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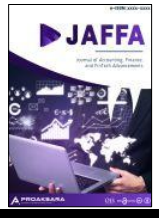

The Determinants of Financial Distress in the Pre Covid-19 Era in Nigeria

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ABSTRACT

The research investigated the factors influencing financial trouble in Nigeria before the outbreak of COVID-19. The main focus of the study was on financial instability, which was measured using the Altman Z-score. Various factors contributing to financial distress, such as profitability, loan loss provision, liquidity ratio, asset quality, and capital adequacy ratio, were taken into consideration as explanatory variables. Data from the Central Bank of Nigeria's statistical bulletin and the Nigerian Deposit Insurance Corporation's annual report from the years 1992 to 2022 were collected for analysis. The data was then examined using various techniques such as descriptive analysis, correlation analysis, and granger causality test. The E-view software package was utilized to assess the relationship between the explanatory and explained variables in the study. The result shows that profitability (ROCE), loan loss provision (LLP) and liquidity ratio (LIR) are negatively correlated with Altman Z-score and that such relationship is moderate and Asset quality ratio (ASQ) and Capital adequacy (CAR) are positively correlated with Altman Z-score. The study recommended that beyond thinking of profitability, the bank should imbibe efficient and effective management team that will reduce the environmental shocks that affects performance of the Nigerian banking industry. Furthermore, there is need for regulators of the Nigerian banking industry to reexamine the rising of non-performing loans (NPL) occasioned by inability of the deficit economic unit to service their loans.

Keywords: Financial Distress, Altman Z-Score, Profitability, Loan Loss Provision, Liquidity Ratio, Capital Adequacy Ratio, Asset Quality Ratio

1. INTRODUCTION

Over time, banks have recorded high level of financial instabilities especially after the global financial crises of 2008 to 2009. Undoubtedly, financial distress has been a challenge in the banking industry after the COVID 19 era because most loans given to customers have not been repaid and this has led to shortage of cash, low profitability and inefficiency in the banking hall. Furthermore, the roles of commercial banks in economic development of a nation cannot be overemphasizing through the financial services provided to individuals and firms. Therefore, banks cannot be allowed to incessantly face this financial crisis. The constant occurrence of financial distress of banks has diminished confidence of depositors, investors and even government and it has brought about deficiency in the banking industry (Asmarani & Murtanto, 2024). For these reasons, there is need for regulatory authorities' intervention.

As stated by Enyew et al. (2019), financial distress means when a bank is unable to meet its debt obligations to the account payables, which result to restructuring or bankruptcy. Financial burden banks are banks faced with various challenges, which results to operational insolvency, unskilled staff, inefficient and ineffective technology, decline in profit margin and loss of customers (Purnanandam, 2008). Wesa and Otinga (2018) is of the opinion that banks with financial crisis are banks that are faced with two (2) major issues, which are cash shortage on the current assets and overdue of debt obligations on the current liabilities side of the statement of financial position. Financial distress (Altman Z-score) does not happen overnight. Financial distress can be cause by systematic or unsystematic risks. COVID 19 is a systematic risk that is not within the control of banks and this advent of COVID 19 had brought great havoc to banking industry (Mulyaningsih et al., 2021).

The financial distress had affected the liquidity and efficiency of commercial banks in Nigeria and other nations. Commercial banks were better liquid and capitalized in the COVID 19 era than the pre COVID 19 era. Majority of the commercial banks are faced with low profitability, large number of non- performing assets and cash shortage. Despite the financial difficulties banks are experiencing, their low profitability could be exacerbated by the combination of low interest rates and stagnant yield curves (Patalano & Roulet, 2020), a situation that is expected to endure. The prolonged financial difficulties could lead to a rise in non-performing loans, caused by businesses and individuals failing to repay their loans, forcing banks to boost their reserves for potential loan losses.

Additionally, lots of digital banking services sprung up during and after the Covid19 pandemic which has led banks to spending huge amount of money on financial technology to improve their banking functions to their clients. This financial distress may last for a short period but for banks to survive in the long-run there is need for proper credit management. To solve this financial crisis, they need to do staff layoff, restructure the method of debts collection and cut off expenses that are not yielding income to the bank. According to Ray (2011) banks experiences financial distress-Altman Z-score when borrowers are unable to pay their loans as they fall due and when banks continue to experience this issue, they will not be able settle debt obligations as they mature. Research findings by Kazemian et al. (2017) showed that financial burden banks are banks that encounter several financial issues and have low financial performance. These findings asserted what the commercial banks faced in the post COVID 19 era.

The post COVID 19 era began in 2021. The COVID 19 era brought about increase in technology as people can now transact business online with ease with the advent of financial technology. The COVID 19 pandemic brought positive and negative development in the banking industry. The positive developments are increase in internet banking, employment opportunities and the negative side of the COVID 19 is increase in crime rate, non- repayment of loans and liquidation of industries. According to Antonio Guterres, the pandemic crisis brought about readjustment. Humanity is in front of extra ordinary development, where the weakest social groups and communities increasingly become more vulnerable. Before the COVID 19 pandemic, there was a surge in encodable information due to the digital revolution. Artificial intelligence and machine learning big data were primarily used to manage this increase, resulting in enhanced resilience and fragility in the banking sector (Buchak et al., 2018).

Despite the policies put in place by the regulatory authorities in ensuring the Nigerian banking industry is relatively stable considering the industry's critical roles in the economy, cases of financial distress remain a perturbing issue. It is no doubt that banks are most regulated industry in the world yet they are faced with myriads of challenges which contends with their stability (resilience). Indeed, financial distress remains a main challenge, if not attended to; the whole economic activities may be in total fiasco. Although, a lot of studies have been done on determinants of financial distress and other sectors outside the Nigerian context but studies of this nature in the Nigerian context is relatively few. For example, Isayas (2021) focused on financial crisis and its determinants in Ethiopia insurance industry. The results reveal profitability negatively affect financial distress.

On a second note, asset tangibility-AST and loan loss ratio (LLR) have positive significant effect on the determinant of insurance companies in Ethiopia. Kartika and Payana (2021), examined determinants of financial distress (FID) in property and real estate companies and found out that operating capacity has an effect on FID, but acid test ratio, working capital and cash flow to sales have no effect on FID. This therefore underscore the need to examine the subject matter in the Nigerian context considering the fact that, the Nigerian business environment differs comparably with other countries' regulatory environment. The analysis focused on factors influencing financial instability- Altman Z-score before the Covid 19 pandemic by studying 21 deposit-taking institutions in Nigeria. This research utilised variables such as asset quality (ASQ), provision for loan losses (PLL) and return on investment (ROI) that have not previously been explored by other scholars in relation to financial instability. To sum up, this research stands out as it draws on data from 21 banks in Nigeria over a period of 30 years (1992-2022), making it a recent contribution to the field.

2. LITERATURE REVIEW

2.1. Conceptual Framework and Linkages

2.1.1. Financial Distress-Altman Z-score

Financial distress-FID is defined as a situation where a bank is unable to meet maturing debt obligations with its account payables, which result to restructuring or bankruptcy (Enyew et al., 2019). The likelihood that banks will wind up is at a high rate when they incessantly experience financial distress. Financial difficulties occur when a business or person is unable to generate enough income to meet their financial commitments. This can be due to high fixed expenses, numerous non-cash assets, or revenue that is dependent on economic conditions. Although, there are lots of drivers (determinants) of financial distress-FID but the current paper is confined to the underlisted determinants:

2.1.2. Profitability-PROB

Return on capital employed-ROCE is one of the financial ratios used to measure the profitability of a company and how well a company use its capital. ROCE is calculated by dividing profit before interest and taxes (PBIT) by capital employed. The more the banks employed its capital on profitable financial instruments, the higher the profitability and the lesser the financial distress experienced. Findings by Ikpesu (2019), revealed positive link between profitability and financial distress-FID while findings by Thim et'al (2011), revealed that profitability negatively affects financial distress-FID.

2.1.3. Capital Adequacy Ratio (CAR)

The CAR relates to the amount of equity and reserves that banks maintain to cover their risky assets. It is determined by dividing total equity by the total loans and advances held by the banks. A lower CAR indicates weaker financial stability for the banks, potentially resulting in financial distress. Dang (2018) defined CAR as the ability of the banks to stand against losses during crisis.

2.1.4. Loan Loss Provision-LLP

The LLP is a financial provision allocated for outstanding loans and repayments that have not been collected. It serves as a buffer for losses due to unpaid debts, borrower defaults, and revised loan terms resulting in decreased payment amounts from what was originally projected. It is computed as LLP divided by total loan. When banks have more provisions for loan loss, the possibility that the profit will be low is high and this can lead to financial distress-FID of banks.

2.1.5. Liquidity-LIR

Liquidity refers to the accessibility of cash or assets that can be quickly converted into cash, which is essential for the survival of banks. Liquidity risk is determined by comparing current assets to current liabilities. Banks with higher liquidity are at lower risk of financial distress because they can easily fulfill their debt obligations on time. Gathecha, et al (2016) reviewed that liquidity has a positive correlation on financial distress-FID. Baimwera and Muriuki (2014) indicated that liquidity had no significant influence on corporate financial distress-FID.

2.1.6. Asset Quality-ASQ

ASQ refers to the realm of banking management that focuses on evaluating a bank's assets to determine the extent of risk exposure linked to its operations. Banks with higher asset values are less likely to experience financial distress. Studies conducted by different authors reveal that a high ratio of fixed assets to current assets is inversely correlated with financial distress (Gathecha, 2016). Similarly, the ASQ, which is gauged by the non-performing loan ratio, assesses the level of credit risk and the quality of the outstanding loans held by a bank. Essentially, a higher ratio indicates that the bank faces greater risk in the event of inability to collect the owed amounts, whereas a lower ratio indicates that the loans pose less risk to the bank.

2.2. Theoretical Review

The bank run theory was used to underpin the study. This theory was propounded by Diamond and Dybvig (1983) This theory stresses that, a bank run occurs when bank customers withdraw deposits because of fear about bank's solvency or fear of liquidation. The initial sign of 'bank run/panic' will motivate depositors to withdraw their savings and close their bank account causing a further 'run on the bank.' In a bank run,

investors are trying to get back their deposits before the bank fold up and when bank fold up, depositors might have access to all their deposits. Bank run occurs when depositors no longer have confidence in the bank. When savers become concerned about how the liquid a bank is, there exist a bank run. Bank run lead to depositors demanding to withdraw their money as a result of the banks inability to meet the demands of its customers.

The theory is relevant to this study because, bank run or sudden withdrawal of deposits is a major sign of financial distressed bank and this can affect the liquidity of a bank. Another major sign that determines financially distressed bank is low level of financial performance in terms of aggregate ROCE that is, constant withdrawal of deposits from bank account affects the borrowing power and investment of a bank, and invariably it will affect the profitability of the bank.

2.3. Empirical Review and Hypotheses Formulation

In Nigeria, Ehiedu et al. (2022), investigated Innovative Banking Models and Banks Fragility in Post Covid-19 Era. The study utilised data from the CBN Bank Supervisory Annual Report, CBN Statistical Bulletin and Nigeria Deposit Insurance Corporation (NDIC) Annual Reports spanning from 2000 to 2020. Analysis was conducted on the relationship between banks' stability, measured by Return on Assets (ROA), and modern banking methods such as Internet Transactions (ITs), Point of Sale Terminals (POS) and Mobile Transactions (MTs). The findings indicated that ATMTs, ITs, POS and MTs had minimal impact on Non-Performing Loan Ratios (NPLR). In conclusion, it was determined that innovative banking practices do not significantly influence banks' stability in Nigeria in the aftermath of the Covid-19 pandemic.

Using panel data gathered from 11 insurance companies in Ethiopia, Isayas (2021) researched on determinants of financial distress in Ethiopian insurance companies from 2008-2019. In order to reach the specified goals of the research, secondary data were collected from the annual financial reports of selected insurance firms for the relevant time frame. The study utilised descriptive statistics and a random effect regression model. The results indicate that profitability has a detrimental impact on financial distress (FID).

Isayas (2021) investigated on the firms' financial distress during the COVID 19 pandemic and fiscal incentives. The work culled quarterly panel data of public quoted companies from 2015 to 2020. The result shows that firm's financial distress increased during the pandemic. Aman (2019) investigated determinants of financial distress in Ethiopia Banking sector. The study used sample data from 15 banks and a quantitative research approach from 2012-2016.Secondary data were collected from the Ethiopian banks' financial report to meet the objectives of the study. The findings reveal positive significant impact on the dependent variable. The study concludes that micro and macro factors extracted from variables significantly correlated and even better ability to determine financial distress of Ethiopia banking sector.

Fredrick (2018) investigated the specific determinants of financial distress in the manufacturing industry in Nigeria. In order to achieve the goal of the research, the study utilised a variation of ordinary least square method on yearly time series information from 18 manufacturing companies listed on the Nigerian Stock Exchange (NSE), sourced from their financial reports. The main focus of the study was financial distress, as calculated by the Altman Z-score, while liquidity, profitability, firm size, and leverage acted as variables in the analysis. Revenue growth and share price were included as control factors to account for any other relevant variables not accounted for. The results of the study suggest important implications for policy decisions.

Gebreslassie (2015) used panel data from 2002 -2023 from six private commercial banks in Ethiopia to examine the financial distress-FID determinants conditions using Altman Z-score model. In the research, the ZETA score of the banks is utilised as a stand-in for financial trouble. The results revealed a notable impact on the financial well-being of commercial banks.

Premised on the above, the following hypotheses were postulated:

$H0_1$: Profitability (PROF) does not affect financial distress of Nigerian banks significantly.

$H0_2$: Capital Adequacy Ratio (CAR) does not affect financial distress of Nigerian banks significantly.

$H0_3$: Loan Loss Provision (LLP) does not affect financial distress of Nigerian banks significantly.

$H0_4$: Liquidity Ratio (LIR) does not affect financial distress of Nigerian banks significantly.

$H0_5$: Asset Quality (ASQ) does not affect financial distress of Nigerian banks significantly.

3. RESEARCH METHODS

The study used ex-post facto research design. The reason for using ex-post facto research design is premised on the fact that the variables under review are secondary in nature, existed in retrospect and thus cannot be manipulated by the research. The population of the study comprises of twenty-one (21) commercial banks. The study used all the 21 commercial banks in Nigeria for the period of 30 years (1992-2021) quoted on the Nigeria Exchange Group. Secondary data sourced from financial reports of commercial banks in Nigeria. The study adopted quantitative data analysis techniques. The study model was subjected to descriptive statistics, correlation analysis, multicollinearity test-Variance Inflation factors-VIF, Ramsey Reset Test-RRT, and Heteroskesticty test-HET. The modified Ohlson model and the models of Rahman et al. (2020) were used. Hence, the used model is econometrically presented in equation below:

$$FID = \beta0+\beta1PROF+\beta2CAR+\beta3LLP+ \beta4LIR +\beta5ASQ+\mu t$$

Where:

FID= Financial Distress

PROF=Profitability

CAR= Capital Adequacy Ratio

LLP=Loan Loss Provision

LR= Liquidity Ratio

ASQ=Asset Quality

β0= intercept

β1- β5= coefficient parameters

μt= stochastic error term

Table 1. Operationalization of Variables

Denotation	Variables	Variables Measures	Apriori Expectation
FID	Financial Distress	Altman Z-score=1.2A + 1.4B + 3.3C + 0.6D + 1.0E Where: 1. A = working capital / total assets 2. B = retained earnings / total assets 3. C = EBIT / total assets 4. D = Equity / total liabilities & 5. E = sales / total assets	Nil
PROF	Profitability	Net operating profit before interest and taxes / capital employed	Negative
CAR	Capital Adequacy Ratio	Total equity /total loan and advances	Negative
LLP	Loan Loss Provision	LLP /Total Loan.	Positive
LIR	Liquidity Ratio	Current assets /current liabilities	Negative
ASQ	Asset Quality	Non-performing Loan Ratio	Positive

Source: Researcher's Compilation (2023)

4. RESULTS AND DISCUSSION

4.1. Research Results

This chapter presented and analyzed all aggregate data for the variables under study gathered from the CBN statistical bulletin and the Nigerian Deposit Insurance Corporation (NDIC) annual report from 1992 to 2022 using Econometric Views (E-Views). Data considered include financial distress (Altman Z-Score), profitability (ROCE), CAR, LLP, LIR, and asset quality (non-performing loan ratio). For ease of reference, this section covered three (3) sub-headings: preliminary analysis, regression analysis, and discussions of result.

4.1.1. Preliminary Analysis

Before the model was estimated, analyses were carried out to capture the hypotheses in order to facilitate it validation of descriptive statistics alongside correlation analyses which was conducted. Each of their results alongside is presented in the foregoing sub-sections:

Table 2. Descriptive Statistics for all Study Variables

Variables	Mean	Maximum	Minimum	Std. Dev.	Jarque-Bera	Prob.	Obs.
FID	0.133817	0.200700	0.053600	0.045924	2.305843	0.315713	30
PROF	0.153080	0.368400	0.017500	0.092021	0.302673	0.859558	30
CAR	0.173210	0.226000	0.041000	0.038035	21.57371	0.000021	30
LLP	0.382037	0.563200	0.053900	0.167378	7.102772	0.028685	30
LIR	0.471933	0.814200	0.170000	0.138591	0.281573	0.868675	30
ASQ	0.035310	0.058000	0.000900	0.014634	1.529369	0.465481	30

Source: E-Views Version 9.0 Output (2023)

Table 2 shows the mean, maximum (highest) value, minimum (least) value, standard deviation (level of volatility) value, and observation (period covered-30 years). Specifically, financial distress measured by Altman Z-Score recorded had an average value of 13.38% signaling that, the likelihood that the Nigerian banks would fail on the average is about 4.59%. In like manner, the highest financial distress value recorded in the periods reviewed is 20.07% while the least financial distress value is 5.36%.

Further, profitability denoted by PROF, capital adequacy represented by CAR, loan loss provision denoted by LLP, liquidity ratio represented by LIR, and asset quality measured by ASQ reported average values of 15.31%, 17.32%, 38.20%, 47.19%, and 3.53%, respectively but deviated by 9.20%, 9.20%, 3.80%, 16.74%, 13.86%, and 1.46% respectively. By implication, all the financial distress-FID determinants parameters evidenced low volatility. By extension, they did not disperse far away from their average values. This again disclosed that, the model on the overall is fit for policy formulations. Similarly, they reported minimum values of 1.75%, 4.10%, 5.39%, 17.00%, 0.09% but had maximum values of 20.070%, 36.84%, 22.60%, 56.32%, 81.42%, and 5.80%, respectively. It is in this wise that, figure 1 is normally distributed:

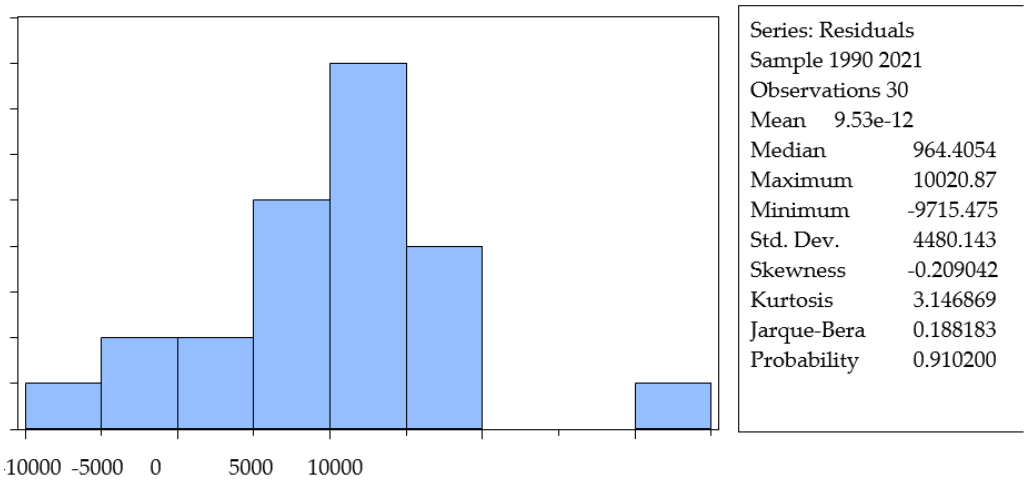

Figure 1. Normality Test

Source: E-Views 9.0 Output (2023)

Table 3. Summary of Correlation Analysis

	FID	PROF	CAR	LLP	LIR	ASQ
FID	1.000000					
PROF	-0.436502	1.000000				
CAR	0.618835	0.072423	1.000000			
LLP	-0.505876	0.231111	-0.037787	1.000000		
LIR	-0.363328	0.181488	-0.191829	0.153423	1.000000	
ASQ	0.245394	0.058305	-0.001645	-0.062882	0.067876	1.000000

Source: E-Views 9.0 Output (2023)

From the result in table 3, PROF, LLP, and LIR are negatively related (associated) with Altman Z-Score and that such relationship (association) is moderate. This is rationalized on the fact that, their coefficient values estimated at -0.436502, -0.505876, and -0.363328, respectively falls within 30 to 69%. However, ASQ is positively correlated with the Altman Z-Score value. By implication, if the non-performing loans reduce (asset quality increases), the Altman Z-Score will reduce (financial stability will increase as well) but such rise/fall is minimal/weak. This is justified on the ground that; their coefficient values fall within the confine of 0 to 29%.

When the independent variables are tested against each other, none of the independent variables exhibited high correlation since none of their coefficient values exceed 70%. By implication, the possibility of multi-collinearity problems is low. This means that, the influence of each variable in the regression equation could be isolated easily. However, the model is further subjected to multi-collinearity tests. This is presented in table 4. Table 4 evidenced that, the model is free from multi-collinearity issues since no variables reported VIF values above 10 and tolerance value above 5.

Table 4. Multicollinearity Tests

Variables	Variance Inflation Factors	Tolerance Value	Decision
PROF	1.1639	0.8592	No Multicolinearity Problem
CAR	1.5113	0.6617	No Multicolinearity Problem
LLP	2.0078	0.4981	No Multicolinearity Problem
LIR	1.7810	0.5615	No Multicolinearity Problem
ASQ	2.2133	0.4518	No Multicolinearity Problem

Source: E-Views 9.0 Output (2023)

4.1.2. Regression Analysis

Having confirmed that, the model is normally distributed and devoid of multi-collinearity problems, other robustness tests were conducted. They are presented thus:

Table 5. Other Diagnostic Tests

S/N	Diagnostic Tests	F-statistic	Prob. F	P-Value	Decision
(a)	Heteroskedasticity Test	0.376342	(5,24)	0.8225	Homoskedastic
(b)	Serial Correlation LM Test	0.967925	(5,24)	0.3390	Not Serially Correlated
(c)	Ramsey Reset Test	0.479702	(5,24)	0.6394	Well-articulated

Source: E-Views 9.0 Output (2023)

The other diagnostic tests in table 5 and figure 2 evidenced that, the model spreads equally (Homoskedastic), not serially correlated, well-specified, and within the accepted recursive lines. Hence, the model is fit for prediction

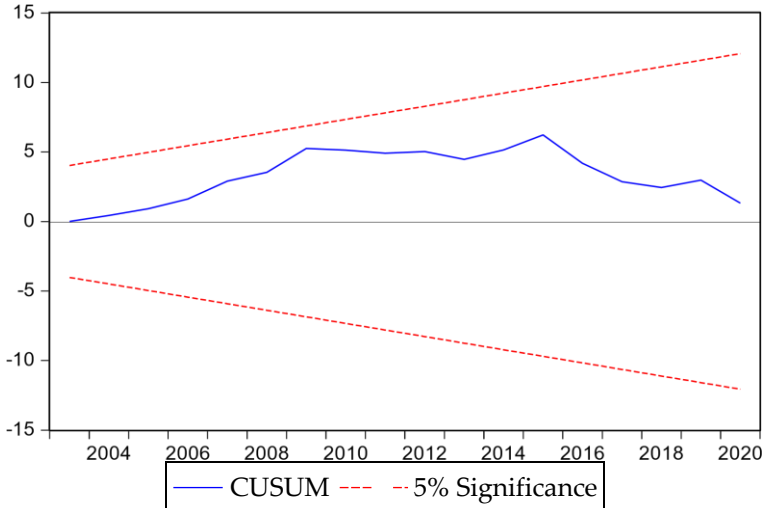

Figure 2. Recursive Tests

Source: E-Views 9.0 (2022)

Consequent upon the above, the robust least square estimate is presented thus:

Table 6. Robust Least Square Estimate

Variable	Coefficient	Std. Error	Z-Statistic	Prob.
C	4.433001	1.897550	2.336171	0.0195
PROF	0.366700	0.128304	2.858050	0.0104
CAR	-0.256833	0.120907	-2.124213	0.0337
LLP	0.07388	0.093913	0.78671	0.4314
LIR	-0.398133	0.198080	-2.009957	0.0444
ASQ	-0.506882	0.166633	-3.041912	0.0024
Robust Statistics				
R-squared	0.589473		Adjusted R-squared	0.543859
Rw-squared	0.989811		Adjust Rw-squared	0.989811
Akaike info criterion	46.23853		Schwarz criterion	52.83308
Deviance	0.078456		Scale	0.042372
Rn-squared statistic	1566.596		Prob (Rn-squared stat.)	0.000000
Non-robust Statistics				
Mean dependent var	12.26999		S.D. dependent var	0.595848
S.E. of regression	0.381298		Durbin-Watson stat.	2.016986

Source: E-Views (2023)

From the Robust Least Square Estimate presented in table 6, R-squared and adjusted R-squared stood at 0.589473 and 0.543859. This suggests that, the model has a high predictive power. More so, the Rw-squared value of 0.989811 and adjusted Rw. -Squared value of 0.989811 reaffirmed that, the model is highly predictive. In like manner, the Prob. (Rn-squared stat.) value of 0.000000 signals that, the model is highly statistically significant. Similarly, Durbin Watson statistics value of 2.016986 suggests that, the model is free from serial correlation. In the light of this, the individual is tested in table 7:

Table 7. Summary of Test of Hypotheses

S/ N	Testable Forms	Coefficient	P- value	Decision
1	PROF ≠ ***FID***	0.366700	0.0104	Ho1 is Rejected
2	CAR ≠ ***FID***	-0.256833	0.0337	Ho2 is Rejected
3	LLP ≠ ***FID***	0.07388	0.4314	Ho3 is Accepted
4	LIR ≠ ***FID***	-0.398133	0.0444	Ho4 is Rejected
5	ASQ ≠ ***FID***	-0.506882	0.0024	Ho5 is Rejected

Source: Researcher's Compilation from E-Views 9.0 Output (2023)

From the above, table 7 evidenced that, null hypothesis one, two, four, and five are rejected while null hypothesis three is sustained. This is justified on the ground that, the p-values of hypothesis one, two, three, and five are below 5%.

4.2. Discussions

The Robust Least square test reveals that, CAR, LIR, and ASQ have negative effects on Altman Z-Score (lower degree of bank instability). By implication, if CAR, LIR, and ASQ increases by 1%, Altman Z-Score will fall by 25.68% and 39.81% respectively. By extension, higher CAR and ASQ implies lower degree of bank instability. This further suggests that, the various bank reforms were instrumental to the stability of the Nigerian banking industry. In like manner, the result reaffirmed that, higher non-performing loan results to higher bank stability. This result is in tandem with the Aprioiri expectations of this study. Justifiably, Yonas (2021), evidenced that, nonperforming loans increases banking system distress significantly but Mulyaningsih, et al (2021) found that, non-performing loans does not instead it increases bank distress. Meanwhile, in the case of CAR and bank distress model, Mulyaningsih, et al (2021) in their study posits that CAR increases the chances of bank instability of Nigerian banks minimally

Conversely, the study evidenced that, higher bank profitability results to higher Altman Z-Score which in turn result to higher bank instability. By implication, that a bank is profitable does not mean that, such bank is relatively stable. This further reveal that, bank profitability and stability are two critical issues must be

considered differently in the banking industry. This further underscore that, highly profitable banks may be faced with high rate of instability. As such, profitability may be considered as a wrong signal of stability.

Furthermore, the study evidenced that, loan loss provisions could not avert financial distress of Nigerian banks instead, it had a little demeaning effect on the financial instability of Nigerian banks up to. Meanwhile, higher liquidity result to lower Altman –Score which by extension result to higher bank stability. This means that, both bank liquidity and stability move in linear fashion while bank liquidity and instability are non-linear. This again suggests that, bank illiquidity is a major predictor of bank instability

5. CONCLUSIONS

In the pursuit of comprehending the reasons behind bank troubles in Nigeria, existing research studies were reviewed. Therefore, this study was carried out to investigate the factors influencing the financial stability of banks in Nigeria from 1990 to 2021. Information was gathered from the yearly reports of fifteen chosen banks. The research findings suggest that an excessive emphasis on profits, insufficient capital reserves, high levels of non-performing loans, and lack of liquidity are significant indicators of financial insecurity among listed deposit-taking institutions in Nigeria. As a result, the study proposes that, in addition to prioritising profits, the banking sector should focus on developing a competent and capable management team that can navigate external challenges impacting performance.

To sustain the current high capital base recorded by the Nigerian banking industry, the Central Bank of Nigeria (CBN) should ensure that all banks further deepen their Capital Adequacy Ratio (CAR) above the 15% minimum requirement. Furthermore, regulators should address the rising non-performing loans resulting from the inability of deficit economic units to service their debts. Banks are encouraged to engage the services of qualified and competent individuals to maximize informed decision-making, especially in maintaining optimal levels of liquidity and profitability. Finally, regulators should ensure strict adherence to loan loss provision guidelines to safeguard financial stability.

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