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EFFECT OF BANK'S SIZES AND AGE ON THE FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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This research explores the impact of bank size and age on the financial performance of deposit money banks in Nigeria. DMB are crucial for allocating funds from savers to investors and managing financial risks. The study aims to determine how bank size and age influence ROA and ROE. Data analysis is conducted using ex post facto research design and panel data analysis. The study reveals a significant strong relationship between bank size and age with ROA and ROE for Nigerian deposit money banks during the period from 2015 to 2021. Increased bank size and age are associated with improved financial performance. The research concludes that bank size and age have a significant impact on the performance of deposit money banks in Nigeria during the specified period. Thus, the study recommends that listed deposit money banks should consider expanding their firm size through strategic expansion initiatives to enhance financial performance. Further research should encompass a broader selection of listed firms in Nigeria and employ diverse analytical tools to validate and expand upon these findings.

Keywords: *Bank's size, age, Deposit Money Banks (DMB), financial performance, Nigeria*

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Introduction

Deposit money banks primarily facilitate the flow of funds from savers to borrowers, serving as key channels for allocation. They also manage financial risks and exposure. Deposit money banks significantly support financial markets and greatly impact the economy's success. (Appah & Tebepah, 2018). Factors impacting bank performance include human resources quality, corporate culture, governance, risk management, size, liquidity, and age. (Muslish & Marbun, 2020). According to D'Amato and Falivena (2020). A firm's age affects its relationships with stakeholders, experience, goodwill, reputation, and market share in the industry, making it a significant demographic variable. Deposit Money Banks (DMBs) must maintain soundness, stability, and profitability to effectively carry out their financial intermediation functions with minimal interruptions. (Onuonga, 2017). Deposit money banks play a crucial role in a country's economy, impacting capital accumulation, business growth, and overall economic progress (Sufian & Habibullah, 2012). Deposit money banks must perform stress tests to thrive in the face of future challenges. (Alex & Ngaba, 2018). Modern commerce and economic growth depend heavily on the global banking industry, which is a key source of funding for nations. (Ongore & Kusa, 2015).

The banking sector's financial performance is a key driver of a nation's economic development. Metrics like return on equity, return on assets and other ratios generated from financial statements are used to evaluate it (Adam, 2018). According to several studies, a bank's size significantly affects how financially stable it is. (Muhindi & Ngaba, 2018). Bank size in various studies is often measured using indicators such as total assets, customer deposits, branch count, and employee numbers. (Varotto & Zhao, 2018; Kasman & Kasman, 2016). Bank size and age are important factors related to bank profitability. Almazari (2018) argues that a bank's ability to sustain profits over time serves as its primary defense, absorbing unforeseen losses, strengthening the capital base, and enhancing future performance through reinvestment of retained earnings. According to Teimet and Lishenga (2019), the size and age of a bank significantly impact financial performance, especially in economies of scale.

Larger banks can reduce costs per unit, improve efficiency, strengthen their capital base, and gain market share. They also have more influence on stakeholders, competitors, and overall profitability compared to smaller banks. Studies on deposit money banks' financial performance have examined the role of bank size and age as fundamental factors. These studies have produced inconsistent and controversial findings, with some reporting positive effects and others reporting negative effects, prompting the need for further research. This topic has garnered substantial focus from academics in the fields of finance and business. (Isayas, 2023).

Large banks can leverage their access to wholesale deposits and control interest rates, but this advantage only benefits their financial performance if they are also cost-efficient. While having many branches can attract more deposits, the cost of operating them can hurt financial performance if economies of scale aren't utilized (Isayas, 2023). Previous studies on the subject matter have used both a theoretical and a survey research methodology. This study focuses on an empirical examination of the relationship between bank age and size and the financial performance of Nigerian deposit money institutions.

The main objective of this study is to examine the influence of banks size and age on the performance of DMBs in Nigeria, other specific objectives include, to determine the effect of banks size and age on the Return on Asset (ROA) of DMBs in Nigeria and to examine the effect of banks size and age on the Return on Equity (ROE) of DMBs in Nigeria. This research question allows us to drive the following two hypotheses:

H_{01} : Banks size and age does not have a significant effect on Return on Asset of deposit money banks in Nigeria.

H_{02} : Bank size and age does not have a significant effect on Return of Equity of deposit money banks in Nigeria.

Literature Review

Bank's size, Age and Financial performance

Babalola and Abiola (2018) larger banks have greater influence over strategic decisions, stakeholders, competitors, and efficiency, leading to higher profitability compared to smaller banks. The uniqueness of a bank's size, including its deposits, assets, capital and loans, can shape decision-making and, consequently, impact financial performance (Olowokure, Tanko & Nyor, 2015). Bank size can be broken down into vertical integration within activities and products or horizontal expansion across multiple entities. This has led to an ongoing debate about the ideal bank size, management complexity, and risks associated with different activities. Larger banks increasingly participate in non-traditional market activities, which has grown significantly over time (Teimet & Lishenga, 2019). Due to this change in activity in industrialized nations, limits have been put in place to limit the exposure and scale of banks (Vinals *et al.*, 2013). In comparison to smaller banks, larger banks frequently have lower capital bases, less consistent funding, participate in more market-based operations, and are more sophisticated. Larger bank failures, however, have the potential to have a greater negative impact on the financial system than smaller bank failures. (Laeven, Ratnovski, & Tong, 2014).

The size of a business is determined by its capacity for production and the range of products or services it can offer to customers simultaneously (Sriharan, 2015).

Bank size and age are studied to understand scale economies in banking. Larger banks cut costs due to scale and scope efficiencies, measured by metrics like

sales, assets, employees, and turnover. Exceptionally large firms may face negatives like bureaucracy (Yuqi, 2017)

Numerous empirical studies on bank size, age, and financial performance have been conducted. Teimet and Lishenga's study (2019), which covered the period from 2009 to 2018, examined the effect of bank size on the profitability of 42 commercial banks in Kenya. The direction and size of the correlations were determined using regression analysis, and the stability and speed of reaching equilibrium were evaluated by the autoregressive distributed lag model. The results indicate bank volume had a favorable and significant impact on asset return rates. Similar to this, Muhindi & Ngaba (2018) examined how the number of branches, capital base, client deposits, loans, and advances affected the financial performance of Kenyan banks using a panel data set from 2012 to 2016. The study discovered a correlation between bank size and financial performance that is favorable, and it also showed that larger banks have greater ROA than medium-sized and small-sized banks.

In addition, from 2007 to 2016, Teshome *et al.* (2018) investigated the variables affecting the financial performance of commercial banks in Ethiopia. They employed secondary data from eight commercial banks and an ex post facto research design. The study discovered a favorable and significant correlation between bank performance and size. In their analysis of the relationship between CSR and financial success in Bangladesh's banking sector, Kabir and Chowdhury (2023) discovered a favorable and significant impact of bank age on financial performance. Similarly, Kwashie, Baidoo, and Ayesu (2023) investigated the influence of credit risk on financial performance in Ghana's commercial banks, showing a strong and significant effect of bank age on listed commercial banks' financial performance in Ghana. However, Isayas (2023) conducted a study on determinants of banks' profitability in Ethiopia and found that bank age had a negative and significant effect on financial performance. Considering the limited research on the relationship between bank size, age, and financial performance in Nigeria, this study aims to fill this gap by examining how bank size and age affect the financial performance of DMB in Nigeria, utilizing E-View for data analysis.

Methodology

In this work, an ex-post facto research design was employed, which was chosen because the study relies on unaltered secondary data to assess the relationship between independent variables (bank size and age) and the dependent variable (bank performance). The study's population consisted of banks listed on the Nigerian Stock Exchange, as indicated in the Nigerian Stock Exchange Fact Book from 2015 to 2021. This constituted a finite population from which the sampling frame was derived. Consequently, the sample for this

study comprised ten banks (First Bank Plc, Guaranty Trust Bank Plc, United Bank for Africa Plc, Zenith Bank Plc and Union Bank Nigeria Plc), selected purposively based on the availability of data during the years 2015 to 2021. The study relied on secondary data sources, primarily from the published audited financial statements of each bank obtained from their websites and the Central Bank (CBN) of Nigeria Statistical Bulletin for the study period. These data were subjected to analysis using diagnostic tests, descriptive statistics, and multiple linear regression analysis of panel data spanning from 2012 to 2021, performed using E-View analytical software.

The study involved the use of dependent, independent, and control variables. The dependent variables included return on assets (ROA), return on equity (ROE) and, while the independent variables and control variables encompassed leverage, bank size and bank age. According to Gujarati & Porter (2019), model specification involves deciding which variables are endogenous and exogenous, as well as having a priori expectations regarding the direction and magnitude of the parameters in the function. The study developed the following models in linear form:

$$ROA_t = \beta_0 + \beta_1 BSZ + \beta_2 BGE + \beta_3 LEV + \varepsilon \quad (3.1)$$

$$ROE_t = \beta_0 + \beta_1 BSZ + \beta_2 BGE + \beta_3 LEV + \varepsilon \quad (3.2)$$

Where;

ROA - Return on Assets

ROE - Return on equity

BGE represent bank age (measured as the number of customers divided by aggregate sales)

LEV represents Bank leverage (Total debt ratio (Total debt/Total Assets))

β_0 is the constant

β_1 - β_3 are the coefficients of independent variables in the regression model

ε is the error term.

t is the time

It is expected that the coefficient of bank size, age and leverage would be positive

Results

Descriptive Analysis

In table 4.1 shows the findings of descriptive statistics for the variables under examination from the chosen DBM in Nigeria from 2015 to 2021. According to the findings, the mean ROE of the chosen DBMs in Nigeria from 2015 to 2021 was 12.78674 with a standard deviation of 2.250754. This shows that ROE spread out gradually over time. The skewness and kurtosis coefficients were -0.480471 and 2.378167, respectively. This indicates that the selected DBMs' ROE normal curve in Nigeria has a left long tail, and the tails are light since 2.378167 is substantially lower than the ideal Kurtosis threshold. According to the table, the mean

ROA of the chosen DBMs in Nigeria from 2015 to 2021 was 4.142138 with a standard deviation of 0.831166. This suggests that the ROA of the chosen DBMs in Nigeria from 2015 to 2021 was scattered significantly. The coefficient of skewness was 0.111308, indicating a big right tail on the ROA normal curve. The fact that the ROA's coefficient of kurtosis was less than the ideal kurtosis threshold of three (1.816119) indicates that the tail of the normal ROA curve from 2015 to 2021 has shrunk. The table reveals that, from 2015 to 2021, the average age of the chosen DBMs in Nigeria was 0.866719, while standard deviation revealed 0.098643. This suggests that the age of the chosen DBMs in Nigeria is modestly scattered because the standard deviation is less than the mean. Since AGE was favorably skewed from 2015 to 2021, the coefficient of skewness was 1.563321. The leptokurtic distribution of AGE from 2015 to 2021 is indicated by the kurtosis coefficient of 12.90398 being higher than the preferred threshold of kurtosis (3). Hence, AGE possess a wider shape with flatter tails. The table then displays that. Between 2015 and 2021, the selected DBMs in Nigeria had a mean BSZ of 19.60842 and a standard deviation of 2.839343. The standard deviation figure indicates that the BSZ of the chosen DBMs in Nigeria are more dispersed. The coefficient of skewness for the BSZ was -0.758830, showing a negative skew. Since BSZ has a statistical distribution with a kurtosis below three, its coefficient of kurtosis, which was 1.819996, indicates that the BSZ of the selected DBMs in Nigeria are platykurtic in nature. Last but not least, the standard deviation for the average LEV of 0.697725 was 0.193542. The skewness and the kurtosis coefficient were, respectively, -0.069392 and 1.589. However, all the variables under consideration except age of the banks are normally distributed

Pearson Correlation Coefficient

For determining the degree to which two variables are as associated, the Pearson correlation coefficient results are shown in Table 4.2. The research shows that ROA and ROE of the chosen depot money banks had a weakly positive link with a correlation coefficient of 0.09882476. The results show that BSZ and ROA have a positive association with a correlation coefficient of 0.628209, which is in line with the study's a priori expectations. The results show that there is a strong association between ROA and AGE, with a correlation coefficient of 0.54391498, satisfying the study's a priori expectations. The findings indicate a substantial positive correlation link between ROA and BSZ, with the correlation coefficient between the two being 0.7106 874. The results show that ROA and LEV have a high positive link, with a correlation coefficient of 0.5512379 between them. The findings indicate a moderately strong positive association between ROE and BSZ, with the correlation coefficient between the two being 0.7106874. According to the results, there

is a moderately high positive association between ROE and AGE, with the correlation coefficient between the two being 0.5196033. According to the results, there is a moderately high positive association between ROE and LEV, with the correlation coefficient between the two being 0.5322219. The results show that there is a weak favourable association between BSZ and AGE, with the correlation coefficient between the two being 0.5090338. Strong proof that the variables under consideration don't exhibit any signs of multicollinearity comes from the independent variables that showed low correlation in the Pearson correlation results. The series are thus considered appropriate for estimating regression models.

Hypotheses Testing

Hypothesis One: The age and size of the bank do not significantly affect the Nigerian deposit money banks' return on assets. $f(\text{BSZ}, \text{AGE}, \text{LEV}) = \text{ROA}$. In order to test the hypothesis that bank age and size do not significantly affect the ROA of DMB in Nigeria, a panel least squares model was used. The outcome are shown in Table 4.4. According to the model, the coefficient of determination, or R-squared, was 0.767239. This showed that other variables outside the estimated model were responsible for the remaining 23.3 percent of the variation in ROA of the picked DBMs in Nigeria. This showed that bank size, age, and leverage accounted for about 76.7 percent of the variation in ROA of the selected DBMs in Nigeria for the study period. With an adjusted R-squared of 0.743202, the predictive power is strong. Hence, the estimated panel least model displays a decent fit. The BSZ coefficient value was 0.000385, demonstrating a significant positive association between BSZ and the ROA of the chosen DBMs in Nigeria ($t=3.437768$, $p=0.0006$). This means that for every unit rise in BSZ, the selected DBMs' ROA will increase by 0.000385. This met the study's a priori expectations. The correlation between AGE and the ROA of the chosen DBMs was 0.004456, which is positive but not statistically significant ($t=3.889000$, $p=0.0001$). Despite the fact that the association is not statistically significant, the positive sign of the AGE coefficient fits the study's a priori expectations. The estimated model does not show any signs of autocorrelation due to the value of the Dublin-Watson statistic is within the permitted range of 1.5 - 2.5, which is 2.327238, or about equal to 2. The aforementioned model is therefore not erroneous. The model indicates that the likelihood of the F-statistic occurring was 0.000000 and its value was 27.75503. This suggests that the model as a whole has statistical significance. The argument that a bank's age and size have no discernible impact on the ROA of DMBs in Nigeria is disproved using a 5% level of significance. Therefore, the study's findings imply that the age and size of a bank have a big impact on the ROA of DMBs in Nigeria.

Table 4.1

Descriptive Statistics

VARIABLE	ROE	ROA	AGE	LOG(BSZ)	LEV
Mean	12.78674	4.142138	0.866719	19.60842	0.697725
Median	13.13072	4.194872	0.870210	20.89429	0.731428
Maximum	16.32200	5.535512	1.289760	22.68942	0.982820
Minimum	8.245098	2.509364	0.570000	14.82806	0.393742
Std. Dev.	2.250754	0.831166	0.098643	2.839343	0.193542
Skewness	-0.480471	0.111308	1.563321	-0.758830	-0.069392
Kurtosis	2.378167	1.816119	12.90398	1.819996	1.581928
Jarque-Bera	1.910541	2.116234	157.3026	5.389560	2.960691
Probability	0.384708	0.347109	0.000000	0.067557	0.227559
Sum	447.5358	144.9748	30.33517	686.2947	24.42039
Sum Sq. Dev.	172.2405	23.48847	0.330835	274.1035	1.273591
Observations	35	35	35	35	35

Source: (Author's Computation, 2023)

Table 4.2

Correlation Matrix

VARIABLE	ROA	ROE	SIZE	AGE	LEV
ROA	1				
ROE	0.09882476	1			
BSZ	0.6282092	0.7106874	1		
AGE	0.54391498	0.5196033	0.5090338	1	
LEV	0.5512379	0.5322219	0.4012334	0.392216	1

Source: (Author's Computation, 2023)

Table 4.4

Panel Least Square for estimating the relationship Banks size and age has on Return on Asset of DMBs in Nigeria

depended-on variable: ROA

the Panel Least Squares approach

Date: 07/21/23 Time: 17:16

Typical: 2015–2021

Included timeframes: 7

5 cross-sections were present.

(Balanced) total panel 35

observations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.986420	0.002434	405.3214	0.0000
BSZ	0.000385	0.000112	3.437768	0.0006
AGE	0.004456	0.001146	3.889000	0.0001
LEV	0.034101	0.013195	2.584388	0.0071

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.767243	Mean dependent var	0.993333
Adjusted R-squared	0.743202	S.D. dependent var	0.081404
S.E. of regression	0.048625	Akaike info criterion	-3.143789
Sum squared resid	3.305391	Schwarz criterion	-2.782490
Log likelihood	2459.842	Hannan-Quinn criter.	-3.009192
F-statistic	27.75503	Durbin-Watson stat	2.327238
Prob(F-statistic)	0.000000		

Source: (Author's Computation, 2023)

Table 4.5

Panel Least Square for bank size and Age on ROE of DBMs

depended-on variable: ROE
the Panel Least Squares approach
Date: 07/22/23 Time: 10:05
Typical: 2015–2021
Periods covered: 7
There were cross-sections of: 5
(Balanced) total panel 35 observations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.976885	0.004287	227.8549	0.0000
BSZ	0.000241	0.000124	1.948080	0.0516
AGE	0.003447	0.001277	2.698406	0.0071
LEV	0.081542	0.040016	2.03773	0.0156

Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.868968	Mean dependent var	0.993333	
Adjusted R-squared	0.844798	S.D. dependent var	0.081404	
S.E. of regression	0.548516	Akaike info criterion	-3.147654	
Sum squared resid	2.288252	Schwarz criterion	-2.782813	
Log likelihood	2463.740	Hannan-Quinn criter.	-3.011737	
F-statistic	33.67780	Durbin-Watson stat	2.333952	
Prob(F-statistic)	0.000000			

Source: (Researcher's Computation, 2023)

Hypothesis Two: The age and size of the bank do not significantly affect the Nigerian deposit money banks' Return on Equity. $f(BSZ, AGE) = ROE$. R-square is equal to 0.868968 according to the panel least squares model result in Table 4.5. This suggests that the model's explanatory variables accounted for around 86.9% of the variation in the dependent variable. In other words, BSZ and AGE accounted for around 86.9% of the overall variation in ROE, with the remaining percentage of variation perhaps due to additional variables not taken into account in the model. Adjusted R-squared=0.844798 indicates that the model's predictive power is comparatively strong and that the calculated panel least square fit the data well. Therefore, for the time period under study, BSZ and AGE are reliable indicators of ROE for the chosen DBMs in Nigeria. According to the model, the BSZ coefficient was found to be 0.000241, indicating that BSZ and ROE have a significant positive connection at the 10% level of significance ($t=1.948080, p=0.0516$). Therefore, a change in BSZ will result in a change in ROE of 0.000241. The study's a priori expectation is satisfied by the coefficient's positive sign. Finally, the correlation between AGE and ROE was determined to be 0.003447, which indicates that the association is significant at the 5% level ($t=2.698406, p=0.0071$). Therefore, a

change in AGE will result in a change of 0.003447 in ROE. The study's a priori expectation is satisfied by the coefficient's positive sign.

Durbin-Watson value fell downward within the allowed range of 1.5 - 2.5, there's no proof of autocorrelation in the residual of the estimated model because the value of Durbin-Watson was 2.333952, which is roughly equivalent to 2. As a result, the aforementioned approach is attractive and free of fraud. The model reveals that the F-statistic had a value of 33.67780 and a probability of 0.000000. This suggests that BSZ, AGE, and LEV together have a considerable impact on the ROE of the chosen DBM in Nigeria. The analysis rejects the non-hypotheses that bank size and age have no significant impact on ROE of DBMs in Nigeria since the F-probability of 0.0000 is less than 5% significant level. Accordingly, the study suggests that the ROE of DMB in Nigeria is significantly influenced by bank age and size.

Discussion of Result

From the result above it could be observed that banks Size and bank age has a strong significant relationship with ROE and ROA of the selected DBMs in Nigeria within the period under study. This implies that the increase bank size in the picked DBMs has

increase the banks performance positively in the aspect of ROA and ROE. This results align with the previous research of Boachie (2023) and Kwashie et al. (2023) carried out among Banks in Ghana as well as the results of (Teimet & Lishenga, 2019; Isaya, 2023). However, it differs from the work of Boachie (2023) Similarly, the age of the selected DMBs in Nigeria improves their ROA and ROE. This may be due to the fact that the more the bank stays in the within the banking sector, the more they get familiar with the market strategies which in turn can improve their performance. However, this result is not only in line with the a priori expectation of the study but consistent with the past studies such as works of (Kwashie *et al.*, 2023) conducted among banking sector of Bangladesh and Ghana respectively as well as findings of Isaya (2023) who also discovered that firm age have a strong and statistically significant impact on the financial performance of banks. However, the results negate the work of Isaya (2023) carried out among selected banks in Ethiopia.

Conclusion and Recommendations

This present study has successfully analysed the impact of bank size and age on performance of DMBs

in Nigeria between then period of 2015 to 2021. The result of panel least square revealed that bank size and bank age has significant positive relationship with ROA ($F= 27.75503$, $p=0.000000$). The study also found that bank age and bank size has a strong significant relationship with ROE of the selected DBMs in Nigeria ($F= 33.67780$, $p=0.000000$). The study thereby conclude that bank size and bank age impacted the performance of DMBs in Nigeria significantly. Thus, the study recommends that Banks should avoid excessive leverage to minimize insolvency risk. They should endeavor to keep a capital structure that minimizes the cost of capital and insolvency risk. Effective management of debt obtained from external creditors by listed Deposit money banks is essential for achieving positive financial performance. Management of listed deposit money banks should focus on expanding their firm size, as this can enhance financial performance. Further research is encouraged, including studies involving all listed firms in Nigeria, utilizing various analytical tools to validate and expand upon these study results and conclusions.

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ВПЛИВ РОЗМІРІВ ТА ВІКУ БАНКУ НА ФІНАНСОВІ ПОКАЗНИКИ ДЕПОЗИТНИХ БАНКІВ У НІГЕРІЇ

У цьому дослідженні вивчається вплив розміру та віку банку на фінансову ефективність депозитних банків Нігерії. Депозитні банки (DMB) мають вирішальне значення для розподілу коштів від вкладників до інвесторів та управління фінансовими ризиками. Дослідження має на меті визначити, як розмір і вік банку впливають на ROA і ROE. Аналіз даних проводиться з використанням попереднього плану дослідження та аналізу панельних даних. Дослідження показує значний тісний зв'язок між розміром і віком банку з ROA та ROE для нігерійських депозитних банків протягом періоду з 2015 по 2021 рік. Збільшення розміру та віку банку пов'язане з покращенням фінансових показників. В дослідженні робиться висновок, що розмір і вік банку мають значний вплив на ефективність депозитних банків Нігерії протягом зазначеного періоду. Таким чином, дослідження рекомендує депозитним банкам, зареєстрованим на біржі, розглянути питання про збільшення розміру своєї фірми за допомогою стратегічних ініціатив розширення для покращення фінансових показників. Подальші дослідження мають охопити більш широкий вибір фірм Нігерії, зареєстрованих на біржі, і використовувати різноманітні аналітичні інструменти для перевірки та розширення цих висновків.

Ключові слова: розмір банку, вік, депозитні банки (DMB), фінансові показники, Нігерія.

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