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EFFECTS OF CAPITAL STRUCTURE ON THE FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

This study investigates the effect of capital structure on financial performance of deposit money banks in Nigeria for a period of ten (10) years from 2010-2019. The specific objectives of the study was to examine effect of Equity/asset ratio on Return of Investment of deposit money banks (DMBs) in Nigeria. The study adopted ex-post facto research design andthe population of the study consist of 15 DMBs out of which a sample of eight (8) were selected using purposive sampling technique. Secondary source of data from the annual reports of the selected banks and analyzed using panel least squares regression with the aid of E-views 10 to analyze the formulated hypotheses. From the data analysis, the study result showed that total equity to asset ratiohave a significant positive effect on the financial performance of the selected listed banks. The study concludes that capital structure variable of Equity/asset ratio (E/AR) ratio are good financial performance measure of deposit money banks in Nigeria. The study therefore recommends that capital structure of a firm should be adequately planned to safeguard the interest of the equity holders, shareholders and financial requirements of the firm. Finally, Political changes are very important factor in the share market. It also determines the firm performance. Therefore, stable economic and political atmosphere should be possible to increase the financial performance of the listed companies

Keywords: Capital Structure, Financial performance, Financial Institution, Shareholder.

INTRODUCTION

A financial manager in a company is responsible for establishing financial policy, planning to maximize firm's value and stockholders' welfare and exploring opportunities to maximize shareholders' wealth. Therefore, he sees investment in assets and managing operations as creating the greatest opportunities for profit-seeking companies to maximize shareholders' wealth (Wet, 2006). However, determining an optimal capital structure, which maximizes shareholders' wealth have been a focus point and a topic of rigorous debate for the last number of decades. Even today, financial managers and researchers are still grappling with the question whether the sources of capital used affect the value of a company and

if so, in what way and to what extent?. Many factors influence the manner in which a company raises finance. These include the existing level of operating leverage, the cost of the specific source of capital, the impact of capital on the control of the company, the risk attached to the source of finance, tax implications and financial distress costs. While all of the factors mentioned play a contributing role, in the final analysis, the impact of the capital structure on the value of the business as a whole should be of paramount importance. Maximizing the value of the firm as a whole would in turn maximize the ordinary share price, as well as the shareholders' wealth.

Capital structure as a company's combination of debt and equity has faced lots of criticism in identifying the mixture of debt and equity as it ignores various factors like risk and profitability. When the business is entirely funded by common stock, all cash flow goes to the shareholders. on the other hand, when the business is funded with both debt and equity securities, it divides the cash flows into two parts, a safe part that goes to the debt holders and a riskier portion which goes to the shareholders (Bradley, 2004). At the heart of capital structure decisions is the search for the optimal capital structure which is the level of capital that maximizes profitability and shareholders' value. According to corporate finance theory, the capital structure does have an impact on a firm's cost of capital; it plays a crucial part in determining the cost of capital which consequently affects the business' profitability (Abor & Biekpe, 2010). Of all the aspects of capital investment decision, capital structure decision is the vital one, since the profitability of an enterprise is directly affected by such decision. Hence, proper care and attention need to be given while making the capital structure decision. There could be hundreds of options but to decide which option is in a firm's best interest in a particular scenario needs deep understanding the field of finance as use of more proportion of debt in capital structure can be effective as it is less costly than equity but it also has some limitations because after a certain amount it affects company's leverage. Therefore, a balance needs to be maintained. The cost of capital (interest plus dividends) serves as the benchmark for a company's capital budgeting decisions therefore the optimal mix of debt and equity is vital. Furthermore the shareholders wealth maximization theory indicates that firms should maintain the ideal combination of debt and equity financing, the optimal capital structure, which maximize returns as well as the firm's value and which reduce significantly the cost of capital, In other words, the one which best helps the business to achieve its main goal (profitability in most cases). Thus, this study seeks to evaluate the effect of capital structure on the corporate performance of listed Nigerian Banks.

The capital structure problem has been a controversial subject, but the opposing views remain unresolved. Theoretical analysis shows that a determination of the effect of capital structure on the performance of the firm is a problem in demand analysis. Normative analysis only reveals that the use of leverage by the firm can increase shareholders' wealth, but in itself cannot prove that non-equity financing can improve the investor's position. A solution of the leverage question is therefore still a problem in positive economics.

Given the forgoing, the main objective of this study is to examine effect of capital structure on financial performance of Deposit money banks in Nigeria. In other to achieve this, the following specific objectives are formulated;

i. Examine effect of Equity/asset ratio (E/AR) on return on investment of Deposit money banks in Nigeria.

In view of the study objective, the following hypotheses were formulated for the study in line with research objectives;

H_o1: Equity/asset ratio(E/AR) has no significant effect on return on investment of deposit money banks in Nigeria.

LITERATURE REVIEW

Conceptual Framework

Concept of Capital Structure

Capital structure decisions is one of the most significant decisions to be taken by finance managers in a corporate sector organization because of its crucial impact on the overall weighted average cost of capital and the resultant market value of the shares (Sabir & Malik, 2012). The capital structure theories compare the effects of sources of finance, tax advantages associated to leverages and the investors' required rate of return on the overall cost of capital and the resultant returns to investors. Capital structure decision gas a crucial impact on the weighted average cost of capital and the market value of the companies (Shah & Khan, 2007).

Various studies compare the effects different factors have on the cost of capital and the resultant returns to investor (Myers, 1984). Most of the studies evaluate the capital structure theories and found that the fewer of the theories have much advocacy (Frank & Goyal, 2009).

The capital structure can be defined as the mix of debt and equity that the firm uses in its operation (Shubita & Alsawalhah, 2012). The capital structure of a firm is a mixture of different securities. In general, firm can choose among many alternative capital structures which are appropriate to their objective of maximization of shareholders' wealth for example, firm can issue debenture in its various forms which includes convertible bonds, arrange lease financing, use warrants, sign forward contracts or trade bond swaps. Firms can also issue distinct securities in countless combinations to maximize overall market value (Abor, 2005).

Debt Financing

Business enterprises use debt in their businesses, because it offers them potential to increase the volume of their operations and increase the average return on their equity funds. The use of debt will have this effect only if the rate of return on the investment is greater than the rate of return on the debt: Wald (2002). The borrowing firm takes a chance to use debt in the hope that it will elevate the firm to a more valuable level, by increasing the turnover and therefore increase the profits. The financial leverage chance will arise if the rate of interest charged to the firm is lower than the internal rate of return (IRR) for the company, in which case the firm will be making enough to pay the interest charged and the principal repayment and retain the surplus for the shareholders. On the other hand the firm may experience a financial leverage risk that the returns of the business are not enough to cover the interest charged. This occurs when the rate of interest exceeds the internal rate of return of the company. To avoid liquidation, the firm will have to use part of the shareholders' funds to repay the interest and principal. This could eventually lead to erosion of the equity and the collapse of the business.

The simplest way to assess whether borrowing has increased the return on equity is to contrast the return on the investment with the loan interest rate. When the return is higher than the loan interest rate, there is positive leverage that is, the return on equity increases as more is borrowed (Rowland 2002).

Debt and Risk

Risk is the variability in the earnings of a company which increases the likelihood of bankruptcy and the cost of debt. Risk can be broken down into two components:

i. Operating risk is the variability in earnings due to the environment in which the firm operates and is unavoidable risk.

ii. Financial risk is the variability in the earnings after interest and tax that is due to the use of financial leverage. Financial risk affects the shareholder's value in varying the Earnings per Share (EPS) and rate of Return on Equity (ROE). This risk arises as a result of fixed payments related to debt, namely interest and principal payments, that have to be paid regardless of whether the business is making profits or not. According to Brealey and Myers (2003), in most years in a business' life there is a gap between the cash that the company needs and the cash it can generate internally for its operations and this is called the financing gap. To make up this gap, companies must sell new equity or borrow. They are faced with a decision on what proportion of the deficit must be financed by borrowing and how much by internal funds. This assumes that the borrowings at a fixed charge can be obtained at a cost lower than the firm's rate of return on its total assets, and the surplus of the return after paying off the interest will be distributed to the shareholders, then the earnings per share or the return on equity will rise. However, return on equity will fall if the company obtains the fixed charge funds at a cost higher than the rate of return on its total assets as the interest charged will erode the profits. Reilly and Brown (2003) define financial risk as the uncertainty introduced by the method by which the firm finances its investments. If it employs only common stock to finance investments, it incurs only the business risk, the uncertainty arising from the nature of the business. If it borrows money to finance its investments, it must pay fixed financing charges prior to providing income to the shareholders, so the uncertainty of returns to equity holders increases by the risk introduced with the borrowing. If the profits are low, the business must still pay the lenders before the shareholders can be paid their return. This increases the variability of the return to them. Taking and managing risk is part of what companies must do to create profits and shareholder value, Buehler and Pritsch (2003). Risk is defined here broadly to include any event that might push a company's financial performance below expectations. It comes in four main categories namely:

a) Market risk (exposure to adverse market price movements),
b) Credit risk (exposure to the possibility that a borrower or client might fail to honour their contractual obligations) (c) Operational risk (the exposure to losses due to inadequate internal processes and systems).
d) Business-volume risk (exposure to revenue volatility arising from changes in demand and supply or competition).

A company must formulate a strategy that takes into account all these risks and plan their mitigation. One major aspect of risk assessment and management involves decisions on the capital structure or the business financing of the company.

Debt and Share Value

Mayer and Stewart (2004) report the development of a new approach to testing the capital structure theory. On performing tests and event studies on financing of specific projects, they found that around time of investment spikes, both the trade-off and the pecking order theories played an important role in the firms' financing decisions. Profitable and large firms have a clear preference for debt over equity and increased their debt in line with their financing requirements. However, small firms are forced

to turn to equity markets to finance their investments.

Concept of Financial Performance

The notion of performance is a controversial issue in finance largely because of its multidimensional meanings:Prahalathan and Ranjany (2011). Performance can be explored from two points of view: financial and organizational (the two being interconnected); a company's performance can be measured based on variables that involve productivity, returns, growth or even customer satisfaction. Financial performance (reflected in profit maximization, maximizing return on assets and maximizing shareholder return) is based on the firm's efficiency Barbosa and Louri (2005). According to other authors (for example,Vernimmen 2009), the assessment of financial performance is based on the return on investment, residual income, earnings per share, dividend yield, price/earnings ratio, growth in sales, market capitalization, etc.

The measurement of performance is dependent upon the information introduced in the measurement system and the instruments employed. The classical indicators used in financial analysis to measure performance have been the return on investment, leverage, capital efficiency, liquidity, cash flow, inventory turnover, receivables turnover ratio. In addition to these factors, the modern value creation indicators are also used:

Accounting indicators: net profit or earnings per share; operating profit; returnon Assets (ROA) and Return on Equity (ROE);
Hybrid indicators (accounting and financial): economic value added (EVA); Cash Flow, Return on Investment (ROI)

Return on Investment (ROI)

The term investment may refer to total assets or net assets. The funds employed in net assets usedin production are known as capital employed. Net assets equal net fixed assets plus current assets minus current liabilities excluding bank loan. The conventional approach of calculating return on investment is to divide profit after tax (PAT) by investment. Investment refers to pool of funds supplied by shareholders and lenders, while PAT represents residue income for shareholders. The formula of ROI is stated thus:

ROI = PAT/Total Assets

Empirical Review

Hafiz, Samaila and Dalhat (2018), examine impact capital structure and performance of deposit money bank in Nigeria. Capital structure is one of the core decision areas in the field of finance, as it determines the existing amount of debt and equity of a bank. It is an important decision that has a close relationship with the value of bank hence its performance. Accordingly, the general objective of this study is to assess the impact of capital structure on the financial performance of Bank in Nigeria with specific reference to how debt ratio and equity ratio affect return on equity and net interest margin of banks in Nigeria. The population of the study is the entire 21 licensed DMBs in Nigeria (CBN, 2017). The sample size of 12 banks was determined using convenience sampling technique for the period 2007- 2016. The study utilizes panel design to analyse the data based on random effect estimation. The study found a positive relationship with financial performance measured by Net Interest Margin (NIM). The study recommends that more incentives need to be given to STD suppliers to effectively adjust the maturity structure of STDs. Similarly, debt should be used with caution in order to explore its tax shield and managerial efficiency benefits.

Chuke and Kenneth (2018), examine impact of capital structure on performance of commercial bank in Nigeria. The study evaluated the influence of financing mix on the performance of commercial banks, and the

causal link between debt-equity ratio. Data collated were analyzed using correlation analysis, pooled OLS regression analysis, fixed effect panel analysis, random effect panel analysis, granger causality analysis, as well as post estimation test such as restricted f-test of heterogeneity and Hausman test. The findings show that while debt finance exert negative and significant impact on return on asset, the debt-equity ratio has positive and significant influence on return on equity. There was neither unidirectional nor bidirectional relationship between capital structure and performance of commercial banks in Nigeria.

Abdulrashidi, Pofi, Saminu and Mohammed (2017), examine the effect of capital structure on the financial performance of Deposit Money Banks in Nigeria. Secondary data was obtained from the financial statements of Deposit Money Banks listed in the Nigerian Stock Exchange. Four banks were selected as samples and data from their financial statements for a period of 10 years (2006-2015). The study has employed the use of Pearson correlation coefficient and GLS regression model to analyze the effect of capital structure on the performance of some selected. The performance variables used in the study were, Return on Asset (ROA), Return on Equity (ROE) and Return on Capital Employed (ROCE). Findings from the study showed that capital structure has an effect on the financial performance of listed deposit money banks in Nigeria. Based on the results, the study recommends that deposit money banks in Nigeria should employ an appropriate mix of debt and equity capital and strike a balance between their choice of capital structure and its effect on their performance, as this will affect the shareholders risk returns and the cost of capital. Furthermore, the banks should increase their assets as this will help them to be more positioned for better performance and the government should improve liquidity in the Nigerian Financial Market to enable deposit money banks raise long term debt and reduce over dependency on short term debt.

Mathewos (2016), evaluate impact of capital structure on financial performance of commercial bank in Ethiopia. The purpose of this paper was to investigate the impact of capital structure on financial performance of selected commercial banks in Ethiopia over the past five (5) year period from 2011 to 2015 using secondary data collected from financial statements of the commercial banks. Data was then analyzed on quantitative approach using multiple regression models. The study used two accounting-based measures of financial performance (i.e. return on equity (ROE) and return on assets (ROA)) as dependent variable and five capital structure measures (including debt ratio, debt to equity ratio,loan to deposit, bank's size and asset tangibility) as independent variable. The results indicate that financial performance, which is measured by both ROA, is significantly and negatively associated with capital structure proxies such as DER, SIZE and TANG whereas DR has negative impact.

Iorpev and Kwanum (2012) examined the impact of capital structure on the performance of manufacturing companies in Nigeria from 2005 to 2009. The annual financial statements of 15 manufacturing companies listed on the Nigerian Stock Exchange were used. Multiple regression analysis was applied on performance indicators on Short-term debt to Total assets, Long term debt to Total assets and Total debt to Equity as capital structure variables. The results show that there is a negative and insignificant relationship between Short term debt to total assets and Long term debt to total assets on performance; while Total debt to equity is positively related with performance and negatively related with profit margin. Short term debt to total assets is significant on performance while Total Long term debt to total assets is significant using profit margin. The work concludes that

statistically, capital structure is not a major determinant of performance of manufacturing companies in Nigeria. The study recommends that firms should focus on improving their production, financing it via savings.

Theoretical Framework

The Modigliani and Miller's Irrelevance Theory

Modigliani and Miller (1958) assumed in this theory that, the market value of a firm is independent of its capital structure. This then formed the basis for their first proposition which states that the mixture of debt and equity sources of funding does not affect the market value of a firm. They stated that the value of a firm is only determined by its investment decision.

In the second assumption they stated that the expected return on equity changes in line with the debt equity ratio. This shows that an attempt by the firm to increase the amount of debt and reduce the cost of equity does not reduce the overall cost of capital. It is because as the firm borrows more, the risk of default increases. Thus, lenders demand higher interest rates to compensate them for the increased risk. The expected return on equity as a result, will fall such that an increase in the interest rate (Return on Debt) will be accompanied by a fall in the Return on Equity (ROE) that is just enough to keep the cost of capital constant. In spite of the absolute analyses of MM's Irrelevancy Theory, corporate finance researchers have argued that it is not a useful tool to either directly explain or predict capital structure behaviour of firms.

Trade-Off Theory

According to Myers (1984), Trade-off Theory is based on a trade-off between the tax advantages of debt financing and the costs of financial distress (e.g. costs of bankruptcy). Trade-off Theory suggests that a firm's optimal debt ratio is determined by a Trade-off of the costs and benefits of borrowing, holding the firm's assets and investment plans constant. The firm is therefore described as balancing the value of interest tax shields against various costs of bankruptcy or financial distress. The firm substitute debt for equity or equity for debt, until the value of the firm is maximized.

The major difference between Trade-off Theory and the Modigliani and Miller's Irrelevance Theory is that, it recommends 100%debt financing for firms. However, in reality, firms are not 100% debt financed because creditors believe that, a firm must have sufficientequity cushion before they can extend credit to it (Baxter, 1967).

Pecking order Theory:

According to the proponents of pecking order theory (Myers, 1984; Myers and Majluf, 1984), corporate financing choices are driven by the costs of adverse selection arising as a result of information asymmetry between better informed managers and less informed investors. Since these costs are incurred only when firm issue securities and are lower for debt than equity, firms should prefer internal financing and prefer debt to equity when external funds have to be raised.

The major prediction of pecking order theory is that firms have no target of optimal capital structure as opposed to trade-off theory, but instead finance new investment opportunities following a pecking order in using and exhausting available financing sources: available financial slack and internally generated cash flows first, followed by new debt issues, and finally, only when the firm reaches its "debt capacity", new equity financing (Allen, 1991; Beattie, Good acre and Thomson, 2006). Critics of the pecking order theory (such as Quan, 2002) have identified its inability to explain the effect of taxes, bankruptcy costs, security issuance costs and so on, on capital structure choice of firms as its major defects.

METHODOLOGY

The study adopted ex-post facto research design. The ex-post facto research design was adopted on the basis that the researcher does not have control over the variables mainly because the event have already occurred and cannot be changed by the researcher. In designing this study, the type of data to be collected, nature of variables and technique of analyse was considered. The population of the study consist of 15 deposit money banks listed on Nigerian Stock Exchange as 31st December 2019, out of which a sample 8 banks were selected and purposive sampling technique was adopted. The relied on historical data collected from annual reports and accounts of the sampled deposit money bank for a period of 10 years from 2010-2019. The period was selected to enable the study analyze the effect of capital structure on financial performance of deposit money banks. The data was analyzed using Panel Least Square regression via help of E-view software.

Procedure for Data Analysis and Model Specification

Panel Least Square (PLS) regression technique will be used and it is useful for estimation, (Financial Performance) which is the dependent variable will be regressed on the explanatory variables in the equation which includes:Equity/asset ratio(E/AR)

Some statistical and econometric test will be used to evaluate the regression, the include Multiple R, which is the correlation and it, measures he extent of relationship between variables, R – squares which is the coefficient of determination measures the percentage (proportion) of variation in the dependent variable that can attribute to the independent variables. The F statistic, the Beta coefficient measures the relative significance of each of the independent variable, "t" statistics and Durbin Watson test.

In formulating an econometric model for the relationship between Capital structure and financial performance. The objective of this study will be specifying a regression equation model. The models are to verify the effect of capital structure on financial performance of deposit money bank in Nigeria.

Model

$ROI = \alpha + \beta_1 E/AR + \varepsilon$ .....(1)

Where;

ROI = Return On Investment

E/AR = Equity/asset ratio(E/AR)

ε is the error term.

α is to take care of the constant variable; β_1 is the coefficient of Equity/asset ratio(E/AR) which is expected to be greater than Zero because it is positively related to financial performance.

The study analyzed the effect of capital structure on financial performance of deposit money bank in Nigeria. Therefore, capital structure was proxy by Equity/asset ratio(E/AR) (independent) while financial performance was proxy by Return on Investment.

Table 1: Definition of variable

Variable	Definition
Dependent Variable	
Return on Investment	Profit after Tax divided by Total tangible Asset
Explanatory Variables	
Equity/asset ratio	Equity divided by total asset
Total debt/equity ratio	Total debt divided by shareholders equity

Source: Researcher Compilation 2020.

Explanatory variables

RESULTS AND DISCUSSION

Table 2: Descriptive Statistics

	ROI	E_AR
Mean	16.14569	47.33250
Median	9.050000	42.00000
Maximum	82.00000	180.0000
Minimum	-1.301000	0.060000
Std. Dev.	20.15130	46.21327
Skewness	1.039454	0.744459
Kurtosis	3.415065	2.716678
Jarque-Bera	14.98045	7.657167
Probability	0.000559	0.021740
Sum	1291.655	3786.600
Sum Sq. Dev.	32079.90	168717.6
Observations	80	80

Source: E-views 10 Output, 2020

Table 2 present the descriptive statistics of two measures of capital structure (E/AR) and financial performance measures (ROI) containing mean, median, standard deviation, minimum and maximum, skewness, kurtosis

ROI has a mean value of 16 days and a standard deviation of 20.15. The maximum and minimum values stood at 82 days and 3 days respectively. The result for the ROI shows that on the average, it takes the listed banks 16 days to make profit from its investment.

The E/AR has a mean of 47 days and fluctuates with a value of 0.88. The maximum and minimum values were 180 days and 6 days respectively. The result shows the selected listed banks total equity to asset ratios.

In order to test the normality of the variables, the Jacque-bera statistics was conducted. An evaluation of the Jacque-bera statistics for the variables indicates that ROI and E/AR, satisfy normality condition with a p-value less than 5% (0.0005 0.02).

Also confirming the normality of the data set, both skewness and kurtosis values are within the tolerable range, establishing the fact that the data is normally distributed in each construct. The skewness for ROI and E/AR were very close to 1. Similarly, the Kurtosis values were not too high. The values of the

skewness and kurtosis for ROI and E/AR signify the absence of outliers in the data set.

Hypothesis one: Equity/asset ratio (E/AR) has no significant effect on return on investment of deposit money banks in Nigeria

Dependent Variable: ROI
Method: Panel Least Squares
Date: 12/01/20 Time: 15:16
Sample: 2010 2019
Periods included: 10
Cross-sections included: 8
Total panel (balanced) observations: 80

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.014986	2.214555	0.458325	0.6480
E_AR	0.319668	0.033580	9.519731	0.0000

R-squared	0.537436	Mean dependent var	16.14569
Adjusted R-squared	0.531506	S.D. dependent var	20.15130
S.E. of regression	13.79289	Akaike info criterion	8.110865
Sum squared resid	14839.01	Schwarz criterion	8.170416
Log likelihood	-322.4346	Hannan-Quinn criter.	8.134741
F-statistic	90.62527	Durbin-Watson stat	1.239574
Prob(F-statistic)	0.000000		

Source: *E-views 10 Output, 2020*

From table 3 above, the result of the variable have a positive significant effect on financial performance. It was observed that Equity/asset ratio (E/AR) on financial performance contributes positive to deposit money banks. The coefficient of determination (R^2) is 53%, which implies positive relationship between the explanatory variables which is Equity/asset ratio (E/AR) and the dependent variable financial performance. This means that the effect of E/AR on financial performance explain or account 53% influence or movement on the financial performance of deposit money banks in Nigeria while only 47% account could be explained by other variables or factors not included in the model. The adjusted R^2 of 0.53 is the same to the R^2value of 0.53 meaning that the model is fit for making generalization. Furthermore, the value of F-statistic= 90.62527 indicates the model's goodness of fit to the data. Also looking at the Durbin-Watson stat of 1.239574 shows absence of positive auto correlation among the variables in the model.

Finally, looking at the p-value of Equity/asset ratio (E/AR) is (0.0000) which less than 0.05 degree of freedom. Therefore the study conclude that there is positive significant relationship between Equity/asset ratio (E/AR) and financial performance of deposit money bank in Nigeria.

Discussion of Findings

The study examines effect of capital structure on financial performance of deposit money banks in Nigeria. The period covers 10 year ranging from 2010-2019. The result for the ROI shows that on the average, it takes the listed banks 16 days to make profit from its investment. The E/AR has a mean of 47 days and fluctuates with a value of 0.88. The maximum and minimum values were 180

days and 6 days respectively. The result shows the selected listed banks total equity to asset ratios.

Finding from in table 3 confirms that Equity/asset ratio (E/AR) have a strong positive significant effect on financial performance of DMBs in Nigeria. The P-value of E/AR is 0.0000 which is less than 5 percent level of significant and the calculated coefficient of determination (R^2) is 53%, which indicate a positive relationship between financial performances. Empirical evidence revealed that Equity/asset ratio (E/AR) has positive significant effect on financial performance of DMBs Nigeria. Similarly the result is also consistent with empirical finding of Abdulrashidi, Pofi, Saminu and Mohammed (2017) which reveal that capital structure has significant effect on performance of DMBs in Nigeria. But on the other hand, the results of the current study contradict the finding Chuke and Kenneth (2018) found that capital structure has no effect on corporate performance of DMBs in Nigeria.

CONCLUSION AND RECOMMENDATION

This study examines the effect of capital structure on financial performance of quoted deposit money banks in Nigeria. This research work covered ten (10) listed DMBs in Nigeria over the periods 2010-2019. Financial performance is examined with respect to ROI. In relation to ROI, there is significant positive effect of Equity/asset ratio (E/AR) on financial performance in agreement with apriori expectation. The asset turnover has significant positive effect on financial performance and also in agreement with apiori expectation. Finally age of the firm has insignificant negative effect on the performance.

This study therefore concludes that capital structure variable of Equity/asset ratio (E/AR) ratio has a significant positive effect on financial performance of deposit money banks in Nigeria.

Based on the findings of the result, the following are recommended;

i. Management should be careful when using debt as its source of financing its activities. The benefit of financing with debt is that there will be no tax duties accrued to borrowed funds in an organization. Therefore, management should seek to finance their activities with retained earnings and use debt as a last option as supported by the pecking order theory.
ii. The capital structure of a firm should be adequately planned to safeguard the interest of the equity holders, shareholders and financial requirements of the firm.
iii. Political changes are very important factor in the share market. It also determines the firm performance. Therefore, stable economic and political atmosphere should be possible to increase the financial performance of the listed companies.

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APPENDIX I

DATA

Company	Year	ROI	E/AR
ACCESS BANK	2019	13	70
ACCESS BANK	2018	19	77
ACCESS BANK	2017	28	101
ACCESS BANK	2016	30	93
ACCESS BANK	2015	37	109
ACCESS BANK	2014	43	88
ACCESS BANK	2013	38	83
ACCESS BANK	2012	39	94
ACCESS BANK	2011	32	101
ACCESS BANK	2010	34	112
ECOBANK	2019	43	49
ECOBANK	2018	47	64
ECOBANK	2017	42	48
ECOBANK	2016	41	64
ECOBANK	2015	38	67
ECOBANK	2014	34	98
ECOBANK	2013	37	75
ECOBANK	2012	17	69
ECOBANK	2011	17	88
ECOBANK	2010	32	77
FIRST BANK	2019	16	81
FIRST BANK	2018	82	74
FIRST BANK	2017	68	59
FIRST BANK	2016	9.1	58
FIRST BANK	2015	10	59
FIRST BANK	2014	9	57
FIRST BANK	2013	13	59
FIRST BANK	2012	13	58
FIRST BANK	2011	14	57
FIRST BANK	2010	17	71
SKYE BANK	2019	44	71
SKYE BANK	2018	25	141

SKYE BANK	2017	48	160
SKYE BANK	2016	69	150
SKYE BANK	2015	47	87
SKYE BANK	2014	37	108
SKYE BANK	2013	29	112
SKYE BANK	2012	24	140
SKYE BANK	2011	17	180
SKYE BANK	2010	31	83
UBA	2019	-1.301	1.41
UBA	2018	-0.886	1.32
UBA	2017	-0.886	1.15
UBA	2016	-0.796	0.86
UBA	2015	-0.553	0.45
UBA	2014	-1.301	0.12
UBA	2013	-0.585	0.47
UBA	2012	-0.481	1.73
UBA	2011	-0.509	0.28
UBA	2010	-0.215	0.22
UNION BANK	2019	-0.244	0.23
UNION BANK	2018	0.061	0.06
UNION BANK	2017	-0.066	0.47
UNION BANK	2016	-0.347	1.73
UNION BANK	2015	-0.921	5.3
UNION BANK	2014	1.345	6.1
UNION BANK	2013	-1.301	5.5
UNION BANK	2012	-0.886	5.4
UNION BANK	2011	-0.886	6.9
UNION BANK	2010	-0.796	7.9
ZENITH	2019	-0.553	8.3
ZENITH	2018	-1.301	7.3
ZENITH	2017	-0.585	6.9
ZENITH	2016	-0.481	7.1
ZENITH	2015	-0.509	5.7
ZENITH	2014	-0.215	5.9
ZENITH	2013	-0.244	4.9
ZENITH	2012	0.061	5.8
ZENITH	2011	-0.066	1.1
ZENITH	2010	-0.347	2.6
FIDELITY	2019	-0.921	36

FIDELITY	2018	1.345	16
FIDELITY	2017	-1.301	16
FIDELITY	2016	-0.886	16
FIDELITY	2015	-0.886	17
FIDELITY	2014	-0.796	27
FIDELITY	2013	26.4	16.7
FIDELITY	2012	1.253	16
FIDELITY	2011	0.264	15
FIDELITY	2010	-0.123	15.7