E3 Journal of Business Management and Economics Vol.2(4). pp. 164-170, October, 2011
Available online http://www.e3journals.org/JBME
ISSN 2141-7482 © 2011 E3 Journals

Full length research paper

Causes and impacts of global financial crisis on the performance of Nigerian banks (a case study of selected banks)

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Accepted 1 October 2011

Incessant bank failure in the face of several banking policies calls for appropriate prophylactic measures capable of stemming the tide because the pain of bank failure touches the banker, customer, government and the general public as well. Thus, when the global financial crisis came, it destabilized the expected return of the consolidation exercise of 2005 which seriously affected the operation of Nigerian banks. This study evaluates the causes and implications of the global financial crisis on the performance of Nigerian banks with a view to determine the extent of this impact and determining various options that could cushion the impact as well as avoiding future reoccurrence. The secondary data used in this study are those relating to loans and advances, customers deposit and investment in securities (independent variable), while the dependent variable is bank performance. Ordinary Least Square method of Multiple Regression Analysis was used to manipulate the time series data into Econometric model of inflation, while F test was used to test the formulated hypotheses. This study reveals that global financial crisis has a negative impact on the performance of Nigerian banks despite in defiance of high liquidity possessed by these banks immediately after the consolidation exercise of 2005. It was recommended that banks should desist from financing other banks' investment in securities to avoid multiplier effect syndrome while the Nigerian government should find alternative ways to fund their budget deficit

Keywords: Banking policies; Loans and Advances; Securities; Liquidity; Consolidation; Lending rates; Deposit rate.

INTRODUCTION

All hopes and expectations were high with the 2005 consolidation exercise in the Nigerian banking sector that raised the minimum bank capital base to ₦ 25 billion. This, according to Soludo, 2005) will enhance the performance of these banks, address the erstwhile stress, anxieties and uncertainties witnessed in the sector and restore the general loss of confidence which used to be a great asset of the Nigerian banking sector.

Not quite long from these reforms was the global financial crisis which struck in 2007 when the growing payment deficit put millions of debt obligations in danger. This resulted in poor judgments by lenders and speculators while the financial intermediation role of banks became heavily impaired and macroeconomic activities seriously slowed down (Komolafe, 2008).

This scenario was summarily put by (Aluko, 2008), that the credit contraction made it harder for customers to obtain credit facilities from banks and other financial institutions while the stock market was inaccessible for fund raising and this made the existing stocks of investors to consistently depreciate. All these by inference therefore slowed down expansion of small and medium scale enterprises that served as the engine of growth of any economy.

In this regard, banks began the processing of recalling their credit lines which had been extended to other financial institutions because of endemic nature of the global financial crisis which later spread to other sectors of the economy (Agaba and Tenuche, 2010).

The current global economic crisis started as a financial crisis in the United States of America in 2007. It has its root in credit contraction in the banking sector due to certain laxities in the United States financial system. The crisis later spread to Europe and now has become a global phenomenon whereby financial institutions stopped lending and recalled their credit lines (Soludo,

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2009), and these banks became entangled in a financial crisis (Aluko, 2008).

This study evaluates the causes, impacts and implications of the current global financial crisis on the performance of Nigerian banks with a view to determining various options that could cushion the impacts of such crisis and avoid future reoccurrences.

The strategic position Nigerian banks occupy in the financial system demands adequate appraisal of the performance of the industry especially in the light of the current global crisis as well as the attendant restructuring of affected banks after taking into cognizance contributions of Soludo (2009) and Aluko (2008). For instance, while Soludo (2009) attributed the causes of the global financial crisis to pressure to raise funds and credit contraction, Aluko (2008) pointed out that it was due to liquidity problem and the inaccessibility of the stock market to raise fresh funds.

This study considers a 6 years period (between 2004 and 2009); while the case studies are limited to Access Bank Plc; Fin Bank, Stanbic IBTC bank and Zenith Bank subject to sampling model used in the methodology segment of this study .

Considering the objectives stated above, the following hypotheses are tested empirically in this study:

H_0: Global financial crisis has negative impact on the performance of the Nigerian banking sector.

H_1: Activities of the management team of Nigerian banks does contribute to present financial crisis in the Nigerian Banking industry.

Nigeria has been hit by the Global financial crisis together with developed countries all over the world. We are used to crisis erupting in the developing world with their local contagion effects, as in East Asia in 1997 – 1998 and we also have a good idea as to how they manage such crisis. However, in this segment, attempts were made to discuss the origins of the global financial crisis, the channels through which the crisis is affecting Nigeria and how Nigerians are responding to the crisis.

The Nigerian banking industry plays a very important role in the economic growth and development of Nigeria. This role has been enormous, particularly since the adoption of the Structural adjustment program in the mid 1980's (Idehai, 1996) and can be attributed to such factors as international trade service (Isedu, 2001), Lending function (Idahosa, 2000) and Offering liquidity (Freixas and Rochet, 2008).

A Bank's performance is measured by its capacity to maximize returns on investor's funds. In the Nigerian economy, bank performance is determined by a number of factors, namely lending rates; deposit rate, management effect, ownership and control, market structure etc (Somayo and Ilo, 2008). Other factors that influence bank performance are: Lending rate, deposit rates, ownership structure and management competence and market structure. (See Atemnkeng and Nzongang, 2006; Ologunde, (2006); Idehai,(1996) and (Freixas and Rochet, 2008).

In recent history, three economic crises have occurred in the United States of America. The impacts of the first two crises were, however, restricted due to limited communication and globalization (Aluko, 2008) while the easy spread of this current one (third one) is due largely to improvement in technology, globalization and the removal of various trading barriers which turned the whole world to a global village.

The current crisis was triggered by the US subprime mortgage crisis in the spring of 2006, when the US second – largest subprime mortgage company (New Century Finance) announced it was filing for bankruptcy protection (Mizen,2008). This was followed quickly by announcements of trouble among several big names in banking and investments companies in the US.

Gooddhart , 2008 categorizes the reason for the crisis to include: mis-pricing of risk, the new financial structure, the poor credit rating agencies and insufficient liquidity. Similarly, Mizen, (2008) acknowledges the period of exceptional macro stability, the global savings glut, and financial innovation in mortgage – backed securities as the precursors to the crisis. Raynes and Zweig, (2009) suggests that the proper valuation of these securities are seen as being crucial to resolving the financial crisis. The current global financial crisis can be attributed mainly to the spread of contagion effects due to financial globalization. Other factors include credit contraction (Komolafe, 2008 and pressure to raise fund Soludo, 2009).

The integration of different countries' economies made any crisis in one country's economy to spread to other economies of the world. This became more evident when the impact of the crisis that occurred in the more advanced countries of America and Europe not limited to the continents alone. Such impacts have been numerous and multifaceted. For instance, (Aluko 2008) pointed out that it led to capital market downturn where the use of credit contraction to contain credit facilities by banks and financial institutions led to disinvestments by foreign investors and the collapse of stock market across the globe.

Iganiga, (1998) in his own view said one of the major outcomes of credit recalls by banks and financial institutions was a liquidity crisis in various banks across the globe. As a result of this, banks could not meet their customer's demands for loans and advances that could have earned them revenue. (Soludo, 2008) in his own view said credit line are facilities given to banks to boost their foreign exchange transactions. In the past, credit lines were usually not recalled immediately but gradually. He also noted that when financial institutions could not approach the Stock Exchange for fresh capital and the need for capital adequacy in their balance sheet became necessary, the banks and financial institutions began the process of recalling their credit lines which they had extended to other banks and institutions. Due to the present global financial crisis, and its effects on the balance of banks, they had to recall these credit lines immediately.

The use of credit contraction by financial institutions in Europe and United States of America led to serious liquidity and credit crunches in almost all the financial industry across the globe. Liquidity and credit crunches manifest strongly among the investment banks that act as intermediaries to companies and investors in London and other parts of the world (Komolafe, 2008).

The current global financial crisis has important implications for banks, companies, investors and government. In a flow of fund context, the main implication for banks is the centrality of the financial intermediation role, such that there must be a stable source of funding for all types of banks, including commercial banks and investment banks. Hence, it is very important for banks to maintain capital ratios to avoid liquidity and solvency risks. For example, commercial banks ignore the basic principal of deposits ratio and over- rely on the money market financing, once market confidence is lost, the liquidity crisis of banks may soon appear. When the subprime mortgage crisis broke out in 2007, the loss of market confidence made liquidity extremely difficult (Victor, 2009).

Radelet et al., (1998) in said that the ongoing financial crisis has been triggered and spread by the U.S subprime mortgage losses due to improper use of financial derivatives, such as securitization of U.S mortgage agencies into mortgaged – backed securities for sale in the market. When the crisis occurred, key financial indicators, such as exchange rates, stock prices, short term interest rates, asset prices, number of business bankruptcies and collapse of several financial institutions, produced very rapid deterioration in the host countries.

The crisis which led to a fall in the world stock market and numerous financial institutions, started to show its effect in Nigeria in the mid 2008, that the Nigerian government in response came up with rescue packages to bail out its financial systems (Abdul, 2008).

The aforementioned therefore implies that impact and implications of the financial crisis rocking the whole world cannot be estimated; hence each country is to brace up to the challenge since the United States of America where the crisis began had started to tackle the problem through debt rescheduling agreements.

METHODS

Survey research design was used for the purpose of this study. More precisely, the systematic sampling technique is adopted which involves the selection of the nth subject or item from serially cited population, subject or units; where n is any number usually determined by dividing the population by the required sample size. The population is given by N that is, N/sample size = nth term in the population. This led to the selection of the 21/3 =7^{th} term of the banks in Ilorin Metropolis arranged in alphabetical order. Ilorin is the capital city of Kwara State located in the central Nigeria.

This model yielded three (3) banks namely Zenith Bank Plc; Fin Bank Plc; and Stanbic IBTC Bank Plc; while the first bank on the list Access Bank Plc; was also added to make the sample more robust. (See Appendix 1)

The Secondary data used in this study were those relating to variables such as: Share capital, loans and advances, deposit of customers and investment in securities were collected from the publications of Central Bank of Nigeria for period 2004 to 2009.

Model specification

The relationship among the study variables mentioned above is captured as follows:

Global Financial Crisis	-	Exogenous variable
Banking sector	-	Endogenous variable
GEBS	-	Macro variable
NBS	-	Micro variable
GEBS	-	F (NBS)

Where NBS – F (other independent variables).

This model is based on an economic theory of inflation postulated by Monetarist (1960s).They argued that inflation is solely a monetary phenomenon and emphasized the role of money as the principal cause of inflation.

NBS	-	F (LAD, DOC, IIS)
GEBS	-	F (LAD, DOC, IIS)
GEB_t	-	F (LAD_t, DOC_t, IIS_t) ,Where
$GEBS_t$	-	Global effect of banking sector represented with share capital.
LAD_t	-	Loans and advances
DOC_t	-	Deposit of customers
IIS_t	-	Investment in securities
U	-	Stochastic error term
t	-	Time series

The functional forms are: Linear: $GEBS_t = bo - b1\ LAD_t - b2Doc_t - b3\ IIS + U$

Double log: $\log GEBS_t = Lnb_0 - b_1 LnLAD_t - b_2\ LnDoc_t - b_3 Ln\ IIS_t + U$

b_0 – Intercept, b_1, b_2, b_3, - parameter estimates

Estimation techniques

To estimate the model in this study, Multiple Regression Analysis is used in order to reflect the explanatory nature of the variable under investigation.

The evaluation criterion is concerned with determining whether or not the estimates are meaningful and statistically satisfactory to our investigation. The model was verified in the following ways:

A priori criteria which are based on the signs and magnitudes of the co-efficient of the variables under investigation.

Statistical criterion based on statistical theory of first order least square test. For this study, the following statistical criteria were used: R^2, F- statistic and t-test.

Table 1: Extracts from financial reports of Fin Bank Plc.

Year/ Variables	2004 (₦'million)	2005 (₦'million)	2006 (₦'million)	2007 (₦'million)	2008 (₦'million)	2009 (₦'million)
Share capital	1,125,000	1,500,000	2,000,000	4,844,315	4,844,315	4,844,315
Loans and advances	9,991,080	11,138,102	7,126,116	28,472,438	60,323,254	61,262,451
Deposit of customers	15,101,998	16,157,160	20,415,262	146,807,479	391,406,324	398,602,421
Investment in securities	207,745,000	260,945,000	260,945,000	5,057,314	9,859,437	9,981,410

Table 2: Extracts from financial reports of Stanbic IBTC Bank Plc.

Year/ Variables	2004 (₦'million)	2005 (₦'million)	2006 (₦'million)	2007 (₦'million)	2008 (₦'million)	2009 (₦'million)
Share capital	4,623,000	5,216,000	6,029,000	9,375,000	9,375,000	9,375,000
Loans and advances	9,479,862	13,487,436	50,067,653	79,636,000	99,010,000	110,967,000
Deposit of customers	10,543,648	10,885,811	57,073,332	72,455,000	98,914,000	170,411,000
Investment in securities	563,457,000	210,000,000	4,470,649	68,172,000	71,846,000	61,776,000

The R^2 is concerned with the overall explanatory power of the regression. It is used in determining the goodness of fit of the regression analysis and it shows the percentage of the total variation of the dependent variable that is explained by the independent variables. Thus, the greater the R^2, the better the fit and vice versa.

F statistics is used to test the overall significance of the regression analysis. In essence, it aims at finding out whether the explanatory variables do actually have any significant influence on the dependent variable. The decision rule is to accept the null hypothesis if the calculated value (F_C) is less than the tabulated value (F_t), and vice versa. The t-test is used to test the significant contribution of each of the independent variables to the dependent variable. Just like the F statistics, if the calculated value of t-test is greater than the tabulated value of t-test; the null hypothesis is rejected for the acceptance of alternative hypothesis and vice versa.

Data presentation and analysis

The parametric Regression analysis used is given as

$$Y = \alpha + \beta x$$

$$\alpha = \frac{\sum y}{n} - \frac{\beta \sum x}{n}$$

$$\beta = \frac{n\sum xy - (\sum x)(\sum y)}{n\sum x^2 \quad \sum(x)^2}$$

Where y = dependent variable, X = independent variable, N = number of events, ά = constant intercept, B = slope and ∑ = summation

In the regression equation above, x the independent variable is Global financial crisis while y, the dependent variable is Nigerian banking sector performance. The formulated hypotheses were tested using the F test. The decision rule is to reject the Null hypothesis for the acceptance of Alternative hypothesis if the calculated value of F (F_c), is greater than the table F (F_t) and vice versa at 0.05 level of significance.

The study data extracted from various issues of the Central Bank of Nigeria publications are presented in tables 1 - 4:

Presentation of results

Descriptive Regression Analysis for the Banks (See table 5)

Fin Bank Plc : GEBS = - 3e+007 + 0.45 (LAD) – 0.17 (DOC) – 1.335 (IIS); Stanbic IBTC Bank: GEBS = 1e + 008 - 1.156 (LAD) + 287 (DOC) – 0.156 IIS

t = $b_c > b_t$ (8.794 > 1.73) The null hypothesis is rejected and the alternative hypothesis, is accepted.

$b_1 - b_c > b_t$ (4.22 >1.73) Significant value, reject the null hypothesis and accept the alternative hypothesis.

$b_2 - b_c < b_t$ (1.839 >1.73) Significant value, reject the null hypothesis and accept the alternative hypothesis.

$b_3 - b_c > b_t$(6.253>1.73) The null hypothesis is rejected, and alternative hypothesis accepted.

Table 3: Extracts from financial reports of Zenith Bank Plc.

Year/ Variables	2004 (₦'million)	2005 (₦'million)	2006 (₦'million)	2007 (₦'million)	2008 (₦'million)	2009 (₦'million)
Share capital	1,548,555	3,000,000	4,586,744	4,632,762	8,372,398	12,559,000
Loans and advances	53,391,209	122,494,396	199,707,860	218,305,419	413,731,491	669,261,000
Deposit of customers	131,095,341	233,413,418	392,863,699	568,012,091	1,161,475,513	1,111,3280
Investment in securities	4,427,083	6,139,063	14,581,735	45,524,242	70,297,916	144,189,000

Table 4: Extracts from financial reports of ACCESS Bank Plc.

Year/ Variables	2004 (₦'million)	2005 (₦'million)	2006 (₦'million)	2007 (₦'million)	2008 (₦'million)	2009 (₦'million)
Share capital	1,500,000	4,055,607	6,978,161	7,889,081	8,071,252	8,131,024
Loans and advances	11,461,571	16,183,353	54,111,173	107,750,578	244,595,621	360,387,649
Deposit of customers	22,724,035	32,607,703	110,879,330	205,234,734	351,789,279	409,349,424
Investment in securities	7,777,742	7,990,980	9,648,532	10,280,256	59,456,866	72,732,689

Table 5: Descriptive regression analysis for the Banks

Bank	Model	R	R^2	Adjusted R^2	F Statistics
Fin Bank	1	0.954	0.911	0.777	6.79
Stanbic IBTC Bank	1	0.98	0.96	0.901	16.19
Zenith Bank Plc	1	0.977	0.954	0.886	13.961
Access Bank Plc	1	0.930	0.865	0.663	4.281

Zenith Bank Plc: GEBS = 2e + 008 – 5.274_{LAD} – 29.099_{Doc} – $0.604_{IIS,}$ t= 2.476; Access Bank Plc: GEBS = 2e + 007 +1.924_{LAD} – 7.762_{Doc} – $1.422_{IIS,}$ t= 2.312

DISCUSSION

Fin Bank Plc

R^2 which measures how appropriate the model is for FIN BANK is 0.91. This connotes 91% of variation or changes in the global financial crisis effect on the independent variables. Thus, any policy that may lead to 1% change in loans and advances, deposit of customers and investment in securities will affect the performance of Fin bank by 91%.

F Statistical test

Tests for the joint significance of the parameters in the estimated model. The statistical properties of the model are very good and our expectations were met. Hence, valid inferences could be drawn from the analysis. F statistics is significant when its calculated value is greater than the tabulated value, this call for rejection of Null hypothesis and acceptance of alternative hypothesis.

The result of the F- Statistics for Fin Bank Plc; reveals that (F_C) is 6.79 >(F_t) 4.76. This is a significant value and this means that Fin bank was affected by the global financial crisis. Since the effect of changes in the dependent variable can be examined from the slope (elasticities) b_1, b_2, b_3 which according to the analysis are respectively (+0.45), (-0.17), (-1.335), the result shows that it is only the deposit of customers and investment in securities that strongly affected Fin bank performance. A 1% change in deposit of customers will influence the performance of Fin Bank, by 17% while 1% change in the bank investment in securities will cause the bank performance to be affected more than 100%.

R^2 of 0.96 means that 96% of variation in the dependent variable(performance of Stanbic IBTC Bank can be attributed to impact of the independent variables such as investment in securities, deposit of the customers, loans and advances. This statistics testify to the sensitivity of bank performance to these variables (customer deposit, investment in securities and loans and advances).

Stanbic IBTC Bank

F Statistical Test: The F- Statistics test reveals that F_c > $F_{t,}$ that is, (16.19>4.76), this is a significant value and this brings out the significance of the variables used.

Since b_0,b_1,b_2 and b_3 are the slope of the variables, LAD, and IIS shows the indirect relationship on banking sector in Nigeria. At 1% increment in loans and advances, the performance of Stanbic IBTC bank will be affected by 1.15%, while that of investment in securities has 0.156 effects on the performance of Stanbic IBTC Bank plc.

T Statistics: The result of the T Statistical test for Stanbic IBTC bank shows the values of b_0,b_1,b_2, and b_3 calculated value are 8.794, 4.222, 1.839 and 6.253 respectively which are greater than the tabulated value. Therefore, null hypothesis is rejected while alternative hypothesis is accepted. This implies the significance of Stanbic IBTC bank and the variables used.

Zenith Bank Plc

In Zenith Bank Plc, it was observed from the analysis that the entire response to global financial crisis attributed measured the R^2 yielded 0.954. This means that any variation or change in loans and advances, deposit of customers by 1%, affects the performance of Zenith Bank by 95%

F-test result shows that the (F_c) 13.961>(F_t)4.76. Therefore, the null hypothesis is rejected for the acceptance of alternative hypothesis. This is a significant margin and by inference therefore, the performance of Zenith bank is drastically affected by the global financial crisis. She has 5.2% performance response to 1% changes in her customer's loan and advances. However, 1% change in customers deposit will have a multiplier effect of 29% on its performance while any change in investment in securities also affected the bank by 61%.

The significant discovery from this study is that the global financial crisis influenced to a great extent the variables used in the study and the multiplier effect was significantly felt on the performance of Nigerian banks.

Access Bank Plc

The R^2 figure for Access Bank Plc; was 0.86 which translate to mean that a slight change in the value of the bank's loans and advances, deposit of customer by1%, affected the performance of Access Bank by 86%. In the same manner, F statistics results of 4.281 < 4,76 indicates that the existence of the financial crisis translates to a minimal impact (1.924%) on the performance of Access bank Plc;. This result is in line with the studies of Komolafe (2008) and Soludo(2009) as they pointed out that the extent of the impact of the financial crisis will vary depending on each banks characteristics, corporate culture and ability to quickly brace up to the challenges by monitoring the variables that are mostly affected by the crisis. As can be seen, the Bank has 29% response rate to 1% change in its customers deposit while its performance is affected by 61% when the banks investment in securities changed by 1%.

It can therefore be summarily put that the exact impact of the financial crisis cannot be accurately determined. What was not in dispute was that the negative impacts of the crisis outweigh its positive impacts and the magnitude of the impacts vary from bank to banks in Nigeria.

Conclusion and Recommendations

Based on the analysis carried out in this study, the following were discovered:

I. The variables considered in this study (loans and advances, customers deposit and investment in securities) have significant impact on bank performance (Share capital) and therefore should be properly managed if the overriding shareholders wealth maximization objective widely pursued by most organizations is to be achieved. The manager of Nigerian banks and the regulatory agencies (Central Bank of Nigeria, Nigerian Deposit Insurance Corporation and The Stock Exchange) have a major role to play on those variables; loans and advances and deposit of their customers and investment in securities in order not to distort the overriding objective of total economic growth in the country.

II. It was discovered that the global financial crisis have negative impacts on the Nigerian banking sector. Thus, the emergence of the financial crisis weakened the ability of these banks to support the much needed economic growth and development in line with the vision 20:20:20 objective (Nigeria economy being among the best 20 economies in the world by year 2020) the nation is pursuing.

III. The attempt made by the management teams to boost the standards of their banks through capitalization in the stock market with a view to generate higher returns on investments has therefore exposed some of the banks to the financial crisis due to stock market crash.

In line with the above, it is recommended that the

Nigerian government should find alternative ways to fund their budget deficit so as to reduce the pressure of financing projects in the real sector of the Nigerian economy by banks. Banks should also desist from financing investment in stocks embarked upon by other banks in the Nigerian stock market in order to avoid multiplier effect syndrome.

The Nigerian government through the CBN should organize and strengthen the growth of institutions like the Pension Fund, Housing Fund, and Health Insurance Fund to avoid banks playing double roles to minimize the impact of any crisis that may befall the banking sector.

In a nut shell, since Global Financial Crisis affected Nigerian banks drastically the government should take into consideration when implementing future policies variables like loans and advances, deposit of the customers and investment in securities because of their sensitivity to the banks' financial structure composition and performance ability.

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Apendix.

Appendix I: Banks in Ilorin metropolis

S/N	Name of Bank	Basis of Selection and Sample Selected
1	Access bank	Access Bank √
2	Afri Bank	
3	Diamond Bank	
4	Equitorial Bank	
5	First city monument Bank	
6	Fidelity Bank	
7	Fin Bank	Fin Bank √
8	First Bank PLC	
9	GT Bank	
10	Intercontinental Bank	
11	Oceanic Bank	
12	Platinum Habib Bank PLC	
13	Skye Bank	
14	Spring Bank	
15	Stanbic IBTC	Stanbic IBTC √
16	Sterling Bank	
17	United Bank of Africa	
18	Union Bank	
19	Unity Bank	
20	Wema Bank	
21	Zenith Bank	Zenith Bank √