

**LOAN/ADVANCES TO CUSTOMERS' AND EARNINGS PER SHARE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA****Okpolosa Matthew Onyebuchi****Department of Accounting, Faculty of Management Sciences****Ignatius Ajuru University of Education,****Rumuolumeni, Port Harcourt, Rivers State, Nigeria.***Email: Onyebuchi,okpolosa55@gmail.com***ABSTRACT**

The study investigated the effect of loan advances to customer's and earning per share of listed deposit money banks in Nigeria. The study was ex post Facto research design and the pollution was fourteen deposit money banks in Nigeria listed on the Nigeria exchange group. The Sample size was seven deposit money banks using the purposive sampling techniques. The study used secondary data from published annual account of the seven money deposit banks in the Nigeria exchange group website. The panel method analysis was adopted. The panel was analysed with econometric techniques that involved descriptive and inferential statistics using ordinary least square regression technique. Findings shows that there is significant effect of loan advances to customers on earning per share of listed deposit money banks studied. The study concluded that loan advances has positive effect on earning per share of list deposit money banks in Nigeria and was recommended that banks should make available loan advances as its bedrock for bank sustainability in terms of profitability growth, and that manager of deposit money banks should increase allocation of resource towards financial assets especially those held for trading in order to improve on their financial performance.

***Keywords: Loan Advances, Earning Per Share, Financial Assets, Profitability***

**Introduction**

In the face of globalization and increasing expectation of stakeholders, the Nigerian banking industry is experiencing a regular transformation because of strict regulations and keen competition compelling them to invest in tradable financial assets, and create streams of innovative new products in a bid to maximize the wealth of shareholders and meet the needs of other stakeholders. As with other profit making entities, banks embark on a range of actions that will enable them to skirt regulatory restrictions and other competitive impediments that may vitiate performance (Osirim & Chukwu, 2017). The Nigerian money market trade mostly on short-term financial instrument like treasury bills, treasury certificates, commercial and lots more. Therefore, the money market instruments are short term in nature. Their risk exposure is very low compared with shares and their maturity period may vary from one month to twelve months (Ndugbu et al., 2016). Newstyle and Opuene (2022) reported that financial assets are one of the most common financial reports to assess the steps and decisions taken by management in the running of the organization.

The research study published by AlHayek (2018) affirmed that loan is a debt provided by a financial institution for a certain period while advances are the funds provided by the banks, which needs to be payable within one year. Similarly, Wisdom et al. (2021) disclosed that loans and advances to customers consists overdraft, term loans, staff loans and commercial papers. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it (Marian & Ikpor 2017; Agus et al., 2018). However, collateral provides additional security and banks generally request that corporate borrowers provide it. The bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees (Chang 2018; Jan-Horas & Denny 2019; Ullah & Ahmad 2019).

Banks in Nigeria are developing strategies to satisfy their customers' demand for advances and deposits. Ebhodaghe (2015) posited that financial instruments enable commercial banks to satisfy

their liquidity and funding functions. Maintaining and managing short-term financial assets, which are liquid and marketable are parts of the strategic management practice of many financial institutions. A mix of financial instruments held by financial outfits like banks can easily be traded for cash. This is a major source of liquid asset for Nigerian banks. The chunk of bank profits are derived from the interests they charged on loans and advance and other fees or interests charged on their services. Financial instruments like treasury certificates, treasury bills, derivatives, advances and loans and other related credit facilities constitute a significant asset for most banks in Nigeria.

### **Hypothesis**

**H<sub>01</sub>:** There is no significant effect of loan/advances to customers' on earnings per share of listed deposit money banks in Nigeria.

### **Loans/Advance to Customers**

According to Puspitasari et al (2021), loan granted to customers compares the size of a bank's loan book to its deposits to analyze the bank's funding strategy. Loan granted to customers refers to the total loans granted by the bank. Funding can come from customer deposits or the wholesale markets (in the form of demand deposits, savings accounts, time deposits, time deposits certificates, and other immediate obligations in the form of credit). Lending is the main activity of the bank, besides collecting funds from customers, because it is the main source of bank income. Banks generally make money by borrowing money from depositors and compensating them with a certain interest rate. The banks will lend the money out to borrowers, charging the borrowers a higher interest rate, and profiting off the interest rate spread. If the loans are one of the important sources of financing, and on the other hand, the loan provides the issuing bank with an opportunity to obtain appropriate returns (interest rate) and thus improve financial performance (Qamruzzaman & We, 2019).

According to the Basel Committee on Banking Supervision (1999), loans are the largest and most obvious source of credit risk. Hence, it is a requirement for every Bank worldwide to identify, measure, monitor, and control credit risk and determine how credit risks could be lowered. Deposit money banks must hold adequate capital against these risks to absorb any shocks and reduce the likelihood of failures. The holding of adequate capital accentuates the ability of the banks to attract more customers and make better investment opportunities (Aymen, 2013). Equally, the deposit money banks are responsible for ensuring that they are adequately compensated for risks incurred. Al-Hamad et al (2021) posited that deposit money banks all over the world thrive on their ability to generate income through their lending activities. Since commercial banks depend on depositor's money as a source of funds, it means that there are some relationships between the ability of the banks to mobilize deposits and the amount of credit granted to the customers.

The estimated fair value of loans and advances represents the market value of the loans, arrived at by recalculating the carrying amount of the loans using the estimated market rate for the various loan types. Uyar (2019) stated that loans and advances to customers are net of charges for impairment. Nevertheless, Vivian (2018) reported that the amount and quality of loans and advances to customers can improve the interest income of a bank and thus increase the bank's financial performance. Heiens et al. (2017) studied the relationship between financial assets and corporate performance of listed telecommunication firms in China. The data was based on seven (7) listed telecom firms' financial statements in China from 2014-2016. The study gives empirical evidence that the loans and advances to customers have positive and significant effect on firms' performance, measured by return on asset.

**Earnings Per Share**

Earnings per share is defined the profit in pence attributable to each equity share, based on the consolidated profit of the period after tax and after deducting minority interests and preference dividends, but before taking into account extraordinary items, divided by the number of equity shares in issue and ranking for dividend in respect of the period. Earnings per share (EPS) is a ratio that shows how much profit (return) obtained by investors or shareholders per share by dividing net income after tax with the number of ordinary shares outstanding. Earnings per share (ESP) are the net profit realized by the company after accounting for all expense such as interest, depreciation, and taxes (Orlu et al., 2022). The company can withhold all the EPS to be used in its operation; however, dividends can be declared and paid to the shareholders.

According to Alfred (2020) that earning per share is described as part of a company's profit allocated to each shareholding. Earnings per share (EPS) are very importance to investors and individual who trade in the stock market. Hung and Cuong, (2020) claimed that the higher the earnings per share of a company the better its profitability. When calculating earnings per share (EPS) it is advisable to use the weighed ratio as the number of outstanding shares changed over time. The term earnings per share (EPS) are essential and important financial measure that indicates a company's profitability. The term is calculated by dividing the company's net income with the total number of outstanding shares. It is a tool that market participants often use to measure the profitability of a company before buying their shares. Oladunjoye et al (2021) affirmed that earnings per share are conceptualized as the portion of a company's profit allocated to each share of common stock. It is common for a company to report earnings per share (EPS) that are adjusted for extraordinary items, potential share dilution. Tristiarini, (2017) suggested that earning per shares gives pertinent note to shareholder or stockholders. An entity that discloses earnings per share (EPS) amounts for profit or loss attributable to the ordinary shareholders of the parent company and, if presented, profit or loss from continuing operations attributable to those equity holders in accordance with the standard and if it chooses to disclose earning per share based on a separate financial statements such information will be shown in its statement of comprehensive income and not in the consolidated financial statements (Marvis et al., 2019). Similarly, Oyedokun et al., (2018) claimed that earnings per share are the fragment of a company's profit, given to each outstanding share of common stock. The information about earnings per share is provided as a measure of the interest attributable to each ordinary share a parent company in the performance of the company over the reporting period (Ubesie, 2016). Sumaryati and

**Loans/Advances to Customers and Profitability**

Few studies were carried out to examine the impact of financial inclusion on several corporate aspects. Gul et al (2016) investigated the impact of assets, loans, equity, deposits, economic growth, inflation and market capitalization on profitability indicators such as Return on Assets (ROA), Return on Equity (ROE), Return on Capital Employed (ROCE) and Net Interest Margin (NIM). Their results showed that deposits have positive correlation with ROA and ROE. Naceur and Goiaed (2017) investigated the determinants of the Tunisian banks' performance during the period 1955 to 2015. The researchers have used two measures of performance in their study: the Net Interest Margin (NIM) and the Return on Assets (ROA). Bank loans have considered as the main source of the income of the bank and expected to generate a positive influence over the bank performance. The higher deposits have transferred into loans, the higher the interest margin and profits of a bank. According to the Basel Committee on Banking Supervision (1999), loans are the largest and most obvious source of credit risk. Hence, it is a requirement for every Bank worldwide to identify, measure, monitor, and control credit risk and determine how credit risks could be lowered. According to Mishkin (1996), the bank lending channel is based on the special role that banks play within the financial system in solving problems of asymmetric information and other imperfections in credit

markets. Often, banks serve as financial intermediaries that provide funds to certain borrowers who do not have access to credit markets.

### Research Design

This study used ex-post facto research design. This design seeks to identify antecedents of a present situation. In ex-post facto research design, the variable is not controlled or manipulated by the researcher, because it has already occurred in the past. The data involved are extracted from the published annual reports of listed deposit money banks on the Nigerian Exchange Group.

### Population for the Study

Onuaguluchi and Okwo (2022) advocated that research population is a well-defined collection of individuals or objects known to have similar characteristics. Olaleye and Ishola (2022) stated that research population is generally a large collection of individuals or objects that regarded as the main focus of a scientific query. The population of the study consisted of fourteen (14) deposit money banks listed on the floor of the Nigerian Exchange Group as at 31<sup>st</sup> December 2022.

**Table 1 Listed Deposit Money Banks in Nigeria**

S/N	Name of Banks
1	Access Holdings Plc
2	EcoBank Transnational Incorporation
3	FBN Holdings Plc
4	FCMB Group Plc
5	Fidelity Bank Plc
6	Guaranty Holding Company
7	Jaiz Bank Plc
8	Stanbic IBTC Holdings Plc
9	Sterling Bank Plc
10	Union Bank Plc
11	United Bank for Africa
12	Unity Bank Plc
13	Wema Bank Plc
14	Zenith Bank Plc

**Source: NGX, 2023**

### Sampling and sampling technique

Based on the foregoing criteria, a total sample size of seven (7) deposit money banks listed on the Nigeria Exchange Group as at 31<sup>st</sup> December, 2022 employing purposive sampling techniques. These include: , Fidelity Bank Plc, Zenith Bank, Access Bank, Unity Bank, Union Bank, First Bank Plc and Stanbic Bank. The cross-sections included in the study was seven (7) deposit money banks; sample period ten (10) years, and total observation was (70) seventy years.

### Sources and Method of Data Collection

The study used secondary data. The secondary data gathered by downloading published annual accounts of the seven (7) selected deposit money banks on the Nigerian Exchange Group website. In specific terms, the data were collected from the portion expounding on income statement, statement of financial income, financial position and note to the account. The secondary data provided a reliable source of information required by the researcher to investigate the phenomenon and sort efficient methods for solving problems arising from situations.

### Measurement of Study Variables

This study investigated the effect of financial assets and profitability of deposit money banks' in Nigeria. The study used cash/cash equivalent (CCE), loan/advances to customers (LAC) as proxies of the independent variable financial assets; whereas: net interest income (NETINC) and earnings per share (EPS) were used as measures of the dependent variable profitability.

#### Explanation of Study Variables

Variable Name/Acronyms	Measurement	Sources
Cash/Cash Equivalent <b>CCE</b>	Cash/cash equivalent was extracted directly from the statement of financial position and applied with log	Guo et al (2023), Okechukwu and Ugwu (2022),
Loan/Advances to Customers' <b>LAC</b>	Loan and advances to customers' was extracted directly from the statement of financial position and applied with log	Major et al. (2022), Maccarthy and Adamu (2022), Oghenekohwo et al. (2019), Chukwu and Obah (2019),
Net Interest Income <b>NETINC</b>	Net interest income was extracted directly from the statement of comprehensive income and applied with log	Okoro and Charles (2019), Inyiama et al. (2021)
Earnings Per Share <b>EPS</b>	Earnings per share was extracted directly from the statement of comprehensive income and applied with log	Orlu et al (2022), Oladunjoye et al (2021), Sumaryati and Tristiarini (2017)
Firm Size <b>FS</b>	Natural Log of Total assets	Desk Researcher (2023)

### Method of data Analysis

The study used panel data that was subjected to preliminary test to ascertain the behavior of the data set. However, the panel data was analyzed with econometric techniques that involved descriptive statistics and inferential statistics using Ordinary Least Square (OLS) regression techniques. Nevertheless, other tests of significance which was used in the study were:

$R^2$  – coefficient of determination was used to test the explanatory power of the independent variable;

T-test was used to test for the significance of the coefficient of the variables;

F-Ratio was used to test for the significance of the overall models;

Durbin-Watson (DW) test was used to test whether auto-correlation exist or not in error term (u).

### Results

**H<sub>01</sub>:** There is no significant effect of loan/advances to customers' on earnings per share of listed deposit money banks in Nigeria.

**Decision Rule:** Accept H<sub>0</sub> if  $P > 0.05$ . Otherwise reject

**Decision:** The result in table 1 discovered an insignificant level between loan advances to customers' (LAC) and earnings per share (EPS). The Beta value (R) = -0.244 indicated that there is a moderate negative effect of loan advances to customers' (LAC) and earnings per share (EPS) with t-sta value -1.006 which implies that 1% increase in loan advances to customers' (LAC) will lead to 1.00 decrease in earnings per share. The prob value  $P = 0.318 > 0.05$  revealed that the significant effect of loan advances to customers' (LAC) on earnings per share (EPS) is statistically insignificant at 0.05 alpha level. Thus the null hypothesis four is accepted which implied that loan advances to

customers' (LAC) has insignificant effect on earnings per share of listed deposit money banks in Nigeria.

### **Conclusions**

This study investigated the effect of loan advance to customers on earning per share among listed deposit money banks firms in Nigeria. Based on the data analysis, and discussion of findings, and summary of findings above, the study concluded that; Loan advances to customers has negative effect on earnings per share of listed deposit money banks in Nigeria.

### **Recommendations**

Based on the summary of findings and conclusions above, the following recommendations were made:

1. The study recommends that criteria for loans and advances should comply with the CBN regulations in order to avoid bad debt.
2. This study recommends that managers of deposit money banks should increase their allocation of resources towards financial assets especially those held for trading in order to improve on their financial performance.
3. The study recommends that collateral should be provided by the borrower in terms of failure to redeem the said loans and advances.

### **References**

- Alfred, T. A. (2020). The impact of financial structure on the performance of companies: Case study of cosmos educational press (ltd). *International Journal of Management Studies and Social Science Research*, 33(4), 49-76.
- AlHayek, M.A. (2018). The relationship between sales revenue and net profit on operating activities in Jordanian industrial joint stock companies, *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 8(3), 149-162
- Hung, T. D., & Cuong, D. P. (2020). The effect of capital structure on financial performance of vietnamese listing pharmaceutical enterprise. *Journal of Asian finance, economics and business*, 7(9), 329-340.
- Gou, C .C. (2020). Research on the reclassification of financial assets. *Open Access Library Journal*, 7(6), 1-9.
- Heiens, R. A., Leach, R. T. & McGrath L. C. (2017). The contribution of intangible assets and expenditures to shareholders value. *Journal of Strategic Marketing*, 15(8), 145-159.
- Jan-Horas, V. P. & Denny, B. (2019). The influence of asset management on financial performance, with panel data analysis. *Journal of Advances Economics, Business and Management Research*, 143(4), 150 -155.
- Marian, D., & Ikpor, H. (2017). The impact of fixed assets investments on financial performance of selected banks in Nigeria. *Journal of Finance and Economics*, 3(9), 575-592.
- Marvis, N. O., Peter I. O., Chinonso, J. U. & Micheal, E. K. (2019). Implications of equity capital financing on corporate financial performance of deposit money Banks in Nigeria. *Research Journal of Finance and Accounting*, 10(12), 86-93.

- Ndugbu, M. O., Duruechi, A. H. & Ojiegbe, J. N. (2016). Money market instruments and banks performance in Nigeria. *Journal of Economics and sustainable development*, 7(10), 95- 105.
- Newstyle, D., & Opuene, E.G. (2022). Inventory management techniques and financial performance of listed oil and gas companies in Nigeria. *International Journal of Management, Accounting and Human Development*, 11(1), 87- 109.
- Oladunjoye, O.O., Ogbemor, P. I., & Alalade Y.S.A. (2021). Debt equity and share price performance of manufacturing companies listed in Nigeria. *International Journal of Advanced Research (IJAR)*, 9(7), 1016-1024.
- Osirim, M. & Moses, T. (2019). Empirical evaluation of current assets investment and corporate financial returns in Nigeria. *Asian Journal of Economics, Business and Accounting*, 10(2), 1-11.