6	77	3465812	514409614	127457689
2010	14	4	10	6	77	7322322	5300734885	134635822
2011	15	6	9	6	58	(11567744)	93273465	117373161
2012	15	5	10	6	56	12559592	890313606	130890713
2013	10	1	9	6	45	6027752	131482189	131321521
2014	10	1	9	6	64	5396908	131570290	130777616

YR	ROA(%)	ROE(%)	CGDI
2005	1.6	11.0	27
2006	2.7	10.8	31
2007	22.1	18.7	32
2008	2.9	10.4	32
2009	0.7	2.7	41
2010	1.4	5.4	43
2011	1.9	9.9	45
2012	1.4	9.6	45
2013	4.6	4.6	36
2014	4.1	4.2	45

Source: FCMB Annual Report and Author’s computation

FIRST BANK

YR	BS	EX	NEXC	ACS	DEH %	PROFIT N'000	ASSET N'000	EQUITY N'000
2005	15	7	8	6	100	12184	377496	44672
2006	15	7	7	6	93	16053	538145	58996
2007	15	7	8	6	100	18355	762881	77351
2008	15	7	8	6	93	30473	1165461	339847
2009	17	8	8	6	100	35074	1667442	351054
2010	16	5	9	6	93	26936	195758	340735
2011	16	5	11	6	81	47462	2463543	373572
2012	19	7	11	6	*	71144	2770674	372176
2013	19	7	12		*	59365	3246577	350709
2014	19	7	12	6	*	75175	3490871	423047

YR	ROA(%)	ROE(%)	CGDI
2005	3.2	27.2	40
2006	2.9	27.2	40
2007	2.4	23.7	40
2008	2.6	8.9	40
2009	2.1	9.99	35
2010	1.3	7.9	38
2011	1.9	12.7	38
2012	2.5	19.1	33
2013	1.8	16.9	32
2014	2.2	17.7	32

Source: First Bank Annual Report and Author's computation

GTB

YR	BS	EX	NEXC	ACS	DEH %	PROFIT N’000	ASSET N’000	EQUITY N’000
2005						5330796	167897704	36168036
2006	14	5	9	6		790556	305080565	40645542
2007	11	5	6	6		13013146	478369179	47433188
2008	14	6	8	6	87	21489885	717999797	161653064
2009	14	6	8	6	87	23848061	1019911536	188475788
2010	14	6	8	6	89	38411612	1083304116	216445185
2011	14	6	8	6	94	47980889	1525010483	235911423
2012	14	6	8	6	93	85263826	1620317223	288153630
2013	14	6	8	6	100	85545510	1904365795	329646681
2014	14	6	8	6	93	93431604	212668312	369530326

YR	ROA(%)	ROE(%)	CGDI
2005	3.2	14.7	
2006	2.6	19.4	
2007	2.7	27.4	28
2008	2.9	13.3	28
2009	2.3	12.6	28
2010	3.5	17.7	31
2011	3.1	20.3	30
2012	5.2	29.5	32
2013	4.5	26	41
2014	4.4	25.2	43

Source: GTB Annual Report and Author’s computation

SKYE BANK

YR	BS	EX	NEXC	ACS	DEH %	PROFIT N'000	ASSET N'000	EQUITY N'000
2005						493	31990	4447
2006						2467	174197	26083
2007	16	6	10	6	100	5517	446114	29175
2008	17	5	12	6	93	15126	784878	93853
2009	18	7	11	6	82	1130	633164	88032
2010	*	*	*	*	*	9308	674064	107754
2011						6640	892856	109102
2012	*	*	*	6	*	12697	1071311	108088
2013	**	**	**	**	**	15865	1114009	121451
2014	13	4	9	6	75	8629	1209633	131953

YR	ROA(%)	ROE(%)	CGDI
2005	1.5	11	
2006	7.7	9.5	26
2007	1.3	18.9	27
2008	1.9	16.1	27
2009	0.2	11.3	36
2010	1.4	8.6	19
2011	0.7	6.1	
2012	1.2	11.7	23
2013	1.4	13.1	**
2014	0.7	6.5	45

Source: Skye Bank Annual Report and Author's computation

STERLING BANK

YR	BS	EX	NEXC	ACS	DEH %	PROFIT N’000	ASSET N’000	EQUITY N’000
2005						4820558	19435289	2966726
2006						961648	109664427	26319328
2007						620658	145974674	26800395
2008						6523153	236502923	30238878
2009	13	4	9	6	91	6660406	205640827	22141994
2010	11	4	7	6	69	4178493	259579523	26320487
2011	12	4	8	6	69	4644220	504427737	40953115
2012	10	4	6	6	91	6953539	580225940	46642394
2013	11	4	7	6	82	8274864	707797181	63457896
2014	16	6	10	6	85	90004973	824539426	84715285

YR	ROA(%)	ROE(%)	CGDI
2005	24.8	16.2	
2006	0.9	3.7	29
2007	0.4	2.3	29
2008	2.8	21.6	30
2009	3.2	30.0	34
2010	1.6	15.9	34
2011	0.9	11.3	39
2012	1.2	14.9	41
2013	1.2	13.0	32
2014	1.1	10.6	43

Source: Sterling Bank Annual Report and Author’s computation

UBA

YR	BS	EX	NEXC	ACS	DEH %	PROFIT N’000	ASSET N’000	EQUITY N’000
2005	17	8	9	6	52.9	4653	248928	17702
2006	14	8	6			11468	851241	47621
2007	17	9	8		82	19831	1102348	164821
2008	20	9	11	6	76	40002	1520093	188155
2009	20	9	11	6	85	12889	1400879	187719
2010	19	9	10	6	76	2167	1432632	187730
2011	18	8	10	6	94.7	16385	1655465	170058
2012	18	7	10	6	76.2	47375	1933065	220317
2013	16	8	8	6	95.1	46483	21217417	259538
2014	16	7	9	6	100	40083	2338858	281933

YR	ROA(%)	ROE(%)	CGDI
2005	1.86	26.2	20
2006	1.3	24	27
2007	1.7	12.0	25
2008	2.63	21.2	29
2009	0.9	6.86	39
2010	0.15	1.15	39
2011	0.98	9.6	42
2012	2.45	21.5	45
2013	0.2	17.9	45
2014	1.7	14.2	45

Source: UBA Annual Report and Author’s computation

ZENITH BANK

YR	BS	EX	NEXC	ACS	DEH %	PROFIT N'000	ASSET N'000	EQUITY N'000
2005	12	5	7	6	100	7155926	329716511	37789662
2006	11	5	6	6	100	11488800	608505175	93800665
2007	13	7	6	6	100	17509145	883940926	112833323
2008	14	8	6	6	100	46524991	1680302005	33848138
2009	15	7	8	6	88	18365	1573196	328383
2010	13	6	7	6	83	33335	1789458	350414
2011	12	6	6	6	92	37141	2154713	360868
2012	14	7	7	6	78.5	95803	2436886	438003
2013	12	5	7	6	87	83414	2878693	472622
2014	12	4	8	6	92	92479	3423819	512707

YR	ROA(%)	ROE(%)	CGDI
2005	2.2	19	19
2006	1.9	12.2	29
2007	2.9	15.5	32
2008	2.8	13.7	31
2009	1.2	5.6	27
2010	1.8	9.5	39
2011	1.7	10.3	41
2012	3.9	21.9	37
2013	2.9	17.6	37
2014	2.7	18.0	44

Source: Zenith Bank Annual Report and Author's computation

NOTE:

ROA= PAT/TOTAL ASSET x 100

ROE= PAT/SHAREHOLDER'S EQUITY x 100

*Data not inclusive in annual report of banks

** Data not available due to Abridged annual reports of banks

Empty box- annual report not available on bank's website

APPENDIX II: CORPORATE GOVERNANCE DISCLOSURE ITEMS

CGD NO.	ITEMS
1	Financial and operating result
2	Related party transaction
3	Critical accounting policies
4	Corporate reporting framework
5	Statement of directors' responsibilities towards preparation and presentation of financial statements
6	Risk and Estimates in preparing and presenting financial statements
7	Segment reporting
8	Information regarding future plan
9	Dividend
10	Information about company objective
11	Ownership Structure
12	Shareholders' right
13	Size of board
14	Composition of board
15	Division between Chairman and CEOs
16	Chairman's Statement
17	Information about Independent directors
18	Roles and Function of the Board
19	Organisational Hierarchy
20	Changes in Board Structure
21	Compliance with different legal rules
22	Audit Committee
23	Remuneration Committee
24	Statement of Chief Executive Officer
25	Composition of the Committees
26	Functioning of the Committees

27	Organisational code of ethics
28	Biography of board members
29	Number of directorship held by individual member
30	Number of board meetings
31	Attendance in Board Meetings
32	Directors' stock ownership
33	Director's remuneration
34	Employee relation/ Industrial relation
35	Environmental and social responsibility
36	Risk Assessment and Management
37	Internal Control System
38	Auditor's Appointment and Rotation
39	Auditors fees
40	Notice of the annual general meeting
41	Agenda of the annual general meeting
42	Separate section for corporate governance
43	Annual Report through Internet
44	Compliance with CBN code
45	Compliance with SEC notification

APPENDIX III: COMPREHENSIVE RESULT OF REGRESSION ANALYSIS

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.340[a]	.116	.058	7.00032	.116	2.009	6	92	.072	2.028

a. Predictors: (Constant), DEH, CGDI, AC, EXEC, NEXEC, BS

b. Dependent Variable: ROE

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	590.730	6	98.455	2.009	.072[b]
	Residual	4508.412	92	49.004		
	Total	5099.142	98			

a. Dependent Variable: ROE

b. Predictors: (Constant), DEH, CGDI, AC, NEXED, BS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.455	2.336		5.331	.000
	BS	-.239	.367	-.170	-.651	.516
	NEXED	-.091	.496	-.041	-.183	.856
	ACS	-3.891	5.785	-.087	-.673	.503
	CGDI	-.061	.078	-.103	-.778	.439
	DEH	.046	.023	.243	1.997	.049

a. Dependent Variable : ROE

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.286[a]	.082	.022	3.64921	.082	1.369	6	92	.236	1.941

a. Predictors: (Constant), DEH, CGDI, AC, NEXED, BS

b. Dependent Variable: ROA

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	109.353	6	18.226	1.369	.236[b]
	Residual	1225.139	92	13.317		
	Total	1334.492	98			

a. Dependent Variable: ROA

b. Predictors: (Constant), DEH, CGDI, AC, NEXED, BS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.819	1.218		3.956	.000
	BS	-.034	.191	-.048	-.180	.858
	NEXEC	-.023	.258	-.020	-.088	.930
	ACS	-.404	3.016	-.018	-.134	.894
	CGDI	-.039	.041	-.130	-.959	.140
	DEH	.018	.012	.182	1.469	.045

a. Dependent Variable: ROA