CRITICAL ANALYSIS ON THE POST ECONOMIC MELTDOWN FINANCIAL PERFORMANCE OF GUARANTY TRUST AND ACCESS BANKS IN NIGERIA

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ABSTRACT

The global economic meltdown hit the financial world very hard and many financial institutions Nigerian's inclusive still grapple with the effect of that phenomenon and many are yet to recover from it. This study critically evaluated the financial performance of some big and technologically re-engineered banks in Nigeria using some financial performance measures, and also compared the financial performances of the banks considered. Guarantee Trust Bank Plc and Access Bank Plc were selected for the study and data on their post – economic meltdown performances was obtained from their financial statements over the period. Descriptive analysis of the performances was presented and t-test was used to ascertain compare the banks' performance. The results show that GTB performed better than ACCESS in four of the financial measures tested where mean difference was significant (earnings per share, $p = 0.002$; profit after tax, $p = 0.013$; operating income, $p = 0.030$; gross earnings, $p = 0.013$), ACCESS was better in only one of the financial measure (investment subsidiaries, $p = 0.029$) while they do not differ significantly in the other financial measures. These results are in consonance with recent banking rankings in the country where GTB was constantly ranked above Access Bank in virtually all performance indicators. It is concluded that GTB has a better operational efficiency than Access as seen from the results. It is therefore recommended that Access bank improve in its operational efficiency to keep pace with others within the industry.

KEYWORDS: Post-meltdown, Operational efficiency, Financial performance, Mean difference.

Introduction

The importance of a vibrant, transparent and healthy banking system in the mobilization and intermediation of fund, for the growth and development of the economy need not be over-emphasized. Worthy of note is the fact that the level of functioning of the financial sector depend on the perception and patronage of the citizens towards its services, the situation where the public losses confidence in the financial institutions, can result in panic and consequential financial and economic woes. The absence of confidence in any organization is attributable to opaque management practices with deleterious effect on its performance (Al-Faki, 2006).

The Nigerian banking sector has witnessed remarkable changes in recent times given the increasing wave of globalization, structural and technological changes and integration of financial markets. The reforms in the Nigerian banking sector marked another giant stride in the history and development of the Nigerian banking industry. Banking industry in the world overplays fundamental roles in the development and growth of the economy, it plays the crucial roles of lubricating the payment system, resources mobilization and credit allocation. The effective and the efficient performance of these roles and the intermediation between the surplus and the deficit units of the economy are largely anchored on the level of development of the financial system. It is in view of these that the banking sector receives greater attention and has become the most regulated and controlled sector by government and its agencies (Imala, 2005).

In any country, the banking sector occupies an important place in the financial system. The reasons for this are the role banks play in the development of an economy. Banks among others play the following roles in an economy:

They act as intermediary between the deficit and surplus units in an economy, that is, they mobilize funds and allocate them among competing ends. Secondly, they facilitate the use of appropriate monetary policy instruments as well as make the transmission mechanism reliable and policies effective. Thirdly, the banking sector is instrumental in the pursuit of stabilization policies and in structural transformation. The main source of funds for Banks is deposits and the main application of funds is loan and investment. (Osuka and Osadume, 2013)

The deregulation of the banking industry initiated by the Babangida administration in the 1980s has changed not only the structure but also the contents and service structure of banking business. Just as the number of banks grew from 40 in 1985 to 125 in 1991, the techniques of delivering banking services and range of products and services in the Market have also changed. The changes have been described as a “revolution” while others see them as another banking boom comparable to what was witnessed in the fifties. The antecedent of banks proliferation and lack of control by the supervisory authority led to the paper profit declared by banks in order to stay afloat. The effect of these unethical practices led to the distress in the banking industry with the introduction of the prudential guidelines and statement of accounting standard which majorly dwelt on the provisioning for loans and advances. The lesson to learn from the distress in the banking industry was that profitability alone does not determine the yardstick for financial performance of banks. The deficiency of profitability as a measure of financial performance led to the use of CAMEL which is an acronym for capital adequacy, Asset quality, Management, Earnings and Liquidity by Monetary authorities. Since the introduction of CAMEL, the banking industry has improved tremendously with respect to their financial performances (Osuka and Osadume, 2013).

The scenario of commercial banking in Nigeria has been characterized by low capitalization which consequently affected their financial performance. While re-capitalization of Nigerian banks may address this concern, the effect of the exercise on banks performance remains an empirical one. The main problem addressed in this study, is whether recapitalization of Nigerian banks has improved their financial performance (Sani and Alani, 2013).

McCall & Walker (1973) studied commercial banks in New Hampshire to determine whether or not control by mutual savings banks affect commercial bank profitability and also focused on the role that ownership and control play on profitability of banks in analyzing the impact of ownership and control on some banks in the United States. It was concluded that management or owner-controlled status did not affect the profit rates of these banks. In Nigeria, the impact of ownership and control on the performance of banks is significantly different. Alashi, (2002) identified ownership structure as one of the major variables that could be used to explain financial distress in Nigerian banks. In contrast, Heggestad ((1977) in the study of bank pricing behavior affirmed that prices of bank services decreases with the degree of monopoly in banking markets.

Researches on factors impacting on profitability of commercial banks have also been vigorously extended to market interest rate sensitivities. Since revenues of commercial banks are largely from interest income, it follows that fluctuations in interest rates should have an impact on the profitability and overall financial performance of these banks. There have been some studies relating to the profitability of commercial banks in Nigeria. Ogunlewe (2001) in a study of the monetary policy influence of bank’s profitability, using data from Nigerian banks found the determinants of bank profitability to include reserve ratio, permissible credit growth, stabilization securities and exchange rate. Uchendu (1995) investigated the effect of monetary policies on the performance of Nigerian commercial banks. He found that whether you use all banks data, six banks or the then three large banks’ data, the dominant factors influencing bank profitability are interest rates, exchange rate, bank reserves, banking structure and unit labor costs, particularly when return on capital is used as measure of profitability. He concluded that stable and realistic monetary and banking policies are important for the profitability of commercial banking business in Nigeria. The study by Uchendu is significant because it is an attempt to shed more light on the factors that influence commercial bank profitability in Nigeria. By so doing, it assists the industry managers in identifying the dominant variables to manage in order to improve performance.

The issue of re-capitalization is a major reform objective; re-capitalization means increasing the amount of long-term finances used in financing the organization. Re-capitalization entails increasing the debt stock of the company or issuing additional shares through existing shareholders or new shareholders or a combination of the two. It could even take the form of mergers and acquisitions or foreign direct investment (Asiedu, 2004). Whichever form it takes the end result is that the long term capital stock of the organization is increased substantially to sustain the current economic trend in the global world. Even though re-capitalization policy of the Central Bank of Nigeria (CBN) has increased the capital base and made them competitive players for the economic development of this country, there are still some noticeable drawbacks being envisaged.

This study examined and compared the Gross Earnings, Operating Income, Operating Expense, Profit after Tax, earning per Share (basic), Retaining Earnings Reserve, Customer Deposits, Investment in Subsidiaries, Investment in Associates and Investment in Securities of two banks in Nigeria over a period of five years post economic meltdown. The findings of this study would help banks retrace their financial activities in other to achieve a greater financial status in the coming years. The objectives pursued in this study were to determine the financial performance of Guaranty Trust and Access Banks with reference to CAMEL and, to compare the performance of both banks post economic meltdown based on the different financial performance measures

Materials and Methods

The data used for this study was a quantitative secondary data measuring the performances of Guaranty Trust and Access Banks extracted from their Financial Statements published online from 2009 to 2013. The performances measured were gross earnings, operating income, operating expenses, profit after tax (PAT), Earning per share, retained earnings reserve, customers deposit, investment subsidiaries, and investment securities all extracted from financial statements of the stated banks. The descriptive of the data showing the means and standard deviation was obtained as a measure of their level of performance while t-test was employed to ascertain differences in the mean performances of the banks. Microsoft Excel was used in the analysis.

Results

The results from the analysis using Microsoft Excel 2013 are displayed in the charts and table below:

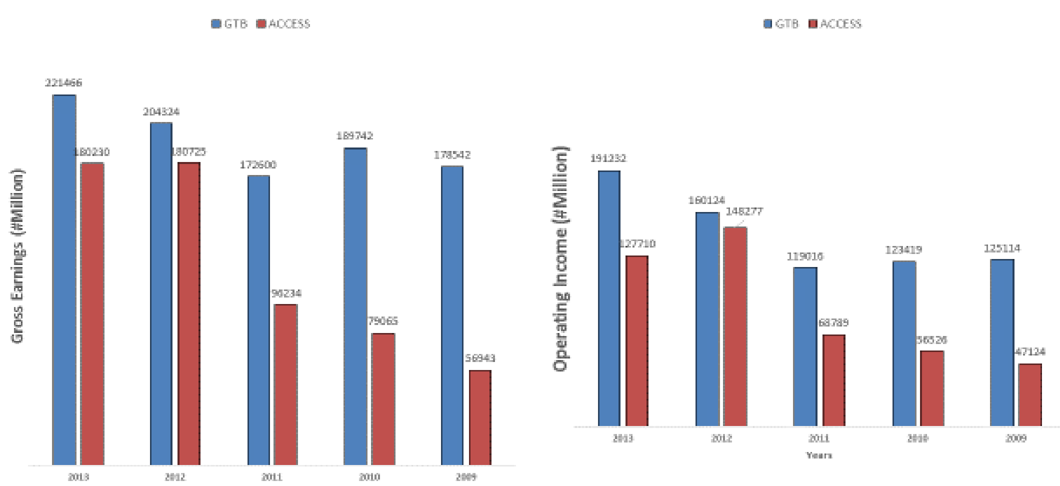

Fig. 1: Bar charts of Gross Earnings and Operating Income of GTB and Access Bank

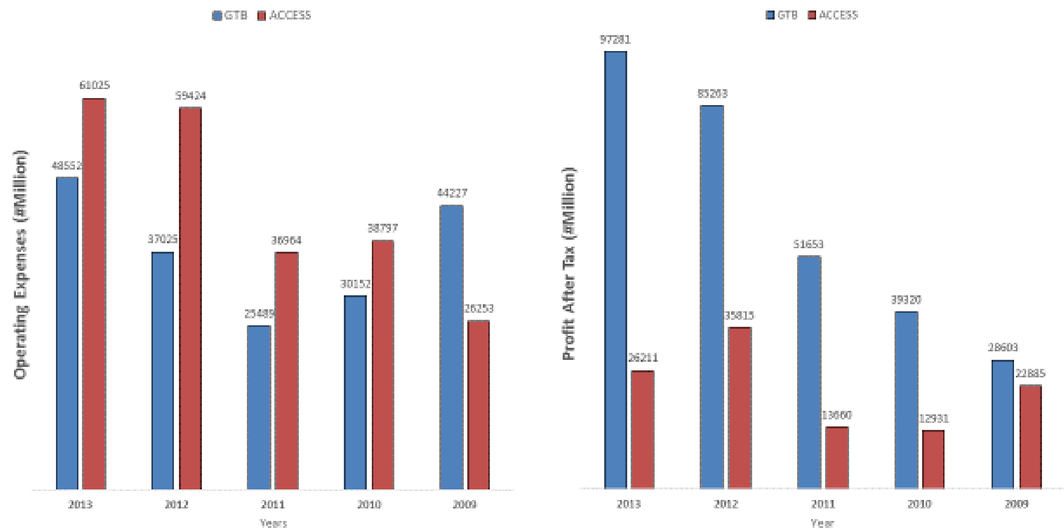

Fig. 2: Bar charts of Operating Expenses and Profit after Tax of GTB and Access Bank

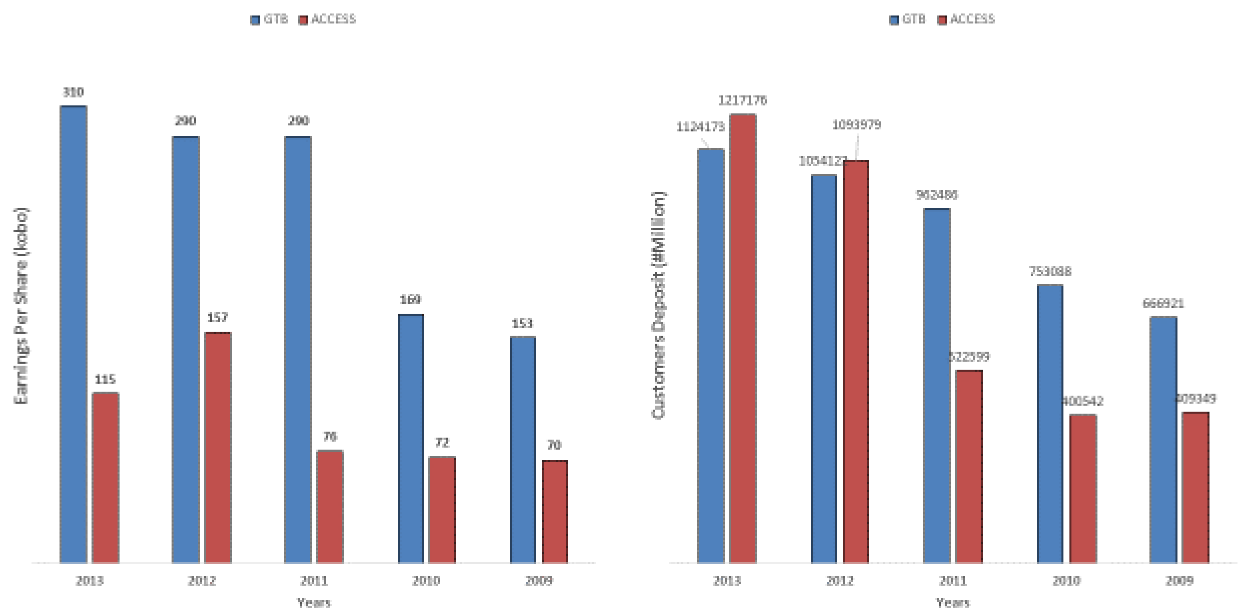

Fig. 3: Bar charts of Earnings per Share and Customer Deposit of GTB and Access Bank

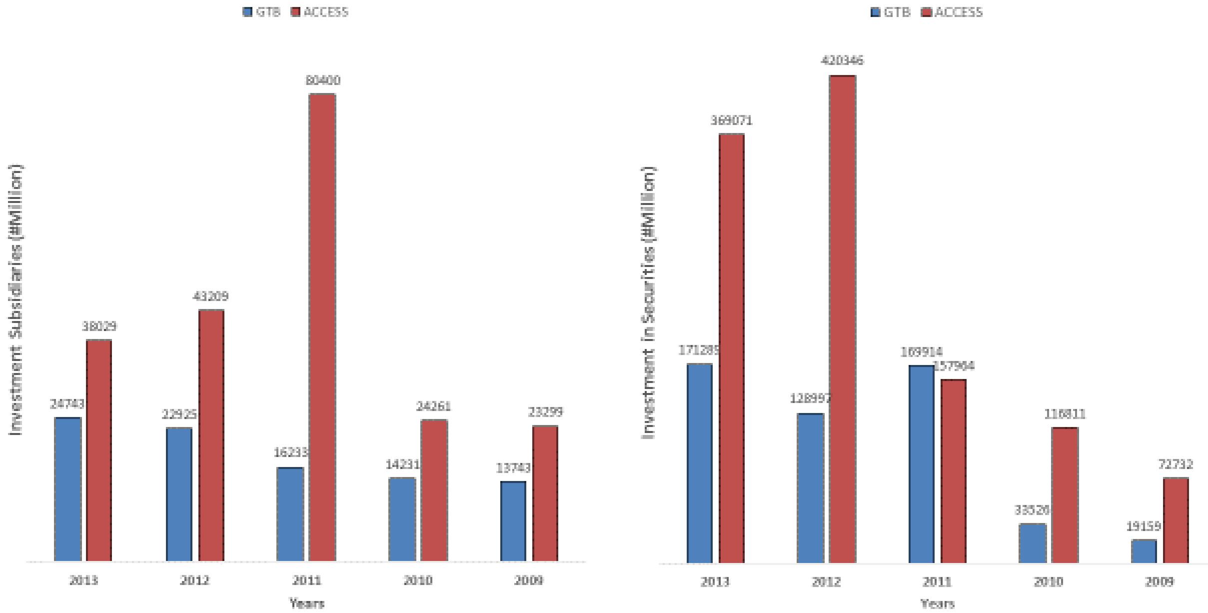

Fig. 4: Bar charts of Investment in Subsidiaries and Investment in Securities of GTB and Access Bank

Table 1:
Mean, Standard Deviation, and the t-value obtained from GTBank, Access Bank and measure of their mean differences for various financial performance measures.

Performance Measures	Bank	Mean	Std. Dev.	df	T	p
Gross Earnings (#Million)	GTB	193334.80	19835.54	8	2.719	**0.013***
	ACCESS	118639.40	58143.37			
Operating Income (#Million)	GTB	143781.00	31205.22	8	2.197	**0.030***
	ACCESS	89685.20	45350.09			
Operating Expenses (#Million)	GTB	37089.00	9552.98	8	-0.924	0.191
	ACCESS	44492.60	15149.83			
Profit After Tax (#Million)	GTB	60424.00	29623.89	8	2.740	**0.013***
	ACCESS	22300.40	9496.33			
Earnings Per Share (kobo)	GTB	242.40	74.97	8	3.846	**0.002***
	ACCESS	98.00	37.80			
Customers Deposit (#Million)	GTB	912158.00	195628.15	8	0.930	0.190
	ACCESS	728729.00	395027.82			
Investment in Subsidiaries (#Million)	GTB	18375.00	5110.53	8	-2.207	**0.029***
	ACCESS	41839.60	23216.70			
Investment in Securities (#Million)	GTB	104577.00	73587.07	8	-1.586	0.076
	ACCESS	227384.80	156742.07			

*Note: * Bold p-values show those where GTB and Access differ significantly at 5%*

Table 1 reveals that the mean gross earnings of GTBank was #193334.80m (std. dev = #19835.54) while that of Access Bank was #118639.37m (std. dev. = #58143.37). This implies that GTBank performed significantly better than Access Bank over the five years post economic meltdown ($p < 0.05$). A look at fig. 1 will show that over the five years, GTBank's gross earnings were greater than that of Access Bank. While the difference was very wide in the first three years (2009 – 2011), the gap narrowed in 2012 and 2013.

Also, the mean operating income of GTBank was #143781.00m (std. dev. = #31205.22) and that of Access Bank was #89685.20 (std. dev. = 45350.09) revealing that GTBank was also significantly better in operating income than Access Bank ($p < 0.05$). Fig. 2 shows that the gap between the two banks was wide in all the years except 2012.

The outcome of the operating expense show that the mean opex of GTBank was #37089.00 (#9552.98) and that of Access was #44492.60 m

(#15149.83). This result meant that GTBank performed better than Access Bank in the management of operating expense though not significantly ($p > 0.05$). A peep at fig. 3 reveals that GTBank's operating expense was better (lower bars) in 2010 – 2013 but worse (higher bar) only in 2009.

The mean GTBank's profit after tax was #60424.00 m (#29623.89) while that of Access bank was #22300.40 (#9496.33) and it can be seen that GTBank performed significantly better than Access Bank ($p < 0.05$). Fig.4 shows that the gap in the profit after tax of GTBank was very widely different to that of Access Bank in all the years except 2009.

The earnings per share measure reveals that GTBank have a mean of 242.40 kobo (std. dev. = 74.97 kobo) and Access Bank's was 98.00 kobo (std. dev. = 37.80 kobo). The implication here is that GTBank performed significantly better that Access Bank ($p < 0.05$) and fig. 5 supports the claim that GTBank's earnings per share (eps) was significantly higher than Access' for all the periods reviewed.

GTBank's mean customer deposit was #912158.00m (std. dev. = #195628.15) while that of Access was #728729.00m (std. dev. = #395027.82). It can be deduced that the difference in customer deposit was not significant ($p > 0.05$). Fig. 6 show that GTBank's customer deposit was higher for the first three years (2009 – 2011) but lower than that of Access in the last two years (2012 – 2013).

Furthermore, the mean Investments in Subsidiaries of GTBank was #18375.00m (std. dev. = #5110.53) and that of Access Bank was #41839.60m (std. dev. = #23216.70) revealing that Access Bank has significantly higher investment in subsidiaries than GTBank ($p < 0.05$). A view of fig.7 reveal that Access Bank's investment in subsidiaries was higher in all the years than GTBank's and very pronounced in 2011.

Lastly, GTBank's mean investment in securities was #104577.00m (std. dev. = #73587.07) and that of Access was #227384.80m (std. dev. = #156742.07). Though it can be seen that Access Bank's investment in securities was higher than that of GTBank, the difference was not significant ($p > 0.05$). Fig. 8 show that GTBank was higher up till 2011 and Access took over the lead in 2012 and 2013.

Discussion

The findings of this study show that GTBank performed better than Access Bank in respect of gross earnings, operating income, operating expense, profit after tax, earnings per share and customer deposit while Access bank was better in investments. Weighing these measures of performance in the light of CAMEL, GTBank had better earnings (gross earnings, profit after tax and earnings per share). Also, in asset quality, Access Bank had better performance (Investment in subsidiaries and investment in securities) while GTBank had better performance in customer deposits. In addition, as per management, GTBank performed better in managing operating income and operating expenses. This agreed with GTB (2012), Omoh (2014), Opeyemi (2016), and Agusto & Co. (2015) which all put GTB before Access Bank in most operational ratings in recent times

The research work had shown that most of the measures under study increased over time in the bid of the banks to recover from the meltdown and put themselves on the part of growth again. It can then be concluded that Guaranty Trust Bank was better in most financial performance measures while Access Bank was better only in investment in subsidiaries and securities.

Banks are the back bones of any economy and their performance is very vital for the growth and expansion of such economy. Though, GTBank and Access Bank are rated as very strong, profitable, and growing banks, it was discovered that GTBank was performing better than Access bank. It is therefore recommended that Access bank do everything possible like embarking on aggressive marketing to improve on its earnings, and manage its operating income and expense to put itself on the part of growth and profitability. Also, it should strive to improve on its earnings per share to be able to increase the shareholders' investment.

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