COMPETITION AND CORPORATE TAX AVOIDANCE: EMPIRICAL EVIDENCE FROM NIGERIAN DEPOSIT MONEY BANKS

SARATU LASSA JIM-SULEIMAN
B.Sc. (Abuja), MBA (Jos)
(PGSS/UJ/00553/07)

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DECLARATION

I hereby declare that this work is the product of my own research efforts, undertaken under the supervision of Professor EKOJA B. EKOJA and has not been presented elsewhere for the award of a degree or certificate. All sources have been duly distinguished and appropriately acknowledged.

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SARATU LASSA JIM-SULEIMAN
(PGSS/UJ/00553/07)

DATE:_____

CERTIFICATION

This is to certify that this thesis has been examined and approved for the award of the degree of DOCTOR OF PHILOSOPHY in ACCOUNTING.

Professor Muhammad Liman
External Examiner
Date: 27/07/2015

Dr. Kolawole. O. Oladele (Sen. Lecturer)
Internal Examiner
Date: 27th July, 2015

Prof. Ekoja B. Ekoja
Supervisor
Date: 27 July 2015

Prof. Ekoja B. Ekoja
Head of Department
Date: 27 July 2015

Prof. Seddi S. Maimako
Dean of Faculty
Date: 27th July, 2015

Prof. Timothy O. Oyetunde
Dean, School of Postgraduate Studies
Date: 10/8/15

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DEDICATION

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ABSTRACT

This study examined the impact of competition on tax avoidance activities among Nigerian Deposit Money Banks. Tax Revenue is essential for the growth and development of any economy. The objective of the study was to examine the effects of competition on tax avoidance and also determine the impact of managerial efficiency and non-performing loans on tax avoidance has on the Nigerian Deposit Money Banks. To achieve the objective, this study used panel regression model to analyse the data obtained from the financial statement of 15 banks operating on the Nigerian Stock Exchange for a period of 10 years. The data collected were estimated by fixed-effects, random-effects and pooled estimations. Model selection criterion was applied such as the Hausman specification test to choose between the random and fixed effects. The Hausman test result of 1.30 revealed that the random effect is more consistent for this research than the fixed effects. The result of the random effect revealed that competition has a positive and an insignificant impact on tax avoidance, implying that competition exists among the Nigerian Deposit Money Banks and this competitive tendency does not influence tax avoidance. The study also showed that while effective tax rate and managerial efficiency are negatively related, effective tax rate and non-performing loans showed a positive and insignificant relationship. Competition in the banking industry reduces the cost of financial intermediation and improves delivery of high quality services thereby enhancing social welfare through creative innovations in technology and investment. Since competition is a motivation for banks and also promotes economic growth by access to financing. This study revealed that competition brings about increase in the level of tax remittance. It therefore, recommended that the environment in the banking sector should be further enhanced through

favourable banking policies to encourage competition among the banks. By this, tax revenue will increase for the government and this increase in revenue would help the Federal Government undertake more economic infrastructural developments.

CHAPTER ONE
INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Revenue in general is the income that accrues to individuals, companies and the government of a nation. In business however, it is the income that a company receives from its normal business activities, usually from the sales of goods and services to customers. A company may receive revenue from interest, royalties or other fees. Government revenues are monies from taxes, fines, penalties, fees, water bills and rent proceeds from government assets, interest, dividends and capital gains received from the disposal of government investments. Revenue accruing to a business can defray day-to- day running cost for business expansion, where the need arises those accruing to government on the other hand, are basically used for either capital or recurrent expenditure.

Tax revenue is believed to be the lifeblood of any government (Christensen and Murphy, 2004). Olaseyitan and Sankay (2012), have expressed the view that taxes constitute the principal source of government revenue, and the effectiveness of any government largely depends on the ability of its citizens to voluntarily discharge their tax obligations without any coercion or harassment.

According to statistics from the Federal Inland Revenue Service (FIRS 2013) , the total tax revenue collection for the months of October, November, December 2012 and January 2013 amounted to ₦454 billion, ₦405 billion, ₦344 billion and ₦478 billion respectively. Government needs money (funds) to fulfil its societal obligations (Fagbemi, Uadiale, & Noah, 2010). Oboh, Yeye and Isa (2012), have stated that taxation has become a phenomenon of global significance as it affects every economy irrespective of national differences. According to the Central Bank of Nigeria's report

2013, tax revenue contributed 34.10% and 40.10% of the Gross Domestic Product of Nigeria in 2009 and 2010 respectively. This shows that almost half of the revenue received by the Federal Government of Nigeria is from tax revenue.

However, despite the advantages accruing from tax revenue, like provision of employment, health facilities, education, roads, electricity, security and sustainable developments, people see tax as an undesired levy imposed on them by government. More than that, many citizens feel that such levies do not reflect in government's responsibilities towards the citizenry. For this reason, the citizenry employ several means to either completely or partially avoid the payment of the undesired levy called tax (Adediran, Josiah, & Ozoh, 2012).

Tax avoidance is tax planning by which people minimise the amount they pay to the government each year by taking advantage of the loophole opportunities to reduce their tax. Tax avoidance is the deliberate, but legally acceptable way of attempting not to pay tax. Consequent upon these actions, several billions of naira accruable from tax is lost to tax evaders and avoiders every year, thereby denying government additional revenue that could be used to execute projects and finance fiscal budgets, infrastructural development and provision of social amenities.

Tax avoidance, for example, includes paying money into pension schemes, buying second-hand goods and shopping on holidays in lower tax countries (Mayer, 2010). Cameron (2013) pointed out that there is nothing wrong with sensible tax planning. He further stated that tax planning is something government would want people to do in order to reduce tax bills, such as investing in pension, a start-up business or giving money to charity. He however drew attention to the fact that there are some forms of tax avoidance that have become so aggressive that in his opinion

they raise ethical issues. This calls for greater responsibility on the part of governments to act accordingly, in monitoring extreme cases of tax avoidance which are detrimental to the overall revenue accruing to them. Cameron (2013) is of the view that individuals and businesses must pay their taxes. Businesses, which think they could continue to dodge taxes, need to become more responsible and ethical in conducting their businesses.

According to Whiteman (2014), Allan Ahlberg was chosen by Amazon in July 2014 for the inaugural Book trust Lifetime Achievement Award and though he was delighted, he however turned down the honour when he discovered that Amazon was positioned as “the UK’s number one tax avoider”. Amazon’s defence according to Ahlberg that it isn’t doing anything illegal is less a question of law and more one of ethical behaviour and morality. Whiteman (2014) further stated that a recent International Monetary Fund report contained evidence that the tax-avoiding behaviour of many multinational enterprises was having the most significant impact on developing countries, which typically derive a greater proportion of their revenue from corporate tax. The accounting profession has an essential role to play in addressing the quality of public financial management, by lobbying for necessary reforms to deliver the global and national systems. Failure to do that has a great price because the global interconnectedness of government finance and the capital markets has never been more apparent, because when poor financial reporting in the Greek government came to light, not only were banks and other lenders left with significant losses, but the impact was felt globally (Whiteman, 2014).

Competition is a situation where some people or organisations try to be more successful than others. In the face of strong competition, small firms usually go out of

business. An under-supply of public goods and or an erosion of welfare state are feared to be the outcome of competition (Boss, 2006). Competitions between different banks provide funds for private investments, and compared to other non-financial establishments, market competition is often seen as a prerequisite for an effective banking system (Beck and Laeven, 2008). Corporate bodies and deposit money banks in Nigeria may want to avoid tax (and thereby reduce their tax liability/obligation to government) due to the competitive environment in which they operate. Banks under greater competitive pressures may be motivated to avoid tax so as to retain money that will enable them have a competitive edge in the market place. Competitive environments often provide the platform for banks/firms to engage in tax avoidance (Beck and Laeven, 2008).

According to Graham, Harvey and Rajgopal (2005), insiders' managers always try to meet outsiders' earnings per share (EPS) expectations at all costs to avoid serious repercussions and many managers under-invest to smooth earnings and therefore engage in real smoothing. The process of under and over-reporting income enhances the tax avoidance activities.

Loan loss provisioning policy is critical in assessing financial system stability, in that it is a key contributor for fluctuations in banks' profitability and capital positions, that have a bearing on banks' supply of credit to the economy (Mustafa, Ansari and Yuonis 2012). In principle therefore, loan loss provisions allow banks to recognize in their profit and loss statements, the estimated loss from a particular loan portfolio(s), even before the actual loss can be determined with accuracy and certainty as events unfold and are actually written off. In other words, loan loss reserves should result in direct charges against earnings during upturns in the economic cycle as banks

anticipate future losses on the loan portfolio when the economy hits a downturn. When these anticipated loan losses eventually crystallize, banks can then draw on these reserves, thereby absorbing the losses without impairing precious capital and preserving banks' capacity to continue extending the supply of credit to the economy. The increasing rate of loan loss affects the profit level and, as a result, the amount of tax to be paid.

According to Cai and Liu (2009), tax avoidance has received increased attention both in practice and in academic research. Their study analysed the determinants of tax avoidance behaviours and showed that tax avoidance is an important corporate strategy which companies adopt to their own advantage. A number of deposit money banks operating in a competitive environment consciously engage in quite a number of unethical behaviours in order to survive in the industry. Such unethical corporate behaviours could include diverting money into non-taxable schemes, such as excessive executive pay and corporate earnings manipulation. Becker (1957), in his classic study of discrimination, revealed a broad range of circumstances where competition promotes censured conduct. Competition is the fundamental source of technological progress and wealth creation around the world. The very same market forces that might encourage unethical conduct also motivate firms to innovate and create new products, leading to economic growth Becker (1957).

This study was aimed at demonstrating if competition or a competitive environment could influence Nigerian Deposit Money Banks into engaging in tax avoidance in order to reduce their tax liability, to the detriment of the revenue would otherwise have been remitted to the Federal Government.

1.2 STATEMENT OF THE PROBLEM

Avoidance of tax reduces government revenue and endangers the reputation of the tax system. Thus, government needs to prevent tax avoidance or keep it within safe limits. The competition that exists among firms, industries and banks influences the avoidance of tax so that firms can have more investment money to compete favourably in the market (Cai, & Liu, 2009). Tax avoidance is an important factor as it affects both the volume and nature of government's finances. The Federal Government may lose both individual and corporate income tax revenue due to tax avoidance and evasion. In the banking industry, excessive competition may lead to socially undesirable outcomes like bank failures, ruins and panics. It may also lead to lower dividends, fall in market share and also a fall in the growth of revenue.

The Nigerian government, like every other government in the world, needs tax revenues to provide socially mandated services and infrastructure. However, the drive to increase government revenue through effective corporate tax regime is often jeopardised by the competitive strategy of tax avoidance adopted by banks. Banks generally under competitive market environment are more motivated to avoid tax so as to boost their profit levels and have more capital to compete well in the market. They may not increase the charges for their services so as to retain their customers, but prefer to engage in activities leading to tax avoidance in order to remain in competition and declare reasonable profit.

Competition could have a lot of effects on a country's economic activities; it may lead to wasted (duplicated) efforts, increased costs (and prices) and it could also lead to mergers and oligopoly in orther cases. Extreme competition could also drive out companies from the market and reduce the market share of some money deposit banks.

Competition, if not carefully managed, could create a lot of disharmony among firms and money deposit banks. Becker (1957) and Shleifer & Robert (2004) have shown that the pressure of competition could lead to a range of undesirable behaviours in the banking industry.

The competitive environment in which Nigerian Deposit Money Banks operate could influence the banks to engage in earnings management by underreporting their profit as a strategy to reduce their tax liability. Firms with efficient managers like in the case of Enron in the United Sates used to smooth their earnings in an effort to achieve specific financial reporting outcomes (Myers, 2007), and to convey information to market participants (Tucker & Zarowin, 2006). Mayberry, McGuire and Omer (2011), in their findings concluded that smoothness of a firm's taxable income is associated with the level of a firm's tax avoidance in future periods and the smoothness of a firm's taxable income influences the information content of taxable income. In a financial reporting context, Francis, Lafond, Olsson and Schipper (2004), argued that the smoothness of a firm's earnings is a combination of a firm's innate characteristics and managers' discretionary choices which is similar to financial accounting and the smoothness of a firm's taxable income as well as a function of the innate firm characteristics and managers' discretionary tax reporting choices.

One major role or activity that the Nigerian Deposit Money engage in, is the giving out of loans to customers. However, customers could default in the loans they receive. Such default loans could have negative effects on the performance of banks. Beidleman (1973), pointed out that a bank's asset quality and operating performance are positively related. If a bank's asset quality is inadequate (for instance, the loan amount becomes the amount to be collected), the bank will have to increase its bad debt

losses provisions as well as spend more resources on the collection of non-performing loans. This increase in non-performing loans in the banking industry could be due to external events such as adverse situations in economic activities. When banks list the loan amount for collection, banks will incur extra operating costs from non-value-added activities to handle and supervise the collection process.

According to the Central Bank of Nigeria (2010), a credit facility is deemed to be non-performing when the interest or the principal is due and unpaid for 90 or more days. Interest on loan is an income accruable to banks which increases their net profit during the financial year. If the customers do not pay these interests as at when due, it would reduce the banks bottom line profit. If Non-performing loans are not properly managed, they could lead to inefficiency in the banking sector. The Loan default risk of banks could motivate the banks to engage in tax avoidance, because banks want to remain in business, they grant loans to customers and as such sometimes they do not repay and the loan losses lowers the tax payables since they are allowable in the tax laws.

Competition enhances banks' tax avoidance activities since competitive environment could pressure them to operate with a minimum capital buffer. Apart from competition, there are factors that could trigger banks to engage in tax avoidance. A bank without a good management team cannot compete in the industry. Therefore, banks need good managers to make decisions for effective competition in the industry. With efficient high skilled managers, banks may not be able to compete favourably; without such there could be a tendency of income smoothening in an effort to achieve specific financial reporting outcomes, thus, misleading information are conveyed to market participants. Even though the banks' traditional role is lending which make up

the bulk of their assets, lending creates a big problem which could bring about non-performing loans. If banks are not able to meet up with loan loss provision coverage ratio, they pose a risk of insolvency and hence, reduced tax payment.

Available Nigerian literature like Osuegbu (2007), and Kiabel and Nwokah (2009) have at taxation in relation to tax avoidance among individuals and corporate bodies. However, none of these authors have actually examined the relationship between competition and tax avoidance among individuals and banks. Internationally, the studies of Cai and Liu (2009), Dyren, Halon and Maydew (2010), Desai and Dharmapala (2009), Cobham (2005) and Wagner (2010) have concentrated largely on Corporate Tax Avoidance and Firm Value, Competition and Tax Evasion, Tax Haven, Market Structure Competition and Corporate Tax avoidance activities among industries and individuals without a deep study on Deposit Money Banks.

1.3 RESEARCH QUESTIONS

This study provided answers to the following questions:

i What is the relationship between competition and tax avoidance activities among Nigerian Deposit Money Banks?

ii What impact does the relationship between competition and managerial efficiency have on tax avoidance among Nigeria Deposit Money Banks?

iii What influence does the relationship between competition and non-performing loans have on tax avoidance among Nigerian Deposit Money Banks?

1.4 OBJECTIVES OF THE STUDY

This study assessed the effects of competition on corporate tax avoidance among Deposit Money Banks in Nigeria. Tax avoidance has been a factor affecting the

revenue of the government of any country. In order to achieve this main objective, this study developed the following specific objectives:

i to examine the effect of competition on tax avoidance among Nigerian deposit money banks;

ii to examine the impact of competition on managerial efficiency and hence, the effect of managerial efficiency on tax avoidance among Nigerian deposit money banks.

iii to examine the impact of effect of competition on non-performing loans and hence, the effect of non-performing loans on tax avoidance among Nigerian deposit money banks.

1.5 STATEMENT OF HYPOTHESES

To effectively address the basic research questions and to meet the related objectives, the following hypotheses were tested:

In this study, the main hypothesis is hypothesis one while the second and third hypotheses are the subsidiary hypotheses to the research.

Hypothesis One (Main Hypothesis)

H_{01}: Banking sector competition does not have a significant effect on tax avoidance among Nigerian Money Deposit Banks.

Hypothesis Two (Subsidiary Hypothesis)

H_{02}: The relationship between Competition and Managerial Efficiency does not have any significant effect on tax avoidance among Nigerian Money Deposit Banks.

Hypothesis Three (Subsidiary Hypothesis)

H_{03}: The relationship between competition and non-performing loans do not significantly impact on tax avoidance among Nigerian Deposit Money Banks.

1.6 SIGNIFICANCE OF THE STUDY

This study would be of benefit to a cross-section of stakeholders like government, revenue officials, students, lecturers, researchers and accounting professionals. Policies are usually written from information provided to various policy makers in government like Ministers, Permanent Secretaries of ministries and government institutions. This research would provide information to policy makers in order to enable them make better decisions and come up with better reforms for the tax system of the country. Where loopholes were observed in the collection process of taxes, the Federal Ministry of Finance could designate one collecting centre or bank so that reconciliation could be easily done and any errors could be rectified. The Federal Inland revenue could get tax experts to review and identify loopholes and then laws could be set up to mitigate those loopholes.

This research would be of immense benefit to lecturers, researchers in research institutions, students and consultants. For this group of people, informative materials in certain areas would enhance their research. This research, would add to the body of knowledge that will assist researchers in enhancing their work/researches, the areas in which this study has not covered could be a starting point or suggestion for further research.

1.7 SCOPE OF THE STUDY

This research sought to assess the effects of competition on corporate tax avoidance listed in Deposit Money Banks in Nigeria. The annual reports of the banks from 2004 to 2013 were used in the study. The population size of this research is 15 Nigerian Deposit Money Banks. These are the banks currently listed on the Nigerian Stock Exchange (NSE) as at 2013, and the banks are Nigerian indigenous owned banks

with majority shareholders to be Nigerians. The annual reports and figures used for this analysis were prepared and published by the Deposit Money Banks. This study was limited to only the data made public in the bank annual reports. The study covered the period of ten years (2004 to 2013).

CHAPTER TWO
LITERATURE REVIEW

This chapter discusses the conceptual framework of this study competition in economic and businesses, competition in the banking sector, the concept of taxation and the various theories in competition and taxation. The summary of literature review and the gap to be filled are also discussed in this chapter.

2.1 CONCEPTUAL FRAMEWORK

2.1.1 Competition

Competition is a dynamic process by which alternative opportunities are made available to potential customers and information about them is disseminated (Savage & Small, 1967). Competition exists if the party with whom a business or an individual wants to trade has alternative opportunities of exchange; the people who offer these alternative opportunities being the competitors. Since exchange involves two parties, competition can exist among buyers or among the sellers or both. Most firms sell to many customers, though occasionally a business may face a sole buyer and its bargaining power will be consequently reduced.

Essentially, competition is a process by which alternative opportunities are made available to customers. A business competes with its rivals by offering the customer the same product at a lower price; offering a slightly different product with similar features; offering a radically improved product or innovation by successful promotion by which a firm tries to make consumers buy its products rather than a rival's, or create a wholly new scheme of wants in the mind of the consumer. Such actions are what the competitive process consists of (Savage, & Small, 1967). According to Park (1998), 'competition' and 'to compete' refer to the same thing. He observed that 'to compete' means to slice prices, advertise, invest in Research and

Development, stressing that ‘competition’ denotes an energetic process of rivalry among firms in which only the fittest survive and flourish.

For a long time, competition policy has been an integral part of the banking sector. However, the financial crisis that started shaking the world’s economic system had grave consequences on the financial sector and is now having an important impact on the real global economy. Academics and policy makers around the world are faced with the questions of what generated the crisis and what can be done to stop it or at least minimise its potentially devastating effects. The financial sector has long been recognised as being special. Banks perform various roles in the economy and are critical to both the financial system and the real sector. In particular, they contribute in solving the problem of asymmetric information between investors and borrowers; thus channelling savings into investments. They provide risk sharing by inter-temporal smoothing of un-diversifiable risks as well as insurance to depositors against unexpected consumption shocks. They contribute to the growth of the economy and perform an important role in corporate governance.

Banks raise a large fraction of their funds through demandable deposits and they invest them in long-term assets. The maturity mismatch between their assets and liabilities; their inter-linkages through the interbank markets and the payments system expose financial institutions to the risk of instability and systemic crises. Furthermore, the great reliance on leverage and the proprietary information that banks have on their borrowers may induce them to take excessive risks. For these reasons, competition in the financial sector has been traditionally viewed with suspicion and for quite a long time, the sector has been subjected to tight regulations and limitations in the application of competitive rules. In the last two decades, however, the trend has somewhat been

reversed and competitive policy has been applied much more effectively in the financial sector.

The current extensive systemic crisis has reopened the question of what role competitive policy plays in this sector. The main issues are whether competition is desirable at all in times of systemic crises, and how to limit potential negative effects in the medium and long term. Providing answers to these questions is extremely difficult as the unexpected unfolding of the current crisis, particularly in the financial sector, is creating doubts about the relevance and applicability of standard economic tools. Analyzing competition in the banking sector is quite complex; the early 1990s have been marked by a shift in theory and evidence concerning the effects of competition on bank soundness or reliability. Available literature point towards a negative trade-off between competition and bank soundness (Keeley, 1990). However, newer theories and evidence challenge this paradigm: The balance of evidence suggests a positive link between competition and soundness (Carletti, 2007); while the debate on whether competition is "good" or "bad" for bank soundness continues (Berger, & De Young, 1997), the question of why competition has a soundness-enhancing effect has remained an underexplored area, despite its relevance for policy and regulation in banking (Schaeck, & Cihak, 2010).

According to Hayek (2010), competition is essentially a process of the formation of opinion by spreading information which can create unity and coherence of economic system which is usually presuppose as one market. It creates the views that people have about what is best and cheapest and it this because of it that people know much about possibilities and opportunities. Competition creates new products that are

identical to other products, except that they require additional time for their assembly (Bartolome, 2007).

Competition is a contest between individuals, groups, nations and animals over a territory, a niche or a location of resources. It arises whenever two or more parties strive for a goal which cannot be shared. Competition occurs naturally among living organisms which co-exist in the same environment. For example, animals compete over water supplies, food and mates. Humans compete for water, food and mates, though when these needs are met, deep rivalries often arise over the pursuit of wealth, prestige and fame. Business is often associated with competition as most companies compete with at least one other firm over the same group of customers (Berg, 2010).

The process by which a business competes with its rivals is indeed complex and Robinson (1953) has pointed out that competition between sellers is not confined to offering an identical commodity at a lower price but enters into the design of the commodity itself as well as into all the multifarious forms of enticements to buy with which it is surrounded. The conditions of supply and demand are never, and can never expect to be unchanging from week to week and from year to year, but are in a continuing state of flux. Competition is part of daily living; it is a useful social mechanism for selecting those who are more able to perform the activities involved in the competition. Growing mobility of capital in the last twenty years has fuelled the academic debate on other types of competition (Sorensen, 1990). The various types of competition are discussed in the following sections:

2.1.2 Competition in Economics and Businesses

Competition in business involves the allocation of productive resources to their most highly-valued users, and encouraging efficiency. Competition causes commercial

firms to develop new products, services and technologies, which would give consumers better products. The greater selection typically causes lower prices for the products, compared to what the price would be in a competition free (monopoly) or less competitive (oligopoly) situation (Bucovetsky, & Smart, 2006). The work of Tiebout (1956) identified three levels of economic competition, the benefits of competition have become more known to economists. These three levels of economic competition are:

Direct competition: Direct competition occurs where products which perform the same function compete with one another. For example, one brand of pick-up trucks competes with several other brands of pick-up trucks. Sometimes, two companies are rivals and one adds new products to its line, making the other company distribute the same new products, thereby constituting competition between the two companies (Tiebout, 1956).

Indirect competition: Indirect competition is where products which are close substitutes for one another compete. For example, butter competes with margarine, mayonnaise and other various sauces; likewise Pepsi and Coke (Tiebout, 1956).

Budget competition: Budget competition is considered the broadest form of competition. Included in this category is anything on which the consumers might want to spend their available money. For example, a family that has ₦100, 000 available may choose to spend it on many different items for the family. These items are seen as competing with one another for the family's expenditure (Tiebout, 1956).

Competition does not necessarily have to be between companies. Competition could exist within companies, and this type of competition is referred to as internal competition (Scott & Kesten 2007). Procter and Gamble initiated a deliberate system of internal brand-versus-brand rivalry. The company was organized around different

brands with each brand allocated resources, including a dedicated group of employees willing to champion the brand. Each brand manager was given responsibility for the success or failure of the brand, and compensated accordingly. This type of competition is known as intra-brand competition (Schmidt, 1997).

Businesses also encourage competition between individual employees. An example of this is a contest among sales representatives. The sales representative with the highest sales (or the best improvement in sales) over a period of time would gain benefits from the employer (Schmidt, 1997). Janeba and Schjelderup (2009), said that tax competition among Presidential-Congressional democracies is typically welfare improving. Competition may induce a company to pay lower tax (Reulier, & Rocabuy, 2006). It should also be noted that business and economic competition in most countries are often limited or restricted. Competition is often subject to legal restrictions. For example, competition may be legally prohibited, as in a case of a government monopoly or a government-granted monopoly. Tariffs, subsidies or other preventive measures may also be instituted by government in order to prevent or reduce competition. Depending on the respective economic policies, pure competition is to a greater or lesser extent regulated by competition policy and competition law.

Competition between countries is quite subtle to detect, but it is quite evident in the world economy. Countries compete to provide the best possible business environment for multinational corporations. Such competitions are evident in the policies undertaken by these countries to educate the future workforce. For example, East Asian economies such as Singapore, Japan and South Korea tend to emphasize education by allocating a large portion of the budget to this sector, and by implementing programmes such as gifted education (Stevenson, 1994).

Competition has been studied in several fields, including Psychology, Sociology and Anthropology. Social psychologists, in their study of the nature of competition investigate the natural urge in man to compete and the circumstances leading to it. They also study group dynamics to detect how competition emerges and what its effects are (Peterson, & Donald, 1976). Sociologists, on the other hand study the effects of competition on society as a whole (Mitchell, 1970). In addition, anthropologists study the history and prehistory of competition in various cultures. They also investigate how competition manifested itself in various cultural settings in the past, and how competition has developed over time (Robinson, 1953).

Schumpeter (1912, 1942) and Hayek (2010) identify a trait in most living organisms which can drive them to engage in competition. This trait, unsurprisingly called competitiveness, is viewed as an innate biological trait which coexists with the urge for survival. Competitiveness, or the inclination to compete, has become synonymous with aggressiveness and ambition in English language. This actually is the behavioural pattern of most Nigerian commercial banks. In the quest to keep their customers and deposit base within competitive environment in which they operate, Nigerian commercial banks have been forced to act in competitive ways.

Competitive pressure is important for productivity and innovation, consequently, most commercial banks in recent years have become more productive and innovative due to the pressure they face. Increased competition can lead to both one-time and ongoing gains in Multi-Factor Productivity (MFP), that is, the combined productivity of labour and capital. One-off efficiency improvements (described as “static gains”) arise both from better resource allocation and from less slack in the use of inputs in response to greater pressures to perform. Ongoing (or “dynamic”) gains

relate to enhanced efforts to innovate and foster diffusion of innovations. There is a general consensus that stronger competition leads to static efficiency gains and dynamic gains (Ryckman, 1994).

2.1.3 Competition in the Banking Sector

Competition in the banking industry has been a subject of great scholarly interest and continues to occupy a large body of empirical research like in the works of Petersen, & Ranjan (1995), Cetorelli, & Gamberra (2001) and Boyd and Nicolo (2005). From the public policy perspective, competitiveness in the banking sector represents a socially optimal target since it reduces the cost of financial intermediation and improves delivery of high quality services thereby enhancing social welfare (Pagano, 1993). Banking competition also promotes economic growth by increasing, firms' access to external financing (Beck, Demirgüç-Kunt, & Maksimovic, 2004 Pagano, 1993).

However, Petersen and Ranjan (1995), showed theoretically that banks wielding market power tend to lend to young firms whose credit record may be opaque, hence leading to high lending rates. In practice, Cetorelli and Gamberra (2001) argued that although concentrated banking systems offer growth opportunities for young firms, there is strong evidence of a general depressing effect on growth associated with the banks' exercise of market power and this impacts all sectors and firms. Hence, competition in the banking industry should be placed at the centre of any public policy agenda since it has the mechanism to respond to the dynamic changes in economic conditions, especially those that affect delivery of financial services.

The analysis of banking competition has been of great concern in the accounting literature especially due to its effects on financial stability (Beck, Demirgüç-Kunt,

Levine, 2006; Schaeck, Cihak & Wolfe 2009, &Wagner, 2010). A competitive banking market may result in more benefits to the society as a whole, such as lower prices and higher quality of financial products (Boyd & Nicolo, 2005), but on the other hand, its influence on financial stability is not conclusive. Competition, could enhance banks' tax avoidance activities since competitive environment could pressure them to operate with a minimum capital buffer (Hellman, Mudock, & Stiglitz , 2000; Allen, & Gale, 2004). Others defend the contrary by stating that crises are less likely to happen in competitive banking systems (Beck *et al*., 2006; Boyd, & Nicolo, 2005). Motivated by the process of deregulation and consolidation that financial sectors around the world have been facing lately, especially in the developing world, this work proposed to analyse whether or not competition has had any effect on tax avoidance on the Nigerian economy.

Studies that support the concentration-stability (or competition fragility) view insist that banks may have a higher profit premium in collusive markets thus, creating a buffer from crises and therefore, reducing their incentives to take risks (Hellman, Mudock, & Stiglitz, 2000). As a matter of fact, in a competitive market, managers may be forced to take more risks on behalf of the shareholders since competition reduces the profits of managers and shareholders as well (Keeley, 1990). Allen and Gale (2004) also affirmed that this increased risk may be due to a higher bank exposure to contagion in competitive markets. An adverse shock can cause a bank to go bankrupt and consequently this may trigger a chain reaction where all the banks that were exposed to the first bank also go bankrupt. Since under perfect competition these banks are price-takers and therefore small compared to the whole market, no bank will have an incentive to provide liquidity to the troubled bank, causing the contagion to spread. In

addition, there is the matter of adverse selection worsened by a competitive market (Broecker, 1990; Nakamura, 1993, & Shaffer, 1998). The chance of a poor quality borrower to apply for a loan at any bank is an increasing function of the number of banks, decreasing the quality of loan portfolio of the entire banking market.

2.1.4 Concept of Tax

The purpose of taxation is to finance government expenditure. One of the most important uses of taxes is to finance public goods and services such as street lighting and street cleaning. Since public goods and services do not allow a non-payer to be excluded, or allow exclusion by a consumer, there cannot be a market in the goods or services, and so they need to be provided by the government or quasi-government agencies, which tend to finance themselves largely through taxes. A tax is an amount of money paid to the government, usually a percentage (%) of personal income or company profits". Nightingale (1997), described tax as a compulsory contribution imposed by the government. He further observed that even though tax payers may receive nothing identifiable in return for their contribution, they nevertheless have the benefits of living in a relatively educated, healthy and safe society.

A tax is a compulsory deduction of money by public authority for public purposes (Soyode, & Kajola, 2006). It is also a levy imposed by the government on the income, profit or wealth of individuals, partnerships and corporate organizations (Tabansi, 1997). By law, all Nigerian Deposit Money Banks are required to pay their taxes to the Federal Government in order to increase the total revenue of the country.

a) Taxation

In every country of the world, including America, a country with a strong belief in the right of private property, government undertakes a lot of activities for the

common good, and government extracts in various proportions from the wealth of the citizens for this purpose. It is in this sense that taxation connotes a sense of rights and responsibility, rights owed to individuals and duties owed by the individuals to the society. As a result of the process of taxation, some taxpayers find themselves with less money to spend and the government finds itself with more money. This transfer of property right from citizens to the government gives rise to obligation on the government to use this right in a way that is most beneficial to the citizens as a whole (Soyode & Kajola, 2006).

Taxation is a system of raising money for the purposes of government expenditure by means of contributions from individual persons or corporate bodies (Soyode, & Kajola, 2006). They posited that taxation is a system of imposing certain amount of money on individuals, companies and agencies by government in order to make funds available to enable her perform her duties. Similarly, Osita (2004) stated that taxation is a compulsory levy by government through its various agencies on the income, capital or consumption of its subjects. These levies are made on personal income such as salaries, business profit, interests, dividends, commissions, royalties and rent. It may also be levied on capital gains and petroleum profits.

According to Kotakorpi (2009), when the government's and consumers' preferences differ, the government might wish to influence consumer choice through public policy. An example is excessive consumption of goods with negative health effects (such as unhealthy food, cigarettes and alcohol). Here, the government uses tax to discourage the consumption of such goods. Taxation in this context is to be considered by government to discourage some habits (O'Donoghue, 2003; Gruber, & Koszegi, 2004, & Rabin, 2006). Taxation is a potential tool for reducing harmful

consumption (Koszegi, 2005). In this study, taxation is a very important tool for government to generate money for its operations and also as a deterrent from some harmful practises. Having looked at the definition of tax and taxation, the classification of tax and types of taxes will now be discussed.

b) Classifications of Tax

Tax can be classified into two broad categories. It could be classified as Direct or Indirect Taxes (Osita, 2004; Tabansi, 1997 & Ojo 2009).

Direct Taxes: Direct taxes are those taxes levied on chargeable persons incomes or capital and are paid directly by the person to the tax authority; examples include Company Income Tax, Personal Income Tax and Petroleum Profit Tax.

Indirect Taxes: Indirect taxes are usually referred to as 'hidden tax' paid indirectly as part of the payment for some goods and services which include import and custom duties and Value Added Tax (Ojo, 2009). Osita (2004) observed that a tax is indirect if the person who pays the tax can shift the burden to someone else. The ability to shift the burden of tax will depend on the elasticity or otherwise of the demand for the goods or services. If the demand is elastic, then the burden can be shifted 100%. Osita (2004) provided the following examples of indirect taxes: Custom Duty, Stamp Duty, Value Added Tax and Excise Duty.

a Company Income Tax (CIT): The taxation of the profit of companies is under the Company Income Tax Act 1990. The term 'company', for the purpose of CITA 1990 is defined under section 84 to mean any company or corporation (other than corporation sole or partnership) established by or under any law in force in Nigeria or elsewhere. Section 84(1) also defines what a Nigerian company or Foreign company is. A Nigerian Company is any company

incorporated under the Companies and Allied Matters Act 1990 or any enactment replaced by that Act, while a "Foreign Company" is defined as "any company or corporation established by or under any law in force in any territory or country outside Nigeria (Soyode, & Kajola, 2006). Commercial banks in Nigeria are expected to remit Company Income Tax to the Federal Inland Revenue Service of Nigeria. Any failure to remit the tax could either be termed as tax evasion or tax avoidance depending on the situation.

b Personal Income Tax (PIT): Personal Income Tax is the tax on the total income of any individual for any year of assessment or Statutory Income that is subject to tax. The personal income tax is charged directly on the individual's income and the tax burden rests on the tax payer.

c Value Added Tax (VAT): Value Added Tax is simply the tax on the value added to a commodity. It is a tax levied at each stage of production on the firm's value added (Seyi, 2003).

d Excise Duty: It is charged on goods produced within a country (Seyi, 2003).

e Capital Gains Tax (CGT): It is a tax chargeable on capital gains arising from disposal of assets (Seyi, 2003).

c) Challenges Facing the Tax System in Nigeria

The Nigeria tax system is beset by a myriad of challenges. The political economy of revenue allocation in Nigeria does not prioritise tax efforts. It is, instead, anchored on such factors as equality of states (40 per cent), pollution (30 per cent) landmass and terrain (10 per cent), social development needs (10 percent), and internal revenue effort (10 per cent). This approach discourages a proactive revenue drive, particularly for internally generated revenue and makes all government tiers heavily

reliant on unstable oil revenues which are affected by the volatility of the international oil markets. Aside from the national syndrome of ‘cake sharing’, the instability and volatility of oil revenue should have created an opportunity for improved tax efforts within the provisions on taxation ratified in the 1999 constitution.

Although some state governments have initiated measures to enhance their tax generation attempts, the outcome has not reflected any level of serious effort (Ariyo, 1997). Another major problem facing the country is the multiplicity of taxes. Individuals and corporate bodies complain about the ripple effects created by the duplication of tax a problem that arose from the states’ complaints about the mismatch between their fiscal responsibilities and fiscal powers or jurisdiction. To control multiple taxation, the Joint Tax Board started to publish a list of approved taxes and levies and to declare other unspecified taxes illegal. This has created a degree of harmony and checked the hitherto rampant taxation that had made the business environment in Nigeria a little bit harsh (Study group on tax reform, 2003).

The hidden or underground economy is usually taken to mean any undeclared economic activity. The major issue is how tax authorities would tackle hidden economy covering these groups Businesses that should be registered to pay taxes such as VAT, are not registered, People who work in the hidden economy such as the rural areas who have difficulties in paying their taxes due to environment in which they live in and operate. These challenges are gradually taken care of due to the recent Government reforms in the tax system.

2.1.5 Tax Avoidance and Evasion

Tax avoidance is the process whereby an individual plans his or her finances so as to apply all exemptions and deductions provided by tax laws to reduce taxable

income (Soyode, & Kajola, 2006). Tax avoidance is a perfectly legal approach to handling taxes, although sometimes avoidance practices can stray into the realm of being abusive, at which point people may cross the line into tax evasion. In tax evasion, people utilize illegal means to avoid paying all or part of their taxes. Evasion can result in prosecution and fines or prison time.

Through tax avoidance, an individual takes advantage of all legal opportunities to minimize his or her tax liability. An individual may, for example, avoid federal income tax by investing a large sum of money in municipal bonds since the interest on such bonds is not considered taxable income on which federal tax is due. Interest on the same amount of money placed in a savings account must be included as taxable income (Soyode, & Kajola, 2006).

Ariwodola (2000) described tax avoidance as the use of legal methods to modify an individual's financial situation in order to lower the amount of income tax owed. This is generally accomplished by claiming permissible deductions and credits to the fullest possible. Most tax payers use some forms of tax avoidance, for example, individuals who contribute to employer-sponsored retirement plans with pre-tax funds are engaging in tax avoidance because the amount of taxes that would be paid on the funds when they are withdrawn is usually less than the amount that the individual would have paid when working. Furthermore, retirement plans allow taxpayers to defer paying taxes until a much later date, which allows their savings to grow at a faster rate (Churchill, 2007). From the general views of the various authors, cited tax avoidance can be said to be the deliberate form of reducing one’s tax liability using the loopholes in a tax taw. According to Seyi (2003), tax can be avoided in Nigeria, where a capital

expenditure is incurred with the purpose of claiming capital allowance and a foreign investment is made with the aim of being exempted from income tax.

According to (Soyode, & Kajola, 2006), tax can be avoided by minimising the incidence of high taxation by the acquisition of a business concern which has sustained heavy loss so as to set off loss against future profits. Also, by minimising tax liability by investing in capital asset (for instance through the new form of corporate financing by equipment leasing), and thus sheltering some of the tax payers income from taxation through capital allowance claims. Another means is by the creation of a trust settlement for the benefit of children or other relations in order to manipulate the market tax rate such that a high income bracket taxpayer reduces his tax liability. Converting what would ordinarily accrue to the taxpayer (employee) as income into capital gain (that is compensation for loss of job) to the advantage of the employer and employee.

Tax evasion is the deliberate and wilful practice of not disclosing full taxable income to tax authorities so as to pay less tax. In other words, it is a contravention of tax laws whereby a taxable person neglects to pay the tax due or reduces tax liability by making fraudulent or untrue claims on the income tax form (Soyode, & Kajola, 2006).

Tax is evaded through various methods, some of which are:- refusing to register with the relevant tax authority, the failure to furnish a return statement or information, or keep required records, making an incorrect return by omitting or understating any income liable to tax refusing or neglecting to pay tax, overstating expenses so as to reduce taxable profit or income, which will also lead to payment of less tax than otherwise should be paid and also entering an artificial transaction (Soyode, & Kajola, 2006).

Similarities and differences between tax evasion and tax avoidance

Soyode and Kajola (2006) stated that the main similarity of tax evasion and tax avoidance is the objective which relates to the determination and reduction of tax to be actually paid to the Federal Government. Tax Evasion and Tax Avoidance are both taxpayers' activities. Tax avoidance is a phenomenon that occurs when a taxpayer utilizes the provisions of the tax laws, identifies the loopholes in the tax laws and uses such to his own advantage. Tax evasion, on the other hand, is a phenomenon where the taxpayer practically neglects to pay tax. In such instances, the taxpayer either does not declare the correct position for tax purposes or does not file any returns at all. This is sometimes considered criminal in nature and may result in the taxpayer being convicted (Seyi, 2003).

Tax avoidance is generally the legal exploitation of the tax system to one's advantage to attempt to reduce the amount of tax that is payable by means that are within the law while making a full disclosure of the material information to the tax authorities (Desai and Dharapala, 2006). In contrast, tax evasion is the general term for efforts by individuals, firms, trusts and other entities to evade the payment of taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability (Mayer, 2010).

2.1.6 Taxation of Banks

Taxation of banks is of great interest because the banking sector plays a crucial role in the allocation of resources and the growth process (Albertazzi, & Gembacorta, 2006). In most countries, banking activity is subjected to general taxation (personal and corporate income taxes). Taxation of banks is of particular interest for various reasons,

first, banks are financial intermediaries that perform unique and crucial functions, although in many countries they are currently subjected to increasing competition from investment funds and security markets. Secondly, banks are heavily regulated and monitored, which reduces the administrative costs of some forms of taxation, and at the same time they are subsidized through under-priced deposit insurance and bailouts of insolvent banks. Thirdly, banks often enjoy some monopoly of power, especially in the household and small business sectors. Banks have been characterised as intermediaries that are able to perform three main functions: asset transformation, provision of transaction services and monitoring. First, banks can monitor entrepreneurs, which reduces agency costs in the credit market; second, they provide transaction services to investors (routine payments, check writing); and third, they offer investors liquidity insurance (Caminal and Xavier 2004). According to Albertazzi and Gembacorta (2006), corporate income tax distorts the capital structure and raises the average cost of capital. In the case of banks, the effects of corporate taxes are quite different since banks are subject to regulations that influence their liability structure. For example, in the presence of a minimum capital requirement, substitution effects between equity and other forms of financing are very limited for a bank (Gembacorta, & Mistrulli, 2004).

The macro-economic consequences of a tax-shift are analysed in the theories of fiscal repression (Demirgüç-Kunt, & Huizinga, 1999). This part of the literature stressed the fact that the growth possibilities of an economy are largely affected by the size and efficiency of its financial sector which govern the capital accumulation and allocation processes. Nevertheless, it is reasonable to presume that the importance of the distortions generated by the taxation of financial services is closely dependent on whether the actual bearer of the tax burden is the bank or its customers. Gembacorta, &

Mistrulli (2004) are of the view that the ability of banks to shift at least 90 per cent of their corporate income tax burden, depends on the competitive pressure they face. This happens mainly through a reduction in operating costs and provisions, while tax shift on net interest income is more likely to occur for low level of the Company Income Tax (CIT) rate when the cost of equity due to regulation is low.

The Banking System and Taxation in Nigeria

The banking system in Nigeria has undergone several reformatory processes with the Central Bank of Nigeria (CBN) which is the apex bank in the country regulating all the banks. The 1969 banking decree required all banks to be locally incorporated and to publish their balance sheets on the Nigerian banking business only. Ghosh (1990) noted that the statutory transfer of 25% of profit after tax and after deducting bad debt provisions to general reserve and the increase in the minimum paid up capital, which presently is twenty-five billion naira, are indicators of the role of the Central Bank of Nigeria to control activities in the banking arena of the country. The peculiar aspect of the taxation of banks is that in addition to the company's tax payable at the normal rate of 30%, banks are required to pay the excess profit levy. This is a levy of 10% on the excess profit of the bank which was introduced in 1978. However, with effect from the 1989 tax year, the excess profit levy tax became 15%.

According to Aguolu (2000), the excess profit is the difference between the total actual profit of the bank and the normal profit of the bank computed by applying the following specified percentages which are usually applied to the capital employed by the bank at the end of the accounting year: 40% of paid up capital, 20% of capital reserves, 20% of general reserves and 20% of long-term loans; the total is regarded as the normal profit of the bank. The various components of the capital employed may

have their divergent meanings thus, paid up capital may comprise the bank's paid up ordinary and preference shares where applicable, the capital reserves will also include the share premium account surpluses on revaluation of fixed assets and amounts set aside out of profit for the issue of share capitals, while the general reserves are undistributed profit apart from the statutory reserves.

The long-term loans are those with repayment periods in excess of five years (Banks, & Other Financial Institutions Decree, 2004). Nnadi & Akpomi (2008), asserted that tax is a recurrent factor in most economies. They also posited that taxes undeniably affect investors and the firm especially in the dividend policies.

Effective Tax Rate (ETR)

The effective tax rate for a corporation is the average rate at which its pre-tax profits are taxed. An individual's effective tax rate is calculated by dividing total tax expense by taxable income. For corporations, the effective tax rate is computed by dividing total tax expenses by the firm's earnings before taxes. The effective tax rate is the net rate a taxpayer pays if all forms of taxes are included and divided by taxable income. Callihan (1994), measured tax burden by using average ETR and observed that the average ETR is appropriate for measuring cash flows and the distributional tax burden. Spooner (1986) measured the corporate tax burden based on the ETR. Wilkie (1988) stated that the average ETR could be used as a proxy to measure the tax burden of a company and might also be useful to interpret the efficiency and equity of a tax system.

Iwamoto (1992) stated that the ETR is concerned with the amount of corporate income paid as corporate tax. The average ETR has been widely used to measure the tax burden of a company (Manzon, & Smith, 1994; Porcano, 1986, & Zimmerman,

1983). Rego (2003) interpreted ETR as a measure of the effectiveness of tax planning in which taxes currently payable are compared with what would be apparent from the income figure in the financial statements. Therefore, effective tax rates are often utilized as a measure of effective tax planning among companies. Hence, average ETR is the appropriate measure for tax avoidance since it shows that the impact has on incentives, income shifting and tax avoidance.

Generally, ETR is defined as the ratio of observed taxes to profit from existing investments (Zimmerman 1983). The issue about measuring ETR is which taxes to include as the numerator and how to measure profit as the denominator. Several groups of ETR studies have measured ETR differently. Zimmerman (1983) measured the effective tax rate as a ratio of income tax to operating income, where income tax represents the total income tax liability adjusted for changes in deferred taxes, and operating income is total sales minus costs of sales. Porcano (1986) measured effective tax rate as a ratio of current income tax to pre-tax book income adjusted by income or losses associated with minority interests and/or extraordinary items. He contended that his measure is superior as it better reflects a firm's ability to meet its tax obligations. Holland (1998) estimated the corporate tax burden by using an effective tax rate which is calculated by dividing a firm's current corporation tax provision by its related level of income. Hanlon and Shevlin (2001) discussed the calculation of ETR used by the Government Accounting Office (GAO). The GAO uses the current portion of tax expense divided by net income. ETR is usually measured by dividing tax liability by profit.

The difference in measuring ETRs depends on the purpose of the study. Previous ETR studies have focused on different objectives within the study. For

example Buijink, Janssen and Scholar (1999) investigated the difference between ETR and the statutory tax rate (STR) across companies; Holland (1998), Callihan (1994), and Manzon, & Smith (1994) concentrated on the tax burden of companies; Buijink *et al* (1999) focused on corporate tax competition and Rego (2003) examined corporate tax avoidance. Rego (2003) claimed that since ETRs compare the current tax liability generated by taxable income (to the tax authorities) with pre-tax income based on generally accepted accounting principles (GAAP), ETRs measure the proficiency of a corporation to reduce its current tax liability relative to its pre-tax accounting income. Thus, they reflect tax planning and measure the tax avoidance of companies.

According to Rego (2003), tax avoidance activities created book-tax differences, which are either temporary or permanent differences between a company's financial accounting and taxable income. Thus, the numerator is based on taxable income and the denominator is based on financial accounting income to accommodate book-tax differences. In addition, Rego (2003) employed sensitivity analysis which excluded deferred taxes from the numerator of ETR and found that they do not affect the main results of his research.

He measured ETR as the ratio of income taxes currently payable to pre-tax accounting income. Rego (2003) claimed that firms that avoid income taxes by reducing their income tax payable while maintaining their accounting income will have lower ETR, thus making ETR a reasonable measure of tax avoidance. Guenther (2014) stated that researchers in accounting and finance have used effective tax rate as a measure of corporate tax avoidance in empirical research.

Managerial Efficiency

Javadin, Amin, Tehrani and Ramezani (2010) explained that the responsibility of managers has become heavier. Their work and profession have become more

specialised and sensitive due to the increase in environmental complexity and continuous development. Therefore, an understanding and analysis of skills for managers to organise their patterns of behaviour to increase efficiency of their organizations is of great importance if organizations are enthusiastic to reach their mission. Efficiency and effectiveness depend on their managers' ability and skills in their offices. Those mangers, by using their skills and leading their organizations in the right ways, determine proper goals (effectiveness) and also take proper ways of reaching them (efficiency).

Banks are known as substantial leverages in implementing monetary and credit policies of the country, and their performance has close relationship with the success or failure of these policies and ultimately the bank. Therefore, the banking system must be planned in such a way that the banks can be efficient in their short term and long term performance, by making use of managers who have managerial skills of directing their branches to the overall goal of the bank.

Managerial skills are a specialised technical knowledge in certain jobs that managers should possess to enable them perform their required duties and roles, and by education, these managers can be equipped with these skills. Managerial skills are thus acquiring and learning abilities. In other words, management skills are a set of behaviours that lead to effective job performance and without them in many cases, the knowledge of managers does not have any positive effect. Katz (2002) stated that managerial skills are the ability of managers to transform information and knowledge into practice.

Cameron and Whetten (2011) classified the basic skills of effective managers into two groups: personal and communication skills; and managerial skills into three

groups, which include personal skills, interpersonal skills and group skills. Bentley, & Selzer (1999) provided a list of managerial skills, saying that these skills depend directly or indirectly on activities and role analysis of managers, and they include communication skills, skills related to decision-making and skills related to creativity. The most common classification of managerial skills was conducted by Katz (2002) who mentioned the three basic skills for managers to include technical skills, human skills and conceptual skills. He emphasized the fact that managerial skills differ with change in the level of management. Middle managers of lower levels depend more on technical skills and senior managers mainly need conceptual skills. Figure 1 explains the managerial efficiency skills.

Earnings Management and Income Smoothing

Managerial efficiency is relevant to firms and banks; however, according to Myer (1984), firms with efficient high skilled managers have the tendency to smooth their earnings in an effort to achieve specific financial reporting outcomes and to also convey information to market participants (Tucker, & Zarowin, 2006).

Recent research also suggested that some firms have incentives to reduce the volatility of their taxable income. For example Graham and Smith (1999), Levi and Nissim, (2004) and Mayberry, McGuire and Omer (2011) in their findings concluded that smoothness of a firm's taxable income is associated with the level of a firm's tax avoidance in future periods and the smoothness of a firm's taxable income influences the information content of taxable income. In a financial reporting context, Francis, LaFond, Olsson and Schipper (2004) argued that the smoothness of a firm's earnings is a combination of a firm's innate characteristics and managers' discretionary choices. Similar to financial accounting, smoothness of a firm's taxable income is also a

function of innate firm characteristics and managers' discretionary tax reporting choices.

Earnings management in the view of Goel and Thakor (2003) is manipulating reported earnings so that they do not accurately represent economic earnings at every point in time. Earning smoothing is a special concept of earnings management. When managers engage in earnings management, they could underreport their profit in order to evade tax and reduce their tax liability. If earnings are being smoothened, reported earnings must sometimes be higher than economic earnings and sometimes lower (Moses, 1987).

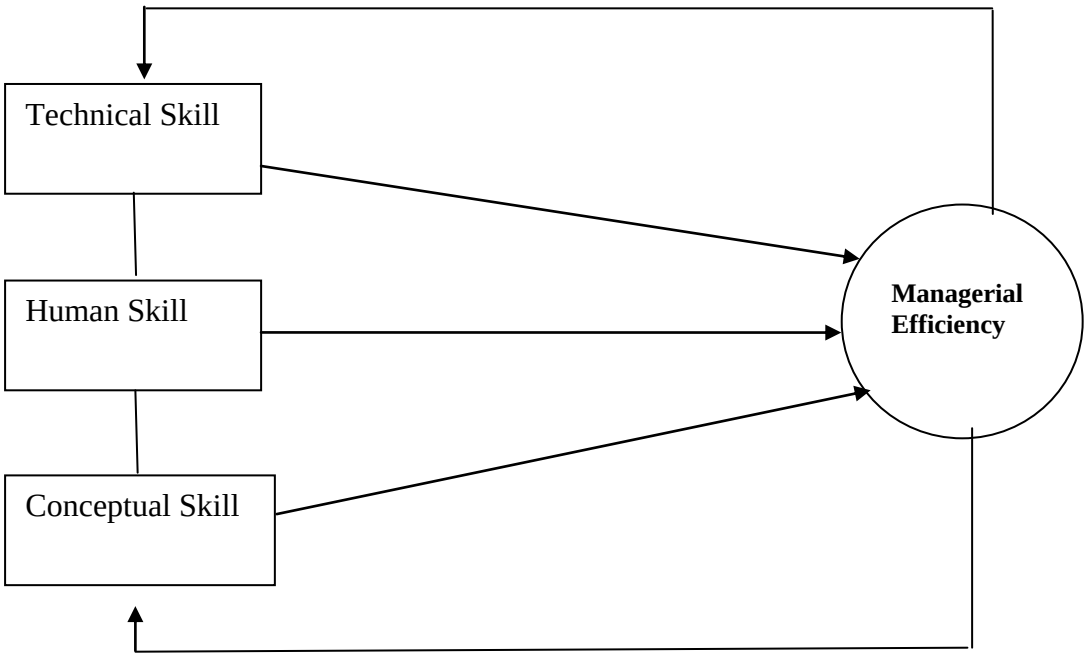

Figure 1. Analysis of Skills for Managers

Source: (Javadin, Amin, Tehrani, & Ramezani, 2010:4)

Goel and Thakor (2003) stated that it is difficult to say why manager reports lower earnings than what he observes. Yet, numerous instances of such actions have recently been discussed. Goel and Thakor (2003) observed that the Securities and Exchange Commission in the United States delayed approval of the acquisition of Crestar Financial Corporation by SunTrust Bank until the company had agreed to reduce loan loss reserves by $100 million and restate higher earnings for the previous three years.

Corporate reported earnings have been a major focus of interest from both academics and practitioners (Prencipe, Markarian and Pozza, 2008). Recent studies have shown that earnings management practices are carried out for the main purpose of income smoothing (Buckmaster, 2001). It is believed that the advantages of smoothening earnings stem from the view that managers use their private information about future income to smoothen out temporary fluctuations in order to report representative and useful earnings (Francis, LaFond, Olsson, and Schipper, 2004). Income smoothing is defined by Healy and Wahlen (1999) as the voluntary management of the results to reduce variability of accounting income (Bart, Elliott & Finn 1999; Goel & Thakor, 2003). Income smoothing emphasizes the fluctuations in income levels that are considered normal for a company (Barnea, Ronen & Sadan, 1976). Beidleman (1973) defined income smoothing management as an effort to reduce abnormal variations in the earning to the extent permitted by the principles of good management and accounting. Income smoothing in such instances, is like a tool used by management to reduce the variability of reported income stream relative to the target which is intentionally smoothed by using artificial or real variables. The reasons why management would want to engage in income smoothening could be as a result of new

changes and challenges in the global economy and daily completion from new entrance of products or banks. Global policies could affect a company's activities and bottom line in a negative way which would prompt them to want to look into ways to increase their reserve capital.

There are two types of income smoothing: intentional income smoothing, which is income smoothing of the real intention, and artificial income smoothing. Real income smoothing indicates management actions that seek to control economic conditions that directly affect corporate earnings in the future; this real income smoothing affects cash flow. On the contrary, artificial income smoothing can show manipulation which is undertaken by management to smooth the earnings (Eckel, 1981). Managers in competitive environment could use any of these method to smooth their income or reduce their taxable income.

Luqman and Shahzad (2012) opined that financial statements are the means by which managers seek to see results of their control over the resources for which they are responsible. The Financial Statements are to convey such information as the financial position, performance and cash flows of a firm. As a firm's accounting records are not open to stockholders, they mostly rely on such financial statements in their judgments and decisions. For this reason, managers tend to report favourable accounting statistics in their financial statements.

Manipulation of accounting statistics may mislead the users of financial statements in their decisions. Barnea, Ronen and Sadan (1976) considered income smoothing as one of the common approaches of creative accounting in which fluctuations are deliberately manipulated and adjusted about some levels of earnings that are normal for the firm. Hepworth (1953) found income smoothing as a reasonable

and wise action by which managers smooth their income by using specific means. Dascher and Malcom (1970), Barnea, Ronen and Sadan (1975) by investigating extraordinary items reported income smoothing behaviours among selected companies while Beidleman (1973) stated that companies use incentive compensation, pension and retirement expenses, research and development costs, sales and advertising expenses to smooth their income.

Copeland (1986) asserted that smoothening as moderate year-to-year fluctuations in income by shifting incomes from peak years to less successful periods. Beidleman (1973) said smoothing of reported earnings may be defined as the intentional dampening of fluctuations about the level of earnings that is currently considered to be normal for a firm. To Imhoff (1977), income smoothing has typically been defined as a relatively low degree of earnings variability. Imhoff (1981) also defined income smoothing as a special case of inadequate financial disclosure statement. The smoothing of income implies some deliberate efforts to disclose the financial information in such a way as to convey an artificially reduced variability of income stream. Income smoothing can be defined as a deliberate attempt by management to signal information to financial users (Barnea, Ronen & Sadan 1976). Koch (1981) defined income smoothing as a means used by management to diminish the variability of stream of reported income numbers relative to some perceived target stream by manipulation of artificial (accounting) or real (transactional) variables.

Roychowdhury (2006) found evidence consistent with managers manipulating real activities to avoid reporting annual losses. Income smoothing which is the variation in reported income of a firm could influence tax avoidance activities. Income smoothing which is also financial smoothing merely alters the time pattern of reported

income (through borrowing and savings) without changing the firm's underlying cash flow as determined by insiders' production and effort decisions. Insiders' managers could engage in income smoothing by manipulating production and effort decisions in an attempt to manage outsiders' expectations and the pressure of competition in the banking industry.

According to Luqman and Shahzad (2012), in Karachi, tax system plays a key role in the financial reports of firms, and tax regulations are the main factor in selecting accounting policies and methods. Firms tend to smooth their income so as to minimize tax effects during a certain period of time. Since more income leads to paying more tax and indeed results in going out liquidity, Pakistani firms smooth income in order to minimize the risk of running out of liquidity particularly in the case where firms owe considerable tax debts.

Non-Performing Loan (Loan Default Risk)

The traditional role of bank is lending and loans make up the bulk of their assets (Njanike, 2009). According to a research by Mabvure, Gwangwava, Faitira, Mutibvu, and Kamoyo, (2012), interest on loans contributed significantly to interest income of commercial banks. Reed and Gill (1989) pointed out that traditionally, 85 per cent of commercial banks' income is contributed by interest on loans. Loans, therefore, represent the majority of a bank's assets (Saunders, & Cornett, 2005).

Lending is not an easy task for banks because it creates a big problem when the loans are not paid as at when due (Uppal, 2009). Due to the nature of their business, commercial banks expose themselves to the risks of default from borrowers (Waweru, & Kalani, 2009).

According to Alton and Hazen (2001), non-performing loans are used interchangeably as loan default risks. Similarly, Hennie (2003) stated that non-performing loans are those loans which are not generating income. This is further supported by Caprio and Klingebiel (1996) as cited in Fofack (2005) who defined non-performing loans as those loans which, for a relatively long period of time, do not generate income. That is, the principal and/or interest on these loans have been left unpaid for at least ninety days. Non-performing loans are also commonly described as loans in arrears for at least ninety days (Guy, 2011).

The term "bad loans" as described by Basu (1998) in Fofack (2005) is used interchangeably with non-performing and impaired loans. Berger and De Young (1997) also considered these types of loans as "problem loans". In effect, these loans could be considered bad or toxic assets in the bank's books (Bexley, & Nenninger, 2012). These descriptions were used interchangeably in their study. According to Berger and De Young (1997), non-performing loans could be injurious to the financial performance of banking institutions.

Kroszner (2002), in Waweru and Kalami (2009), contend that non-performing loans are closely associated with banking crises; Greenidge and Grosvenor (2010) too argued that the magnitude of non-performing loans is a key element in the initiation and progression of financial and banking crises. Guy (2011) agreed with Greenidge and Grosvenor and further added that nonperforming loans have been widely used as a measure of asset quality among lending institutions and are often associated with failures and financial crises in both the developed and developing worlds. Reinhart and Rogoff (2010) as cited in Louzis, Vouldis and Metaxas (2011) pointed out that non-performing loans can be used to mark the onset of a banking crisis. Despite ongoing

efforts to control bank lending activities, non-performing loans are still a major concern for both international and local regulators (Boudriga, Taktak & Jellouli, 2009).

Studies in other countries show that most bank failures have been caused by non- performing loans (Brownbridge, 1998). Ahmad (2002) cited in Mabvure, Gwangwava, Faitira, Mutibvu, and Kamoyo, (2012), in analysing the Malaysian financial system, reported a significant relationship between credit risk and financial crises and concluded that credit risk had already started to build up before the onset of the 1997 Asian financial crisis, and it became more serious as non-performing loans increased. Li (2003) cited in Mabvure, Gwangwava, Faitira, Mutibvu, and Kamoyo, (2012) and Fofack (2005) also found this relationship to be significant as there is evidence that the level of non-performing loans in the US started to increase substantially in early 2006 in all sectors before the collapse of the sub-prime mortgage market in August 2007 (Greenidge, & Grosvenor, 2010).

Nishimura (2001) in Mabvure, Gwangwava, Faitira, Mutibvu, and Kamoyo, (2012) studied the banking situation in Japan and concluded that some of the loans issued companies during the bubble era became non-performing when the bubble burst. The findings of Caprio and Klingebiel (2002) cited in Fofack (2005) showed that in Indonesia, non-performing loans represented about 75% of total loan assets which led to the collapse of over sixty banks in 1997. While some countries like Sweden, Norway, Finland, Australia and Spain do not seem to be exposed to non-performing loans (less than 1 percent), other countries such as Egypt, Nigeria, the Philippines, Morocco, Algeria and Tunisia suffer severely from bad loans (more than 15 percent) (Boudriga, Taktak, & Jellouli, 2009). In Nigeria, when the Central Bank Governor Sanusi Lamido Sanusi came into office in 2010, the major problems and concerns he

had were the high profile of non-performing loan in the commercial banks. This factor brought about some restructuring in the banking sector.

From the point of view of Management Accounting, bank asset quality and operating performance are positively related. If a bank's asset quality is inadequate (that is the loan amount becomes the amount to be collected), the bank will have to increase its bad debt losses as well as spend more resources on the collection of non-performing loans. This increase in non-performing loans in the banking industry can be due to external events such as adverse situation in economic activities Berger and DeYoung (1997) refers to it as bad luck hypothesis).When banks list the loan amount for collection, banks will incur extra operating costs from non-value-added activities to handle and supervise the collection process.

Net Profit Margin

Gupta and Newberry (1997) identified possible control variables for ETR. They examined four determinants of ETR which are size, net profit, capital structure and asset mix and they also explored whether the relation between these variables and ETR changed before and after the enactment of the U.S. Tax Reform Act of 1986. They found that the relationship between net profit and ETR for both periods was significantly positive.

2.2 THEORETICAL FRAMEWORK

A theoretical framework establishes a vantage point, a perspective, a set of lenses through which the researcher views a research problem. It is the selection of a logical framework (Charema, 2004). With this understanding in mind, some theories relating to competition and tax avoidance are discussed in the following sub-sections.

2.2.1 Lerner Index Theory of Competition

The Lerner index of market power propounded by Abba Lerner in 1934 captures pricing power by measuring a bank's ability to set price above its marginal cost. In a perfectly competitive system, the price a bank charges for its services should be equal to its marginal cost and therefore, such a bank will have no market power. The greater the deviation, the less competitive the banking system is interpreted to be. By construction, the index ranges from a high of 1 to a low of 0, with higher numbers implying greater market power. The Lerner index is calculated as:

$$Lerner_{i,t} = \frac{(P_{i,t}-MC_{i,t})}{P_{i,t}} \quad \ldots (1)$$

The subscript *i* denotes bank *i*, and the subscript *t* denotes year *t*. Price P_{it} is the ratio of total revenues (interest and non -interest income) to total assets for bank *i* at time *t*, and MC_{it} is the marginal cost for bank *i* at time *t*.

To derive marginal cost (MC), the trans log cost function (equation 2) for each country is estimated in order to extract the elasticity of total cost to the price of the bank's main inputs.

$$LnCost_{it} = \beta_0 + \beta_1 lnQ_{it} + \frac{\beta_2}{2} lnQ_{it}^2 + \sum_{k=1}^{3} \gamma_{kt}\, lnW_{k,it} + \sum_{k=1}^{3} \emptyset_k lnQ_{it}\, lnW_{k,it} + \sum_{k=1}^{3}\sum_{j=1}^{3} lnW_{k,it}\, lnW_{j,it} + \varepsilon_{it} \quad \ldots (2)$$

$COST_{it}$ is the total operating cost plus interest expenses for bank *i* at time ***t***. Q_{it}, total assets are a proxy for the banks output. W_{it} is the price of a bank's three main inputs (labour, funds, and fixed capital). Input prices for labour, funds, and fixed capital are calculated as the ratios of personnel expenses to total assets, interest expenses to total deposits, and other operating and administrative expenses to total asset respectively (Sanya & Gaertner, 2012). Marginal cost is then computed as:

$$MC_{it} = \frac{Cost_{it}}{Q_{it}}\left[\beta_1 + \beta_2 InQ_{it} + \sum_{k=1}^{3} \varnothing_k InW_{k,it}\right] \qquad \ldots(3)$$

The assumption of Lerner index of perfect competitive meets applicability for the measure of competition in this study and it has a mathematical derivation in which all the variables in the model are found in the financial statement of banks in Nigeria.

2.2.2 The Boone Indicator Theory of Competition

The Boone indicator propounded by Jan Boone in 2008 examines the effect of competition via the efficiency channel on bank soundness which expresses competition as a function of efficiency. As the first step to computing the Boone indicator, it uses average cost of bank *i* as a share of total income. Average costs comprise interest and personnel expense, administrative and other operating expenses. Income consists of commission and trading income, interest income, fee income, and other operating income (Leuvensteijn, 2009, & Boone, 2008).

This indicator is based on the efficient structure hypothesis that associates performance with differences in efficiency. Under this hypothesis, it is expected that more efficient banks, that is, banks with lower marginal costs, achieve superior performance in the sense of higher profits at the expense of their less efficient counterparts, and this effect is monotonically increasing in the degree of competition when firms interact more aggressively and when entry barriers decline. Boone model for bank *i* is as follows:

$$\Pi_{it} = a + b\ln(C_{it}) \qquad \ldots(4)$$

Where Π_{it} measures profits of bank *i* at time *t* , b is referred to as the Boone indicator, and c_{it} denotes marginal costs. Since marginal costs cannot be observed directly, average costs serve as a proxy (Leuvensteijn, 2009). This model measures competition by profitability even though profitability does not show the degree of competitiveness

in the banking sector. Some banks however do make profit; this means they are competitive in the sector. This shortfall of this theory does not meet the aspect of this research work as a result, the Boone Indicator Theory of Competition would not be adopted for this particular study, however, it is included in this study to show various way competition could be measured.

2.2.3 Market Share Theory of Competition

Sales figures do not necessarily indicate how a firm is performing relative to its competitors. Rather, changes in sales simply may reflect changes in the market size or changes in economic conditions. A firm's performance relative to competitors can be measured by the proportion of the market that the firm is able to capture. This proportion is referred to as the firm's market share and is calculated as follows:

$$Market\ Share = Firm's\ Sales \frac{}{Total} Market\ Sales \quad \ldots (5)$$

Sales may be determined on a value basis (sales price multiplied by volume) or on a unit basis (number of units shipped or number of customers served). While the firm's sales figures are readily available, total market sales are more difficult to determine. Usually, this information is available from trade associations and market research firms. Market share is often associated with profitability, and thus many firms seek to increase their sales relative to competitors. According to Leuvensteijn, 2009 firms can increase their market share by increasing its sales volume even if the industry is not growing, maintain a good reputation in the market which can be to the firms advantage, increase its bargaining power by being a large player in the market negotiating with the suppliers and channel members. This theory also included in the review is not applicable to the banking sector because financial statements of banks do not make provision for sales.

2.2.4 Profit Margin Theory of Competition

The profit margin is an accounting measure designed to gauge the financial health of a business or industry and it is the ratio of profits earned to total sales receipts (or costs) over some defined period Pinson (2004). The profit margin is a measure of the amount of profit accruing to a firm from the sale of a product or service. Pinson, (2004) said that it provides an indication of efficiency in that it captures the amount of surplus generated per unit of the product or service sold. In order to generate a sizeable profit margin, a company must operate efficiently enough to recover not only the costs of the product or service sold, operating expenses, and the costs of debt, but also to provide compensation for its owners in exchange for their acceptance of risk. Thus, the profit margin is important as a measure of the competitive success of a business, since it captures the firm's unit costs. This theory however has no mathematical derivation to measure competition since this study is a quantitative study which has to use mathematical tools for calculations.

2.3 THEORIES OF TAXATION

The following tax theories are reviewed in this section.

2.3.1 Optimal Tax Theory

This theory is the foundational work of Ramsey (1927) and Mirrles (1971). This theory is centred on eight general principles which are:- the optimal marginal tax rate schedules which depend on the distribution of ability; the optimal marginal tax schedule which could decline at high incomes; a flat tax, with a universal lump-sum transfer, could be close to optimal; the optimal extent of redistribution rises with wage inequality; taxes should depend on personal characteristics as well as income; only final goods ought to be taxed, and typically they ought to be taxed uniformly; capital income

ought to be untaxed, at least in expectation; and in stochastic dynamic economies, optimal tax policy requires increased sophistication.

The standard theory of optimal taxation posits that a tax system should be chosen to maximize a social welfare function subject to a set of constraints. The optimal taxation theory typically treats the social planner as a utilitarian, that is, the social welfare function is based on the utilities of individuals in the society. In its most general analysis, this theory uses a social welfare function that is, a nonlinear function of individual utilities (Mankiw, Weinzierl , & Yagan, 2009). This theory focuses more on social welfare utility and utilities of individuals in the society and not on firms.

2.3.2 Tax Planning Theory

This theory which was formulated by Hoffman in 1958 stated that the capacity for tax payers to pay tax, depends on his capacity to arrange his financial activities in such a manner as to suffer minimum expenditure for taxes. This theory is adopted in this study because tax avoidance is as a result of carefully planning one's tax obligations in such a way that tax liability is reduced, by taking advantage of the loopholes in the tax system.

2.3.3 The General Theory of Tax Avoidance

The General Theory of Tax Avoidance was propounded by (Stiglitz 1986). In his theory, he stated that in a perfect capital market, the principles of tax avoidance are so powerful that they can enable the astute taxpayer to eliminate all taxation on capital income, and possibly all taxation on wage income as well. He noted in particular that much of the general equilibrium gained from tax avoidance arises from differences in tax rates, both across individuals and across classes of income rather than from postponement. Stiglitz (1986) stated that the tax laws constantly change the

opportunities for tax avoidance but underneath, there remain three basic principles of tax avoidance within an income tax are Postponement of taxes, Tax arbitrage across individuals facing different tax brackets and Tax arbitrage across income streams facing different tax treatment.

The first principal which is postponement of taxes explains that the present discount value of a postponed tax is much less than that of a tax currently paid, while the second principle according to Stiglitz (1968) transactions among different individuals within a family would in the long run reduce the aggregate tax liability as a result of the same individuals facing different marginal tax rates at different times. The third principle states that long-term capital gains are taxed at lower rates than other forms of income from capital. This provision is inducement to convert the returns to capital (or to labour) into long term capital gains. Stiglitz (1986) added that special treatment is given to the return to capital in the form of housing and pension. Many tax avoidance devices involve a combination of these three (Stiglitz, 1986).

This research adopted the Lerners Index and Theory of Tax Planning. Lerner Index is consistent with Sanya, & Gaertner (2012) and Genesove, & Mullin (1998) and is a widely used measure of competition and it is easy to understand and flexible to apply in analysing a given data. Lerner's Index is used in this research to reduce any form of complexities that might be experienced when using the other models to measure competition.

2.4 EMPIRICAL REVIEW

Recent research showed that some firms have incentives to reduce their volatility of their taxable income (Graham, & Smith, 1999; Levi, & Nissim, 2004). Mayberry, McGuire and Omer (2011) in their findings concluded that smoothness of a firm's taxable income is associated with the level of a firm's tax avoidance in future periods and the smoothness of a firm's taxable income influences the information content of taxable income. In a financial reporting context, Francis, LaFond, Olsson and Schipper (2004) argued that the smoothness of a firm's earnings is a combination of a firm's inmate characteristics and managers' discretionary choices.

Similar to financial accounting, smoothness of a firm's taxable income is also a function of innate firm characteristics and managers' discretionary tax reporting choices. Smoothing taxable income allows managers to make accurate forecast of future taxable income, which reduces the uncertainty of the future benefits and costs associated with a given tax planning activity. Mayberry, McGuire and Omer (2011) from their finding, showed that firms with smoother taxable income exhibit higher levels of tax avoidance (that is more favourable tax outcomes) in future periods and also smoothness reduces the uncertainty associated with future tax benefits and costs which allow firms to participate in more efficient tax planning activities that would result in greater tax avoidance in future.

Competition and Managerial Efficiency

According to Meryem, Vania & Mohamed (2013) in their work Schumpeterian competition and efficiency among commercial banks, their aim to fill the gap in the banking literature by quantifying the impact that competition through the launch of new products has on the cost and profit efficiency of a sample of commercial banks based in the United Kingdom. They estimated both a cost and an alternative profit frontier on an

unbalanced panel of UK commercial banks over the period 2001–2012. The intensity of competition through product innovation is proxied by the trademark intensity that is the ratio between the number of trademarks registered in a given year by all the commercial banks – net of the trademarks registered by the bank under observation – and the employment in the sector) in the commercial banking sector. The results show that the (lagged) trademark intensity in the commercial banking sector does affect negatively the mean cost and profit efficiency in the sector but there is evidence that as trademark intensity increases in the sector, commercial banks react by improving their cost and profit efficiency.

Managerial Efficiency and Tax Avoidance

According to Chang, Joonho, & Hoon (2013), in their work Managerial Ability and Tax Avoidance, stated that The attempt to maximize profit by reducing tax can be divided into three types; tax evasion, tax avoidance and tax saving. Managers can transfer resources which could be transferred to national tax authority to the firm through tax avoidance. Under the extended traditional view on tax avoidance, high ability managers can increase resources which belong to investors and could be transferred to national tax authority by the means of maximizing tax avoidance. In other words, high ability managers will increase shareholder value by maximizing tax avoidance. The results for the relationship between managerial ability and tax avoidance showed that the coefficient of Managerial Ability is negative and statistically significant. They concluded that high ability managers maximize firm value through not only tax burden but also output of firm by efficient resource using and high ability managers do less tax avoidance

Competition and Non Performing Loans

Majumder (2014), in his work; Non-performing loans in banking sector of Bangladesh: causes and effect stated that many loans become non-performing after being in default for 90 days, but this can depend on the contract terms. NPLs started at the early stage of liberation. During 1980s and 1990s, Privatisation and liberalisation of banking sector could not control NPLs. Rate of NPLs was 41.1% in 1999. Now it is 11.90%.The amount of NPLs increased to taka 73.3 billion in 2012 from taka 47.3 billion in 2003.There are many reasons behind the NPLs in Bangladesh. The first reason is entrepreneurs related. Borrowers may lack the experience, lack business and lack institutional training background or lack supporting facilities. Sometimes, some borrowers do it intentionally. The entrepreneur's age may also be an important factor. Second reason is business related. Sometime banks give loan to businesses which are not attractive. Strong competition is another business related cause. The borrower becomes a defaulter if there is poor management capability, poor financial performance, and poor cash flow. Businesses could be defaulters because of low market shares. Low market shares could mean low revenue so that the business cannot meet the interest payment. The third reason may be leadership related. It is mainly the Bank's fault. Loan could be defaulted if the banks delay the assessment of the loan proposal, delayed disbursement of fund, lack of proper monitoring, lack of taking proper action. Last reason is a macroeconomic factor, low GDP growth, increasing crimes, and frequent policy change effect loan. For those reasons loans become default loan. Effects of NPL are such as Stopping Money Cycling, Earning Reduction, Capital Erosion, Increase in Loan Pricing, Frustration. As a result, the values of security are increased and the risks of financial recession also see a rise.

Non-performing loans and tax avoidance

Studies in other countries such as Brownbridge, (1998) and Ahmad (2002) show that most of bank failures have been caused by non- performing loans. Ahmad (2002), in analysing the Malaysian financial system, reported a significant relationship between credit risk and financial crises and concluded that credit risk had already started to build up before the onset of the 1997 Asian financial crisis, it became more serious as non-performing loans increased. Li (2003) and Fofack (2005) also found this relationship to be significant. There is evidence that the level of non-performing loans in the US started to increase substantially in early 2006 in all sectors before the collapse of the sub-prime mortgage market in August 2007 (Greenidge & Grosvenor, 2010).

Nishimura (2001) studied the situation in Japan and concluded that some of the loans made to companies during the bubble era became non-performing when the bubble burst. Fofack (2005) showed that in Indonesia, non-performing loans represented about 75% of total loan assets which led to the collapse of over sixty banks in 1997. While some countries such as Sweden, Norway, Finland, Australia and Spain do not seem to be exposed to non-performing loans (less than 1 percent), other countries such as Egypt, Nigeria, Philippines, Morocco, Algeria and Tunisia (more than 15 percent) suffer severely from bad loans (Boudriga, Taktak&Jellouli, 2009), that the higher the non-performing loans in the banking sector, the lower the tax revenue remitted to the government.

2.5 OVERVIEW OF THE NIGERIAN BANKING SYSTEM

In every system, there are major components that are considered paramount for the survival of the system; this is also applicable to the financial system. The banking industry has contributed significantly to the effectiveness of the entire financial system since banks offer an efficient institutional mechanism through which resources can be

mobilized and directed from less essential uses to more productive investments (Wilner, 2000). In the performance of this financial inter-mediation role, financial institutions have proved to be an effective channel between savers and borrowers. Among the financial institutions that make themselves available for this all-important role are merchant banks, savings banks, the Central Bank, development banks and commercial banks. Nigerian Deposit Money banks have over time become very important institutions in the financial system as they function as retail banking units facilitating the transfer of financial assets that are well desired from some part of the public (fund lenders) into other financial assets which are more widely preferred by a greater part of the public (fund seekers). In view of this role and the fact that the activities of deposit money banks affect a greater part of the society, the financial inter-mediation role of Nigerian deposit money banks becomes the bed-rock of the two major functions of deposit money banks, namely deposit mobilization and credit extension.

An adequate financial intermediation requires the purposeful attention of the bank management to profitability and liquidity, which are two conflicting goals of deposit money banks. These goals are parallel in the sense that an attempt for a bank to achieve higher profitability will certainly erode its liquidity and solvency positions and vice versa. Practically, profitability and liquidity are effective indicators of the corporate health and performance of not only the deposit money banks but all profit-oriented ventures (Eljelly, 2004). These performance indicators are very important to the shareholders and depositors who constitute the major public of a bank. As the shareholders are interested in the profitability level, the depositors are concerned with liquidity position which determines a bank's ability to respond to the withdrawal needs

which are normally on demand or on a short notice as the case may be. Liquidity management is an important aspect of monetary policy implementation, while the other integral component of monetary policy, that is economic management, involves promoting sustainable economic growth over the long term by keeping monetary and credit expansion in step with an economy's noninflationary output potential and liquidity or reserve management at a shorter time frame. In order to maintain relative macro-economic stability, reliance is placed on liquidity management to even out the swings in liquidity growth in the banking system (Adebayo, David, & Samuel, 2011).

The Nigerian banking industry which is regulated by the Central Bank of Nigeria is made up of deposit money banks referred to as commercial banks, development finance institutions and other financial institutions which include micro-finance banks, finance companies, bureau de change, discount houses and primary mortgage institutions. The industry as at 2009 consisted of 24 commercial banks, 5 discount houses, 5 development finance institutions, 50 class A bureau de change, 598 bureau de change, 98 Primary Mortgage Institutions, 84 finance companies and 914 Micro-finance institutions. The Nigerian Banking industry is highly regulated because of the importance of the sector in the economy. Bank operations in Nigeria are governed by the CBN Act 2007, Banking and Other Financial Institutions Act (BOFIA) 1991 as amended, Nigeria Deposit Insurance Corporation (NDIC) Act 1988, Failed Banks (Recovery of Debt) and Financial Malpractices in Banks Act 1994 and Money Laundering Act 1995. As at December 31st 2010, there were 24 banks operating in Nigeria; 21 of these banks were quoted on the floors of the Nigerian Stock Exchange while 3 of the banks which were City Bank, Standard Chartered Bank and Stanbic

IBTC Bank were foreign banks that have parent companies outside the shores of Nigeria. The remaining banks were local banks.

According to Chima (2013), the total value of the Nigerian banking industry assets increased by 7.62 per cent which was ₦15.74 trillion as at December 2011 as against the ₦14.63 trillion it stood as at December 2009. He further stated that the total customers' deposits, which represented depositors' confidence in the banking industry, also improved from 5.42 per cent to ₦10.99 trillion as at December 2010, compared with the ₦10.42 trillion as at December 31, 2009.

2.6 SUMMARY OF REVIEWED LITERATURE

This chapter has reviewed relevant literature in the areas of competition and tax avoidance, managerial efficiency, effective tax rate, loan default risk, the Nigerian tax system and an overview of the Nigerian Banking System. The role of bank Management in income tax smoothing reduces the banks tax liability, and doing that reduces the tax revenue of government.

From the literature review, it was discovered that the theory of tax planning encourages a tax payer to look for available tax reduction avenues within the tax laws so as to reduce his tax obligation. This theory holds that there is nothing wrong if the tax payer uses the loopholes of the tax system to his advantage; it only becomes wrong where the tax payer evades tax. However, if government does not keep an eye on what its tax payers remit, tax revenue would keep decreasing. The General Theory of Tax Avoidance and the Lerner Index Theory of Competition are the theories upon which this research is anchored.

On the basis of the literature reviewed, it was observed that taxes, if properly remitted to government, would assist greatly in increasing total revenue of government.

This would enable the government to provide necessary infrastructure and social amenities for its citizens. It was also observed that the failure of government, the relevant tax authorities and the Central Bank to look closely into the activities of Nigerian Deposit Money Banks in the area of tax avoidance could, in the long run, affect the banking industry and the country at large.

In Nigeria, individuals and firms alike have the tendency to indulge in tax avoidance. It is expected that firms remit taxes to the government. This serves as revenue to the government and is used for social services and infrastructural development. In spite of the advantages of tax revenue to the government of the nation in meeting with its obligations to its citizenry, firms still engage in tax avoidance acts which jeopardize the effort of the government to provide developmental projects. The reason for this may not be difficult to identify as they are attributed to obvious factors.

Firms require new finances to improve on their productivity. When firms make financial decisions, they consider cost and benefits associated with each financing method-debt and equity the optimal levels of debt decision (Brennan and Schwartx, 1978), the pecking order theory (Myers, 1984; Myers and Majluf, 1984), the agency cost theory (Jensen, 1986; Jensen and Meckling, 1976) and the tax shield theory (Lasfer, 1995; Chatterjee and Scott, 1998; Ross, 1985; DeAngelo and Masulis, 1980). When a firm adopts the tax shield theory, profitable firms would borrow more so as to reduce tax since interest on debt is tax deductible, and good and efficient managerial control in a firm contributes to reasons why firms engage in tax avoidance activities. According to Baumol (1959), managers indulge in their quest for power, prestige and status by making long-run strategic choices designed to maximize corporate size and growth rather than corporate profit. Fama (1980) asserted that manager-controlled firms

bear the full cost of failing to maximize firm value and would consequently be reluctant to select accounting methods that would not maximize value. Also, Dhaliwal (1982) provided evidence that accounting policy decisions are not independent of the ownership/control status of the firms. His study suggested that accounting methods chosen by a firm create room for tax avoidance.

Cai and Liu (2009) discussed competition and tax avoidance among Chinese industries but not in banks. They used the Herfindal Index, Profit Margin and Market Share as a measurement for competition. However, this research work adopted the Lerner Index as measure for competition. In Nigeria, most researches like Osuegbu (2007) and Kiabel and Nwokah (2009) have reviewed the issues of tax avoidance and evasion among individuals companies. However, no available Nigerian Accounting literature has discussed competition in relation to tax avoidance among Nigerian Deposit Money Banks. It is on this premise that this research seeks to examine the impact of competition on corporate tax avoidance in the Nigerian Deposit Money Banks. This is the research gap which this study seeks to fill.

CHAPTER THREE
RESEARCH METHODOLOGY

This chapter explains the research instruments, emphasising the experimental design, population, and data gathering method (secondary source). Validity and reliability tests were conducted on the model and data.

3.1 THE RESEARCH DESIGN

A research design encompasses the methodology and procedure employed to collect, measure and analyse data in doing a scientific research. A design enables a research to be as efficient as possible, yielding maximum result. In other words, the function of research design is to provide for the collection, measurement and analysis of data with minimal expenditure of effort, time and money. However, how all these can be achieved depends mainly on the research purpose, research strategy, location, level of researcher interference, time horizon and unit of analysis.

The research purpose deals with decision on whether to do an exploratory, descriptive or causal study. This research is causal in nature because it investigates the causal relationship between dependent and independent variables. Since this is a causal study, it seeks to establish the causal relationship between tax avoidance (dependent variable) and competition, net profit margin, loan default risk and managerial efficiency (independent variables). Through a causal study, a researcher would be able to state that variable *X* causes variable *Y* (Sekaran & Bougie, 2013).

The extent of researcher interference depends on whether the study is correlational or causal. There are varying degrees of interferences; these are minimal, moderate and excessive degrees of interferences (Sekaran & Bougie, 2013). Generally, cause-and-effect studies have some measure of research interference; the interference

may however be moderate or excessive. This study operates a moderate level of interferences.

Conducting a research is either non-contrive or contrive. The non-contrive method is a natural setting which essentially means that the researcher is simply observing a subject in "real life" environments. The contrived setting offers the researcher greater control over the gathering of data, and specifically enables the researcher to gather the information more quickly and to efficiently establish a cause-and-effect relationship which has all the extraneous factors controlled (Parasuraman, 1991). This research is situated within a contrived setting because the researcher determined the number of years for the purpose of data collection.

This study adopted the quantitative research design method because the quantitative research design is an excellent way of finalizing results and proving or disproving a hypothesis. Quantitative research also refers to the systematic empirical investigation of social phenomena via statistical, mathematical or numerical data or computational techniques (Given, 2008).

Trochim (2006) wrote that the units of analysis are the steps taken in deciding how a researcher analyses the data collected for a study. It involves the analysis on individuals, groups, or even an entire population. The unit of analysis for this study is organizational, which is specific to the Nigerian banking industry. This is because organizational data was collected, and the subsequent analysis of data relates in aggregate to organizations. Thus, since we are interested in the Nigerian banking industry, the data collection and data analysis are centred on the banking establishment rather than on individuals or groups within the organization.

This research work adopts the longitudinal approach because data are gathered at more than two points at the same time. Here, data was collected from the financial statements of the fifteen (15) banks over a period of ten (10) years.

The other aspects of research design which are method of data collection, population/sampling, measurement of variables, and data analysis are discussed in sections 3.2, 3.3, 3.4, and 3.5 respectively.

3.2 SOURCES OF DATA

The data for any research are obtained from two main sources – Primary and Secondary sources.

3.2.1 Primary Data

Primary data are collected from first-hand-experience which requires an artificial or natural setting in which to perform a logical study. For this study, however, primary data were not used because they data were not collected through the use of interviews or first-hand information.

3.2.2 Secondary Data

The data for this study were obtained from secondary sources. That is, the financial reports of banks involved in the study in order to generate the ratio used for the analysis. The banks are those listed on the Nigerian Stock Exchange that operated in Nigeria as at December 2013. Data were also obtained from the Central Bank of Nigeria Bullion, where figure for Gross Domestic Product, the contribution of tax to the gross domestic product and the number of banks certified by CBN were obtained. Tax Revenue figures for various years were obtained from the Federal Inland Revenue Service (FIRS) website. This study used secondary data because secondary data was used to calculate the various variables retrieved from annual reports. Data was collected

from the financial statements of all the 15 Nigerian Deposit Money banks. The data include; income tax, income before tax, net income, total risk asset, interest expense, and total loans.

3.3 POPULATION

The population for this research was the total number of Nigerian Deposit Money Banks that were listed on the Nigerian Stock Exchange as at 15 December 2013. The banks are 15 and are listed in table 1. Since the entire population is to be used for this study, there is no sample consideration.

Table 1: Population of Banks

S/N	Deposit Money Banks (Commercial Banks)	Code	Year of Listing on the Nigerian Stock Exchange
1	Access Bank, Nigeria Plc	ABN	1998
2	Diamond Bank Nigeria Plc	DBN	2005
3	Eco-Bank Nigeria Plc	EBN	2004
4	Fidelity Bank Nigeria Plc	FIBN	2005
5	First Bank Nigeria Plc	FBN	1971
6	First City Monument Bank Plc	FCMB	2004
7	Guaranty Trust Bank Plc	GTB	1996
8	Stanbic IBTC Plc	IBTC	2005
9	Skye Bank Plc	SBN	2006
10	Sterling Bank Plc	STRBN	1992
11	Union Bank Nigeria Plc	UBN	1970
12	United Bank for Africa Plc	UBA	1971
13	Unity Bank Plc	UNBN	2006
14	Wema Bank Nigeria Plc	WBN	1990
15	Zenith Bank Nigeria Plc	ZBN	2004

Source: Nigerian Stock Exchange (December 2013)

3.4 MEASUREMENT OF VARIABLES

The measurement of the variables for this research is subjective in nature because proxies were assigned to measure dependent and independent variables. For this research, the dependent variable is tax avoidance while the independent variables are competition, net profit margin, managerial efficiency and loan default risk. These proxies have been operationalised in previous studies. Effective Tax Rate (ETR) is used as proxy for tax avoidance as measured and adopted by Ariffin (2007) and Guenther (2014) as a ratio of income tax to income before tax. Callihan (1994) measured tax burden by using average ETR and highlighted that average ETR is appropriate for measuring cash flows and the distributional tax. Rego (2003) interprets ETR as a measure of the effectiveness of tax planning in which taxes currently payable are compared with what would be apparent from the income figure in the financial statements.

Competition is the rivalry existing between two or more individuals for the purpose of establishing dominance. This research assesses the competition among deposit money banks in Nigeria and the ability of a bank to have a greater market share in the industry. The Lerner Index was used in this study to measure competition.

Non-performing loans are loans which for a relatively long period of time do not generate income. That is, the principal and/or interest on these loans have been left unpaid for at least ninety days. The proxy for non-performing loans is loan default risk (LDR) measured as the ratio of provisions for loan losses to total loans. Net Profit Margin (NPM) is the ratio of net income to total revenue.

Managerial efficiency refers to skills and ability of managers of firms to use information and knowledge for the effective and efficient running of their firms.

Managerial efficiency (MGQL) is defined as the ratio of income earning assets to total assets. For this study, the income earning assets for banks is the good assets not impaired. Table 2 shows the summary of how the proxies are represented and calculated.

Table 2: Definition and Measurement of Variables

Variables	Definitions	Measurement
ETR	Effective Tax Rate	***ETR*** is measured as the ratio of income tax to income before tax. (Ariffin, 2007; Guenther, 2014).
COMP(MC)	Competition	This study uses the Lerner Index to compute competition of banks in the banking industry. Lerner is computed as $\frac{(P_{i,t}-MC_{i,t})}{P_{i,t}}$ (Lerner, (1934), (Jeong-Bon Kim, Zhen and Yinghua, 2010)
NPM	Net Profit Margin	Net profit margin measured as ratio of net income to total revenue. Gupta & Newberry (1997)
MGQL	Managerial efficiency	It is measured as the ratio of earning assets to total assets. (Myers, 2007; Tucker & Zarowin, 2006)
LDR	Loan Default Risk	It is measured as the ratio of provisions for loans loses to total loans. Hennie (2003)

3.5 METHODS OF DATA ANALYSIS

Data analysis can take the form of simple descriptive statistics or more sophisticated statistical inference. Data analysis techniques include uni-variate analysis, single variable distribution, bivariate and more generally, multivariate analysis (Koutsoyiannis, 2001). This research work adopts the multivariate data analysis with longitudinal (panel) regression. The reason for adopting panel data regression is because of the number of banks and the period of time involved.

3.5.1 Panel Data Regression Analysis

Panel data involves the pooling of observations on a cross-section of units over several time periods and provides result that is simply not detectable in pure cross-section or pure time series. According to Hsiao (2009), such data increases the explanatory power of the model. The regression technique used in this study is to determine the influence of competition and other bank specific characteristic on tax avoidance. There are two benefits of using panel data model if it is compared with using only time series and cross section (Nelson, 2006 & Hsiao, 2009). First, combining time series and cross- section data in panel data makes the total of observations bigger. Panel data model is described below:

$$Y_{it} = \beta_1 + \beta_2 X_{it} + \varepsilon_{it} \qquad \ldots(8)$$

Where:

Y= dependent variable

X= all the independent variables

β_1= the constant term

β_2= slope/coefficient of the independent variable

ε= error term

i = (1, 2, 3..., 15) – number of Banks

t = (1, 2, 3..., 10) – number of years

i x *t* = (10*15)

Panel data is better in identifying and measuring the effects of a cross section of behaviours. This is often combined with time series to arrive at results which only cross-section or time series data cannot provide. Panel data: fixed and random effect models take the one-way error component method. The choice of using any of them depends on the significance of the Hausman test (Torres-Reyar, 2009). In this study, a Hausman test was used to determine the more consistent method between the fixed effect model and the random effect model.

3.5.2 Fixed Effect Model (FEM)

FEM appears when there is the individual effect and explanatory variables have a correlation with X_{it} or have a pattern that nature is not random. This assumption makes an error component of the individual, and time effects can be part of the interception namely:

For one way error component: $y_{it} = \alpha_i + \Lambda_i + \beta X_{it} + u_{it}$ ... (9)

For two way error component: $y_{it} = \alpha_i + \Lambda_i + \mu_t + \beta X_{it} + u_{it}$ ... (10)

Where:

y_{it} = dependent variable

α_i = constant term

Λ_i = firms error term

μ_t = time error

X_{it} = independent variable

β = slope of the independent variable

u_{it} = component error term

3.5.3 Random Effect Model (REM)

REM appears when there is the individual effects and no correlation among regressors. This assumption makes an error component of the individual and time effects included in the error, in which:

For one way error component: $y_{it} = \alpha_i + \beta X_{it} + u_{it} + \Lambda_i$ ... (11)

For two way error component: $y_{it} = \alpha_i + \beta X_{it} + u_{it} + \Lambda_i + \mu_t$ ... (12)

y_{it} = dependent variable

α_i = constant term

Λ_i = firms error term

μ_t = time error

X_{it} = independent variable

β = slope of the independent variable

u_{it} = component error term

Assumptions

a $E(u_{it} | \Lambda_i) = 0$: No correlation between the composite error term and the cross-section error term.

b $E(u^2_{it} | \Lambda_i) = \sigma^2_u$:There is a constant relationship between the co-variance of the composite error term and the cross-section error term.

c $E(\Lambda_i | x_{it}) = 0$: There is no correlation between the cross section error term and the independent variable.

d $E(\Lambda^2_i | x_{it}) = \sigma^2_{\Lambda}$: The covariance of the cross section error term is constant with the independent variables.

e $E(\Lambda_i \mid \Lambda_j) = 0$: There is no autocorrelation between the current and lag cross-section error terms

f $E(u_{it},u_{js})$: There is no autocorrelation in the composite error term. $i \neq j$

The assumptions of error term show that performing a regression analysis does not necessarily give a reliable relationship between the variables. In order to create reliable relationships, one must know the properties of the parameters and show that the basic assumptions about the data are true which are: unbiasedness, linearity, efficiency, no serial correlation and data is normally distributed. The assumptions of error term for panel data are kept constant for all cross-section and time-series data. Keeping them constant is to control for time and cross-section heterogeneity in banks, since the banks did not start operations at the same periods and since their operational mechanisms differ. The one way error component is adopted for this study.

3.5.4 Hausman Test

In choosing which is better between the fixed or random effect, the Hausman test was used in this study. The hypothesis is stated as:

H_0: $E(\Lambda_i x_{it}) = 0$ or REM is the correct model

H_1: $E(\Lambda_i x_{it}) = 0$ or FEM is the correct model

The formulation of Hausman statistic is:

$$H = (\beta_{REM} - \beta_{FEM})' (M_{FEM} - M_{REM})^{-1}(\beta_{REM} - \beta_{FEM}) \sim \chi 2 (k)$$

In which:

M is covariance matrix for β parameter

k is degrees of freedom

H_0 from Hausman test is the estimation using REM as against the H_1, using FEM.

3.6 MODEL FORMULATION

In the empirical model, the analyses regressed the tax avoidance activity (ETR) against four explanatory variables. The general forms of the model can be specified into a single Model as presented below:

$$\boldsymbol{ETR_{i,t}} = \beta_0 + \beta_1 \boldsymbol{COMP_{i,t}} + \beta_2 \boldsymbol{NPM_{i,t}} + \beta_3 \boldsymbol{MGQL_{i,t}} + \beta_4 \boldsymbol{LDR_{i,t}} + \varepsilon_{i,t} \quad \ldots \ (13)$$

Where:

$ETR_{i,t}$= Effective Tax Rate of bank *i* in period *t*. it is a proxy for tax avoidance.

$COMP_{i,t}$= Competition of bank *i* in period *t*.

$NPM_{i,t}$= Net profit margin (control variable) of bank *i* in period *t*.

$MGQL_{i,t}$= management quality of bank *i* in period *t*.

$LDR_{i,t}$= Loan default risk of bank *i* in period *t*.

$\varepsilon_{i,t}$= component unobserved error term.

β_0= constant term

β_1 β_2 β_3 and β_4 = are slope to be estimated.

i= bank identifier (ABN, DBN, . . . ZBN) – (15Banks)

t= time variable (2004, 2005, ……2013) – (Ten Years)

CHAPTER FOUR
DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter focuses on data presentation and the discussion of findings based on the analysis of the impact of competition, loan default risk, net profit margin and managerial efficiency on tax avoidance in the Nigerian banking sector. The study employed econometric analysis method to realize the objectives of the study. Data were collected from the financial statements of the 15 banks under review. Scatter diagrams were prepared in this chapter to determine whether structural model was linear or non-linear. Correlation analysis, descriptive statistics and multicollinearity tests were conducted and a robust test was conducted to ensure validity and reliability of the model and the data for this study.

4.1 DATA PRESENTATION

The data for the estimation of the model and test of hypotheses for this study are presented in Appendix A16. Correlation and descriptive statistics were estimated for the variables used in this study. They results are presented in Tables 3 and 4 below.

Table 3: Correlation Matrix

	etr	comp	netpro~t	mgql	ldr
etr	1.0000				
comp	0.0610	1.0000			
netprofit	-0.5203	-0.0740	1.0000		
mgql	0.0157	-0.2508	-0.1489	1.0000	
ldr	-0.0154	0.2324	0.1488	-0.9867	1.0000

Table 3 shows the correlations matrix between the dependent and independent variables. The correlation matrix shows the degree of relationship that exists between the variables. The result revealed that COMP and MGQL show a positive relationship to the dependent variable ETR. COMP relates to ETR to about 6.1% while MGQL relates to ETR to about 1.5%. However, net profit and LDR show a negative relationship to ETR, in which Net profit reduce ETR by 52% while LDR impact on ETR by about 1.54%.

Table 4: Summary of Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
etr	150	.1231332	.6661978	-6.97794	1.771871
Comp	150	.3265248	.117657	.1411227	.7553427
netprofit	150	.3057987	.5125625	-.5457688	3.881158
mgql	150	.9444138	.0921875	.270411	1
ldr	150	.0544394	.0919051	0	.729589

Table 4 shows the summary statistics for the variables used in the study. It shows the descriptive statistics for the dependent and independent variables and revealed that the average or the mean for ETR, COMP, Net profit, MGQL and LDR are 0.123, 0.326, 0.3057, 0.9444 and 0.0544 respectively. The result shows that MGQL has highest means value among the independent variable with a maximum value of 1 and minimum of 0.2704. However, the least prevailing mean value among the explanatory variables is LDR with a mean value of 0.0544, which a minimum value of 0 and a maximum of 0.7295.

4.1.1 Scatter Plot

In order to state a valid regression model in this research, it is important to run a scatter plot. Scatter plot is a two-dimensional graph showing the relationship and direction of two variables. According to Koutsoyiannis (2001), it is helpful to plot the actual data on the scatter diagrams, taking two variables at a time (the dependent and each of the independent variables in turn). In most cases, the examination of such diagram throws some light on the form of function and helps in deciding the choice of the regression model connecting the variables; whether they have linear or non-linear relationships. Below are the scatter plots of the dependent variable against each of the independent variables.

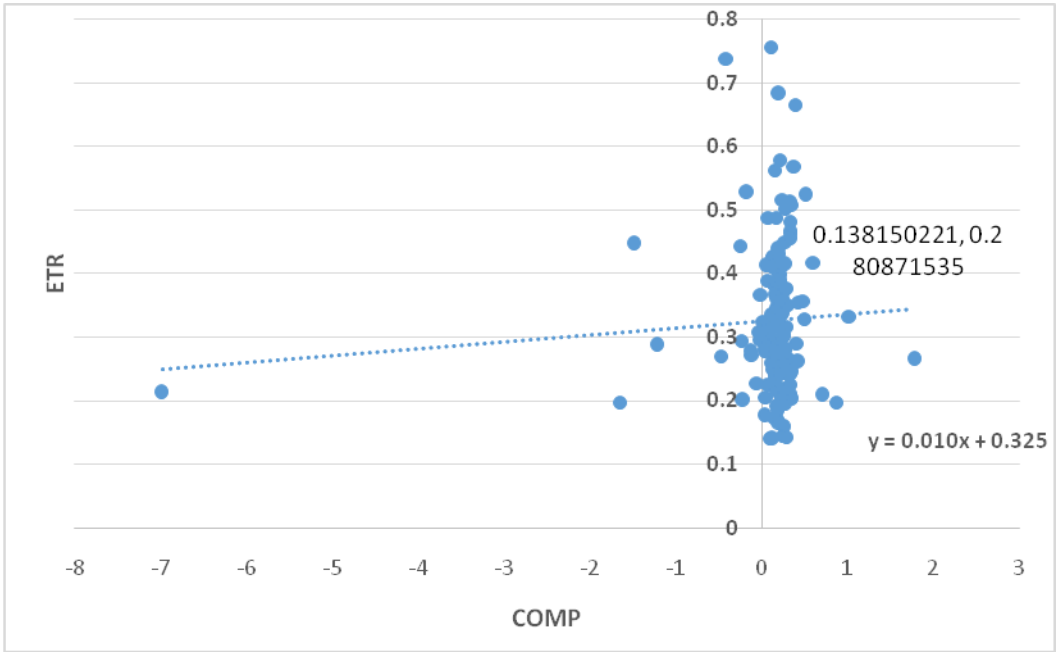

Figure 2: Scatter Plot of ETR and Competition

Figure 2 shows the scatter plot of the relationship between Effective Tax Rate (ETR) and Competition (COMP). The dots outside the cluster area are known as the outliers. They are values that deviate from the rest of the data in which they occur. Figure 3 shows that the best line of fit between competition and ETR is (0.1381 and 0.2808) and it exhibited a linear and positive reltionship. Therefore, the relationship is modelled as

$$ETR_{i,t} = \beta_0 + \beta_1 COMP_{i,t} \quad \text{... (14)}$$

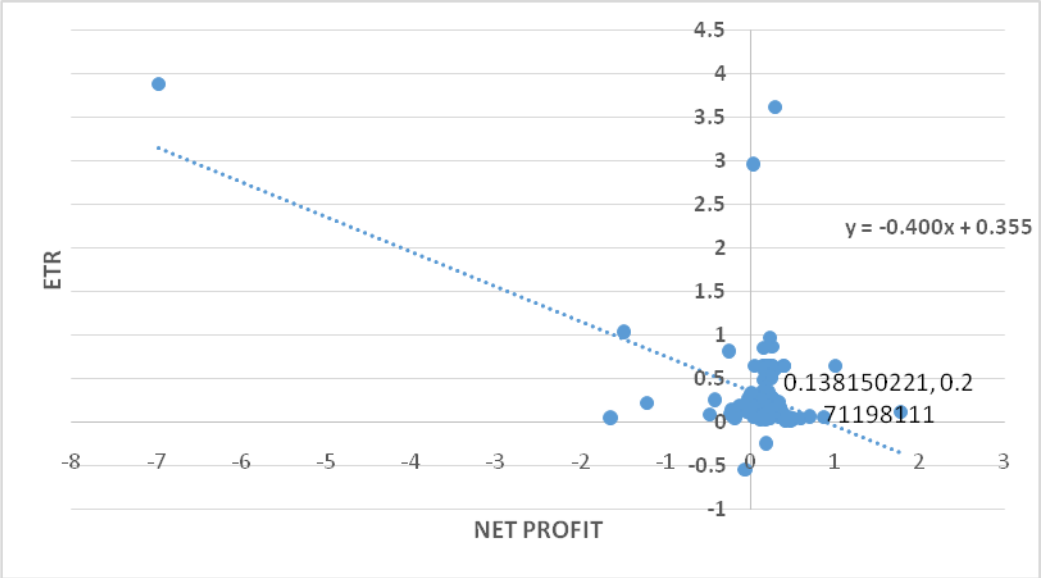

Figure 3: Scatter Plot of ETR and NPM

Figure 3 shows the scatter plot of the relationship between Effective Tax Rate (ETR) and Net Profit Margin (NPM). The trend relationship between the variable (ETR and NPM) clusters around the points 0.6 to 0.8 with line of best fit as (0.1381 and 0.2711) which exhibited a linear but negative reltionship. Therefore, the relationship is modelled as

$$ETR_{i,t} = \alpha_0 + \alpha_1 NPM_{i,t}. \quad \ldots (15)$$

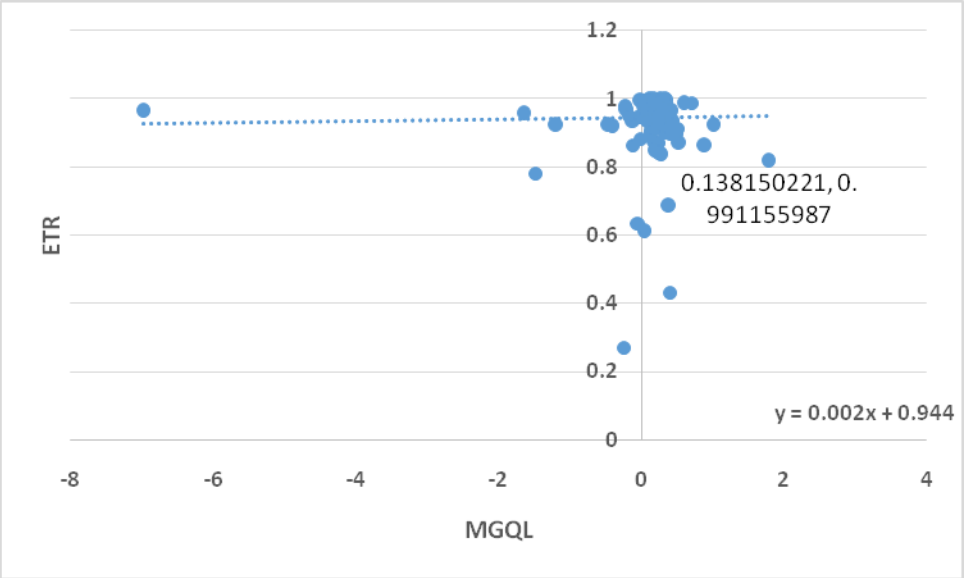

Figure 4: Scatter Plot of ETR and MGQL

Figure 4 shows the scatter plot of the relationship between Effective Tax Rate (ETR) and managerial effeciency (MGQL). The trend relationship between the variables (ETR and MGQL) clusters around the points 0 to 0.2 with the line of best fit as (0.13815, 0.9911). This reltionship exhibited a linear and positive reltionship. Hence, the relationship is modelled as

$$ETR_{i,t} = \lambda_0 + \lambda_1 MGQL_{i,t}. \ldots (16)$$

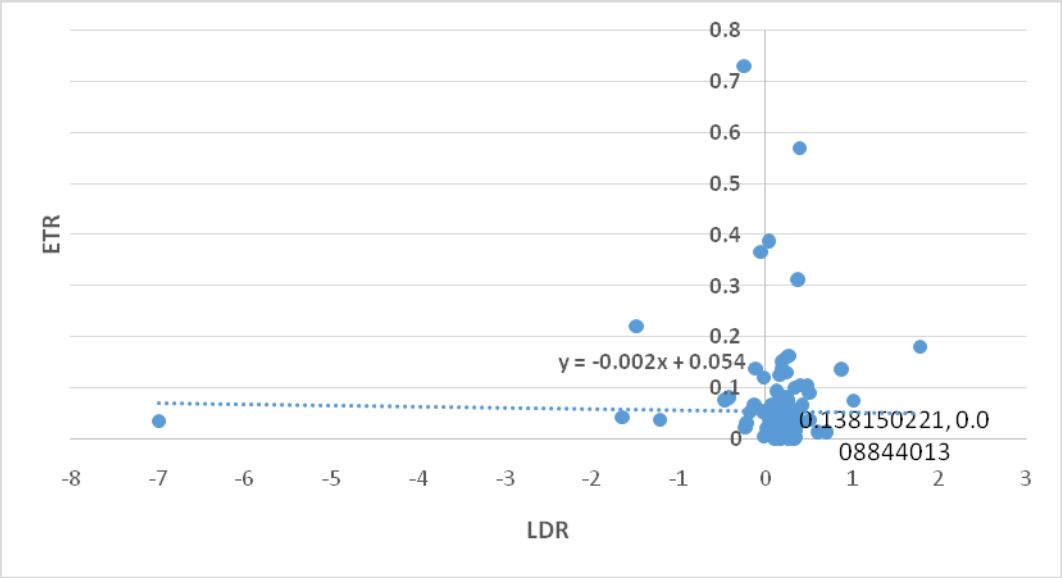

Figure 5: Scatter Plot of ETR and LDR

Figure 5 shows the scatter plot of the relationship between Effective Tax Rate (ETR) and Loan Default Risk (LDR). The trend relationship between the variables (ETR and LDR) clusters around the points 0.2 to 0.4 in a downward sloping line, with the line of best fit as (0.13815, 0.0088). The relationship showed a linear but negative reltionship which is modelled as

$$ETR_{i,t} = \infty_0 + \infty_1 LDR_{i,t}. \quad ... (17)$$

4.2 MODEL EVALUATION

Before estimating the parameter of the model, the researcher tested for the reliability and validity of data and model to ensure valid conclusion of the results.

4.2.1 Reliability of Model

In this research, pre-test measures were conducted in order to detect possible deficiencies in its structural modelling and estimation approaches, and to clarify any areas in which further information is needed with which to answer the research questions and to realize the objectives. A scatter plot was drawn to test for status of the model: whether it is linear or non-linear. Ascertaining the status of the model makes it reliable for estimation. The scatter plots in figures 3-6 are all linear graphs thus making the model reliable.

4.2.2 Validity of Model

Table 3 shows a multi-collinearity test that was conducted to establish that no explanatory variable has a perfect collinearity. The result shows the non-existence of perfect co-linearity. Similarly, the possible presence of Autocorrelation and Heteroscedasticity were tested to validate the use of regression technique. Autocorrelation is a test for validation of model in statistical research. The presence of Autocorrelation in a model invalidates the regression model by underestimating the

coefficients of the variables. The approximation of Durbin-Watson value of 2 shows the absence of autocorrelation (Durbin & Watson, 1971). Heteroscedasticity has a major effect on the regression model. Its presence also invalidates the statistical test of significance in the regression model.

Table 5: Multi-collinearity Test

Variable	VIF	1/VIF
mgql	3.06	0.325922
ldr	1.59	0.626189
comp	1.09	0.916110
netprofit	1.04	0.964597
Mean VIF	1.695	

Source: Appendix B5

Variance Inflation Factor (VIF) was used to detect the presence of multicollineaity. The VIF measures how much the variances of the estimated regression coefficients are inflated as compared to when the independent variables are not related. Neter, Wasserman and Kutner (1990) suggested the use of VIF as a method of detecting the presence of multicollinearity. They suggested the value of 10 or more as an indication of the presence of severe multicollinearity. The formula is given as:

$$VIF_k = \frac{1}{1-R_k^2}$$

Where:

R_k^2 = the squared multiple correlation for predicting the *k*th predictor from all other predictors.

The result in Table 5 shows that there is no multicollinearity between the independent variables in this research.

4.3 MODEL ESTIMATION AND TEST OF HYPOTHESES

This research estimated the parameters using statistical and econometric software known as STATA 12.

$$ETR_{i,t} = \beta_0 + \beta_1 COMP_{i,t} + \beta_2 NPM_{i,t} + \beta_3 MGQL_{i,t} + \beta_4 LDR_{i,t} + \varepsilon_{i,t} \quad ...(18)$$

Estimating the model using STATA 12, the result of the panel regression is shown in Table 6.

Table 6: Regression Results

	Expected sign	Panel A Pooled coefficient	t-test	Panel B Fixed coefficient	t-test	Panel C Random coefficient	z-test
$COMP_{it}$	+	.0402381	0.96	.1831796	4.28	.0965632	2.33
NPM_{it}	+	-.6875522	-7.35**	-.7104689	-7.22***	-.6957037	-7.44
$MGQL_{it}$	+	-.1351595	-0.04	-.7476853	-0.23	-.3228714	-0.10
LDR_{it}	+	.3128405	0.10	-.012861	-0.00	.2212651	0.07
CONSTANT		.4308628	0.14	.9874056	0.30	.597227	0.19
R^2		0.2747		0.2723		0.2744	
N		150		150		150	
*F**		13.73	0.000*	13.46	0.000*	56.56	0.000*
Hausman Test		-	-			1.30 p-value	0.8606
Corr(Ui, X)		-	-	-0.0766	-	0	-

Dependent variable: *ETR*.

Note: *, **, ***

Shows significance at 1%, 5% and 10% respectively

Source: Appendix A16

To find the relationship between the dependent variable and the independent variables and the magnitude of the impact of the independent variables on the dependent variable, a pooled regression as well as fixed effects and random effects regressions were conducted.

1. The pooled regression from *Panel A* shows a 0.0402381 effect of COMP on ETR, the fixed effect in *Panel B* showed a 0.1831796 effect of COMP on ETR and the random effect in *Panel C* showed that COMP also impact on ETR by 0.0965632. Based on the objective one of the study which is to determine the effect of competition on tax avoidance among the Nigerian deposit money banks, the approaches (the pooled, fixed and random effects) showed a positive effect of COMP on ETR. The pooled regression, the random and the fixed effects show significant effects respectively. This means that for every 1 point of increase in competition among deposit money banks in Nigeria effective tax rate will:-

a increase by 0.0402381 points in the pooled effect model and

b increase by 0.1831796 points in the fixed effect model and

c increase by 0.965632 points in the random model.

   This implies that there is increase in government revenue hence, the absence of tax avoidance.

2. According to the pooled regression result in *Panel A*, the relationship between NPM and ETR is insignificant and negative with a coefficient of -0.6875522. The fixed effect estimation in *Panel B* shows that there is a negative relationship between NPM and ETR with a coefficient of -0.7104689. The random effects result in *Panel C* also shows an insignificant and negative relationship between NPM and ETR with a coefficient of -0.6957037. The negative effect of NPM in the models implies that ETR will decrease by 0.687 points for pooled regression

0.7104689 points for fixed effect and 0.70 approximately for random effects as a result of 1 point increase in NPM. From the results in all the models, as NPM rises, ETR fall: Thus, a rise in NPM means a rise in tax avoidance.

3. Result of the pooled regression from table 4 in *Panel A* shows that the relationship between MGQL and ETR is insignificant and negative with a coefficient of -0.1351595. The fixed effect in *Panel B,* the relationship between MGQL and ETR shows an insignificant and negative relationship with a coefficient of -0.7476853. The random effects measure of the relationship between MGQL and ETR in *Panel C* shows that the relationship is both insignificant and negative with a coefficient of -0.3228714. Based on the objective of the research, to determine how managerial efficiency affect effective tax rate, it shows that a 1 point increase in MGQL brings about more than 0.135 points reduction in ETR, implying an increase in tax avoidance for the pooled regression, a reduction by 0.7476 points for fixed effect and a reduction of 0.3228 points for random effects. Hence, there is an insignificant and negative relationship between MGQL and ETR among Deposit money Banks in Nigeria.
4. Another objective of this study is to evaluate the impact of non-performing loans on tax avoidance in the banks. From the pooled regression result in *Panel A,* the relationship between LDR and ETR is positive and insignificant with a coefficient of 0.3128405. The fixed effect result in *Panel B,* shows that LDR has an insignificant negative relationship as evidenced by a coefficient of -0.012861. Also, the random effect in *Panel C,* shows that LDR has an insignificant positive impact on ETR. This means that a unit increase in the level of LDR will bring about an increase in the level of effective tax rate by more than 0.013 points in the

fixed effect, an increase of 0.3128 and 0.2213 points in the pooled model and random effect model respectively.

5. The robustness tests was conducted for the model, it has a correct functional form and the model's residuals are serially uncorrelated, normally distributed and homoskedastic. Therefore, the outcomes reported are serially uncorrelated, normally distributed and homoskedastic. Hence, the results reported are valid for reliable interpretation. The Hausman specification test shows that the random effects model is a better estimator than the fixed effects model since the Hausman test result shows a chi-square value of 1.30, with a p-value of 0.8606 at 5% significance level.

4.4 DISCUSSIONS OF FINDINGS

1 The main hypothesis was to examine the effect of competition on Tax Avoidance in the deposit money banks. The regression result shows an insignificant positive relationship between competition and tax avoidance. Therefore, reject the alternate hypothesis and accept the null hypothesis, that; banking sector competition does not have a significant impact on tax avoidance among Nigerian deposit money banks.

2 The subsidiary hypothesis was to investigate the effective of Managerial Efficiency; how they contribute to the level of tax avoidance. The regression result showed that the relationship between effective tax rate and managerial efficiency is negative and insignificant. Hence, we fail to reject null hypothesis which states that Managerial efficiency does not contribute significantly to tax avoidance among Nigerian deposit money banks. This is consistent to Chang, Joonho, & Hoon (2013), in their work Managerial Ability and Tax Avoidance that high ability managers maximise firm value through not only tax burden

but also output of firm by efficient resource using and high ability managers do less tax avoidance.

3 The second subsidiary hypothesis is to identify specific key areas to which non-performing loans of Nigerian deposit money banks lower the level of Effective Tax Rate (ETR) which is a proxy for tax avoidance. The regression result between the effective tax rate and non-performing loans shows a positive and insignificant relationship. This means that increase in the level of non-performing loans in the Nigerian Deposit money banks brings about tax avoidance. Therefore, reject the alternate hypothesis and accept the null hypothesis which states that Non-performing Loans have no significant impact on tax avoidance among Nigerian Deposit Money bank. However in the work of Boudriga, Taktak & Jellouli, (2009), it states that the higher the non-performing loans in the banking sector, the lower the tax revenue remitted to the government. Loan losses are allowable expenses and a relief to banks. This reduces their table able profit and an advantage to the banks, to reduce the tax they would remit to government.

CHAPTER FIVE
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

This research empirically examined the influence of competition on corporate tax avoidance in Nigerian Deposit Money Banks. The study adopted a linear panel regression model after the scatter plot showed a linear relationship between the dependent variable and one of each of the independent variables. This study employed effective tax rate as a measure of tax avoidance which is the dependent variable and Lerner's index as the measure of competition. Two other variables were included in the model (Net profit margin and Loan default risk) as they have been theoretically proven to contribute to tax avoidance. This study adopted the pooled regression method, fixed effect model and the random effect model. However, the random effect was found to be a more consistent method of analysis as evidenced by the Hausman test. The findings of the study are stated as follows:

i. Competition exists among the Deposit Money Banks in Nigeria as a result, it affects ETR positively. This implies that competition brings about increase in effective tax rate and reduces tax avoidance activities in which banks remit more taxes to the federal government. It therefore, means that the competition among the banks reduces the any form of tax avoidance in Nigeria.

ii. The result shows that Non-performing loans positively impact on ETR, which implies loan loss problems because deposit money banks have loan-loss coverage ratio which protects them from losses caused by problematic loans. Therefore from this study LDR does not bring about tax avoidance.

iii. The result showed that the relationship between effective tax rate, Net profit and managerial efficiency is negative. The implication is that low profitability

and mismanagement in the banks causes reduction in ETR and hence tax avoidance.

5.2 CONCLUSION

In this study, empirical analysis was conducted to determine the effect of competition Net profit margin, managerial efficiency and loan default risk on tax avoidance among Nigerian deposit money banks. Based on the findings of this research, the following conclusions are drawn with specific reference to the Nigeria deposit money banks; there exists competition among the banks but it does not encourage tax avoidance, since the effect of competition increases effective tax rate, it means more taxes are remitted by the banks. Loan default risk exhibited a positive but insignificant relationship with tax avoidance among Nigerian Deposit Money Bank, it signifies that the banks have lower loan losses, which means that more taxes are remitted with little or no loan losses. However managerial efficiency and net profit margin are negative, implying that less taxes are remitted and hence, tax avoidance among Nigerian deposit money.

5.3 RECOMMENDATIONS

The following recommendations were made based on the findings of this research.

i. Competition in the banking industry reduces the cost of financial intermediation and improves delivery of high quality services thereby enhancing social welfare through creative innovations in technology and investment. Since competition is a motivation for banks and also promotes economic growth by access to financing. This study revealed that competition brings about increase in the level of tax remittance. It therefore, recommends that the environment in banking sector should be further enhanced through

favourable banking policies to encourage competition among the banks. By this, tax revenue will increase and be sustained for the government.

ii. The result of MGQL in this research did show a negative relationship to tax avoidance, which implies that this research recommends that the government agency (FIRS) should be part of the process of account preparations in all Deposit money Banks so as to monitor any income smoothening activities. Doing this will generate more revenue for the federal government for developmental projects. Manipulation of accounting statistics may mislead the users of financial statements in their decisions. Income smoothening is one of the common approaches of creative accounting in which financial figure are deliberately manipulated and adjusted about some levels of earnings that are normal for the firm. Continuous income smoothening could make or mar the firms as investors may discover that profits reported by firms may have been under-reported which may dissuade them from investing.

iii. This study recommended that loans should be given to already running and viable businesses that need expansion, rather than businesses which are about to take off. This is because the owners of businesses which are about to take-off may be inexperienced in managerial skills even though they may have the requirements for the loans. This may lead to wastage and to non-repayment of loans.

5.4 SUGGESTIONS FOR FURTHER STUDIES

This study focused on the relationship between competition and tax avoidance in listed money deposit banks in Nigeria. However, because of the limitation of its scope to the Nigerian Deposit money banks, the research could not be extended to other sectors. Therefore, the following areas are recommended for further research:

i. A comparative analysis could be carried out in the banking and oil sectors on the issues of tax avoidance in Nigeria. The reason for the choice of the oil sector is because of the huge tax revenue gotten from this sector.

ii. A dynamic panel analysis could be used to investigate the Impact of Non-Performing loans on Tax Avoidance. This is to determine the rate of influence of previous year's tax avoidance on the current period.

5.5 CONTRIBUTIONS TO KNOWLEDGE

This research empirically examined the influence of competition on corporate tax avoidance in the Nigerian environment in which the focus is on the Nigerian Deposit Money Banks. From the empirical review, it was observed that competition has a significant impact on tax avoidance. However, in this study, competition does not increase tax avoidance activities among Nigerian Deposit money banks. This research has shown that competition can be measured statistically In the Nigerian environment using the Lerner index model.

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APPENDIX A1

ACCESS BANK FINANCIAL RATIOS

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
INCOME TAX	314,277	249,518	382,300	1,959,726	2,985,642	5,220,021	4,737,143	2,356,314	443,819	5,153,552
INCOME BEFORE TAX	951,750	751,033	1,119,449	8,043,165	19,042,106	28,105,815	17,668,584	16,016,762	36,259,430	31,365,396
ETR	0.33020961	0.33223307	0.34150730	0.24365110	0.15679159	0.18572744	0.26811107	0.14711550	0.01224010	0.16430693
INTEREST + NON INTEREST INCOME	5,515,086	7,494,855	13,360,358	27,881,451	57,627,098	104,494,981	79,065,123	96,234,017	180,725,850	161,343,994
OPERATING COST + INTEREST EXPENSE	2,732,092	4,182,839	8,383,807	13,110,924	20,112,197	32,167,558	38,797,403	66,543,810	132,081,625	143,530,432
TOTAL ASSET	11,461,571	16,183,353	54,111,173	107,750,578	244,595,621	391,688,687	403,178,957	463,131,979	557,646,719	748,349,392
MC	0.238369766	0.258465536	0.154936708	0.121678456	0.082226317	0.082125318	0.09622874	0.11932969	0.236855379	0.191796016
COMP	0.48118061	0.46312125	0.24690571	0.25875918	0.23560151	0.26678070	0.19610429	0.17257165	0.32408664	0.21559982
NET INCOME	637,473	501,515	737,149	6,083,439	16,056,464	22,885,794	12,931,441	13,660,448	35,815,611	26,211,844
OPERATING INCOME	5,515,086	7,494,855	13,360,358	27,881,451	57,627,098	104,494,981	79,065,123	96,234,017	180,725,850	161,343,994
NET PROFIT	0.115587137	0.06691457	0.055174345	0.218189469	0.645193	0.219013332	0.163554302	0.141950304	0.19817647	0.162459372
EARNING ASSET	11,103,913	15,412,401	52,725,580	105,975,122	241,080,224	384,338,130	400,261,444	449,458,534	546,030,641	748,349,392
TOTAL ASSETS	11,461,571	16,183,353	54,111,173	107,750,578	244,595,621	391,688,687	403,178,957	463,131,979	557,646,719	748,349,392
MGQL	0.968795028	0.952361417	0.974393588	0.983522539	0.985627719	0.981233676	0.992763727	0.970476137	0.979169468	1
PROVISION FOR LOAN LOSSES	357,658	770,952	1,385,593	1,775,456	3,515,397	7,350,557	2,917,513	13,673,445	11,616,078	-
TOTAL LOANS	11,461,571	16,183,353	54,111,173	107,750,578	244,595,621	391,688,687	403,178,957	463,131,979	557,646,719	748,349,392
LDR	0.031204972	0.047638583	0.025606412	0.036695	0.014372281	0.018766324	0.007236273	0.029523863	0.020830532	0

APPENDIX A2

DIAMOND BANK FINANCIAL RATIOS

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
INCOME TAX	328,248	995,765	1,442,650	1,862,021	3,237,103	1,412,611	2,945,561	-5,109,799	5,291,538	3,495,952
INCOME BEFORE TAX	1,161,746	3,522,317	5,292,194	8,792,775	15,059,114	8,343,738	9,468,016	-27,297,647	28,364,965	33,250,474
ETR	0.28254713	0.28270170	0.27259961	0.21176716	0.21495972	0.16930194	0.31110647	0.18718826	0.18655190	0.10513991
INTEREST + NON INTEREST INCOME	9,970,414	15,952,184	22,713,742	39,483,628	60,437,641	108,979,476	85,723,090	89,311,448	131,166,141	168,015,252
OPERATING COST + INTEREST EXPENSE	5,892,784	10,947,752	16,275,916	27,746,318	36,970,453	71,565,268	58,576,553	61,385,463	85,785,003	112,777,841
TOTAL ASSET	19,499,626	42,407,203	81,305,863	102,775,149	240,479,282	314,107,542	322,951,204	316,261,745	538,318,883	606,899,218
MC	0.302199847	0.258157842	0.200181333	0.26997108	0.153736541	0.227836834	0.181378958	0.114031785	0.159357224	0.185826308
COMP	0.51131307	0.37616684	0.27936167	0.38417485	0.25132161	0.34694957	0.26543666	0.16590807	0.24365881	0.27684210
NET INCOME	833,498	2,526,552	3,849,544	6,930,754	11,822,011	6,931,127	6,522,455	(22,187,848)	23,073,427	29,754,522
OPERATING INCOME	9,970,414	15,952,184	22,713,742	39,483,628	60,437,641	108,979,476	85,723,090	89,311,448	131,166,141	168,015,252
NET PROFIT	0.08359713	0.158382827	0.169480837	0.175534882	0.645193	0.063600297	0.076087493	-0.248432295	0.175909932	0.177094172
EARNING ASSET	18,444,445	40,822,966	77,929,985	96,384,940	231,445,158	289,265,955	294,920,909	297,857,668	523,374,608	585,953,062
TOTAL ASSETS	19,499,626	42,407,203	81,305,863	102,775,149	240,479,282	314,107,542	322,951,204	316,261,745	538,318,883	606,899,218
MGQL	0.945887116	0.962642266	0.95847928	0.937823403	0.962432839	0.920913752	0.913205789	0.941807451	0.972238992	0.965486599
PROVISION FOR LOAN LOSSES	309,634	755,273	162,109	1,985,615	4,582,668	21,750,254	17,678,521	43,336,291	14,944,275	20,946,156
TOTAL LOANS	19,499,626	42,407,203	81,305,863	102,775,149	240,479,282	314,107,542	322,951,204	316,261,745	538,318,883	606,899,218
LDR	0.015878971	0.017810017	0.001993817	0.036695	0.019056394	0.069244609	0.054740533	0.137026661	0.027761008	0.034513401

APPENDIX A3

ECO BANK FINANCIAL RATIOS

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
INCOME TAX	423,104	596,856	1,452,759	2,646,300	-903,000	-10,532,000	501,000	11,010,933	18,916,491	11,804,233
INCOME BEFORE TAX	1,317,104	2,264,856	5,011,759	10,096,300	-898,000	-5,944,000	2,120,000	43,278,387	63,623,793	35,374,959
ETR	0.32123811	0.26352934	0.28987008	0.26210592	1.00556793	1.77187079	0.23632075	0.25442106	0.29731788	0.33368895
INTEREST + NON INTEREST INCOME	6,700,000	9,303,000	17,258,000	32,710,000	55,156,000	59,864,000	58,313,000	235,968,937	357,916,682	411,183,929
OPERATING COST + INTEREST EXPENSE	2,766,000	3,818,000	11,297,000	20,090,000	29,326,000	30,614,000	30,521,000	10,407,000	10,444,000	244,100,422
TOTAL ASSET	13,075,000	22,367,000	54,682,000	121,023,000	165,977,000	224,313,000	265,523,000	177,060,484	1,474,486,790	1,824,601,399
MC	0.211548757	0.170697903	0.206594492	0.166001504	0.176687131	0.136478938	0.114946728	0.007058049	0.007083142	0.133782876
COMP	0.51242828	0.41592524	0.31560659	0.27027920	0.33231110	0.26687709	0.21961563	0.16003462	0.24273984	0.22535548
NET INCOME	894,000	1,668,000	3,559,000	7,450,000	5,000	4,588,000	1,619,000	32,267,454	44,707,302	23,570,726
OPERATING INCOME	4,502,000	7,313,000	14,359,000	26,989,000	37,601,000	40,764,000	43,008,000	37,469,000	12,342,000	307,132,153
NET PROFIT	0.19857841	0.228086968	0.247858486	0.276038386	0.645193	0.112550289	0.037644159	0.861177347	3.622370929	0.076744573
EARNING ASSET	13,075,000	21,777,000	54,484,000	119,600,000	153,480,000	183,719,000	231,108,000	163,683,625	1,449,842,425	1,764,510,641
TOTAL ASSETS	13,075,000	22,367,000	54,682,000	121,023,000	165,977,000	224,313,000	265,523,000	177,060,484	1,474,486,790	1,824,601,399
MGQL	1	0.973621854	0.996379064	0.988241904	0.924706435	0.819029659	0.870387876	0.924450342	0.983286141	0.967066364
PROVISION FOR LOAN LOSSES	-	590,000	198,000	1,423,000	12,497,000	40,594,000	34,415,000	13,376,859	24,644,365	60,090,758
TOTAL LOANS	13,075,000	22,367,000	54,682,000	121,023,000	165,977,000	224,313,000	265,523,000	177,060,484	1,474,486,790	1,824,601,399
LDR	0	0.026378146	0.003620936	0.036695	0.075293565	0.180970341	0.129612124	0.075549658	0.016713859	0.032933636

APPENDIX A4

FIDELITY BANK FINANCIAL RATIOS

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
INCOME TAX	163,905	283,390	424,953	243,386	2,806,381	2,271,721	2,497,000	-2,437,000	3,425,000	1,307,000
INCOME BEFORE TAX	1,077,509	1,564,390	3,587,300	4,403,393	15,795,951	4,568,520	8,325,000	1,474,000	21,349,000	9,028,000
ETR	0.15211474	0.18115048	0.11846040	0.05527238	0.17766458	0.49725535	0.29993994	-1.65332429	0.16042906	0.14477182
INTEREST + NON INTEREST INCOME	5,471,267	6,158,659	11,572,151	23,629,679	40,474,491	70,596,902	55,623,000	87,391,000	119,137,000	126,918,000
OPERATING COST + INTEREST EXPENSE		2,189,767	4,579,601	9,039,820	15,825,410	26,013,943	29,235,000	55,398,000	93,935,000	110,260,000
TOTAL ASSET	9,735,682	15,676,000	46,398,000	77,173,000	238,568,000	215,112,075	158,516,000	378,832,000	443,500,000	506,951,000
MC	0	0.139689143	0.098702552	0.117137082	0.066335007	0.120932044	0.184429332	0.124910936	0.211803833	0.217496366
COMP	0.56198087	0.39287183	0.24941055	0.30619101	0.16965599	0.32818661	0.35089833	0.19704848	0.26862909	0.25035556
NET INCOME	913,604	1,281,000	3,162,347	4,160,007	12,989,570	2,296,799	5,828,000	3,911,000	17,924,000	7,721,000
OPERATING INCOME	5,471,267	6,158,659	11,572,151	23,629,679	40,474,491	70,596,902	55,623,000	87,391,000	119,137,000	126,918,000
NET PROFIT	0.166982163	0.207999826	0.273272186	0.176050085	0.645193	0.032533991	0.104776801	0.044752892	0.150448643	0.060834555
EARNING ASSET	8,892,682	15,521,000	46,162,636	74,235,000	236,794,000	195,819,450	154,631,000	362,596,000	438,890,000	499,321,000
TOTAL ASSETS	9,735,682	15,676,000	46,398,000	77,173,000	238,568,000	215,112,075	158,516,000	378,832,000	443,500,000	506,951,000
MGQL	0.913411305	0.990112274	0.994927281	0.96192969	0.992563965	0.910313612	0.975491433	0.957141952	0.989605411	0.984949236
PROVISION FOR LOAN LOSSES	843,000	155,000	235,364	2,938,000	1,774,000	19,292,625	3,885,000	16,236,000	4,610,000	7,630,000
TOTAL LOANS	9,735,682	15,676,000	46,398,000	77,173,000	238,568,000	215,112,075	158,516,000	378,832,000	443,500,000	506,951,000
LDR	0.086588695	0.009887726	0.005072719	0.036695	0.007436035	0.089686388	0.024508567	0.042858048	0.010394589	0.015050764

APPENDIX A5

FIRST BANK FINANCIAL RATIOS

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
INCOME TAX	3,010,000	2,961,000	3,778,000	3,742,000	7,547,000	11,036,000	1,414,000	5,066,000	17,031,000	17,488,000
INCOME BEFORE TAX	14,106,000	15,145,000	19,831,000	22,097,000	38,020,000	46,110,000	33,537,000	52,528,000	92,701,000	76,853,000
ETR	0.21338438	0.19551007	0.19050981	0.16934425	0.19850079	0.23934071	0.04216239	0.09644380	0.18371970	0.22755130
INTEREST + NON INTEREST INCOME	45,121,000	49,475,000	61,243,000	79,299,000	130,600,000	185,189,000	209,187,000	275,629,000	360,345,000	339,019,000
OPERATING COST + INTEREST EXPENSE	24,886,000	26,648,000	33,748,000	41,446,000	62,260,000	81,533,000	107,392,000	134,786,000	168,908,000	159,119,000
TOTAL ASSET	78,040,000	114,673,000	175,657,000	219,185,000	437,768,000	684,107,000	1,017,411,000	1,128,851,000	1,953,116,000	1,665,365,000
MC	0.31888775	0.232382514	0.192124424	0.189091407	0.142221451	0.119181648	0.105554196	0.06901075	0.086481295	0.095546021
COMP	0.57817785	0.43144419	0.34865106	0.36179027	0.29833154	0.27070181	0.20560717	0.14112270	0.18449749	0.20357039
NET INCOME	11,096,000	12,184,000	16,053,000	18,355,000	30,473,000	35,074,000	32,123,000	47,462,000	75,670,000	59,365,000
OPERATING INCOME	45,121,000	49,475,000	61,243,000	79,299,000	130,600,000	185,189,000	209,187,000	275,629,000	360,345,000	339,019,000
NET PROFIT	0.245916536	0.246265791	0.262119752	0.231465718	0.645193	0.189395698	0.153561168	0.172195233	0.209993201	0.17510818
EARNING ASSET	76,285,000	112,845,000	172,040,000	216,666,000	431,616,000	670,148,000	994,815,000	1,086,949,000	1,940,817,000	1,645,527,000
TOTAL ASSETS	78,040,000	114,673,000	175,657,000	219,185,000	437,768,000	684,107,000	1,017,411,000	1,128,851,000	1,953,116,000	1,665,365,000
MGQL	0.977511533	0.98405902	0.979408734	0.988507425	0.985946894	0.979595297	0.977790686	0.962880841	0.993702883	0.988087897
PROVISION FOR LOAN LOSSES	1,755,000	1,828,000	3,617,000	2,519,000	6,152,000	13,959,000	22,596,000	41,902,000	12,299,000	19,838,000
TOTAL LOANS	78,040,000	114,673,000	175,657,000	219,185,000	437,768,000	684,107,000	1,017,411,000	1,128,851,000	1,953,116,000	1,665,365,000
LDR	0.022488467	0.01594098	0.020591266	0.036695	0.014053106	0.020404703	0.022209314	0.037119159	0.006297117	0.011912103

APPENDIX A6

FIRST CITY MONUMENTBANK FINANCIAL RATIOS

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
INCOME TAX	16,130	295,252	798,969	1,584,372	4,717,241	4,342,000	242,566	2,368,223	1,126,315	2,183,244
INCOME BEFORE TAX	264,588	1,093,047	3,640,349	7,390,228	18,437,711	13,569,000	7,564,888	13,372,615	16,248,019	18,184,399
ETR	0.06096270	0.27011830	0.21947593	0.21438743	0.25584743	0.31999410	0.03206472	0.17709498	0.06932014	0.12006138
INTEREST + NON INTEREST INCOME	3,124,180	6,121,037	10,824,537	24,678,518	50,086,197	71,658,000	57,824,483	68,569,878	108,722,461	130,955,439
OPERATING COST + INTEREST EXPENSE	1,996,791	2,628,184	6,918,000	14,609,000	27,315,000	37,307,000	28,358,868	356,847	43,768,757	58,151,016
TOTAL ASSET	8,038,555	12,207,208	26,311,000	86,824,000	193,394,000	295,194,000	325,171,831	327,347,724	356,665,203	458,515,524
MC	0.248401734	0.215297716	0.262931854	0.168259928	0.141240163	0.126381295	0.087211945	0.00100051	0.122716645	0.12682453
COMP	0.38864942	0.50142807	0.41140727	0.28423613	0.25898527	0.24274884	0.17782747	0.19225278	0.30483058	0.28560743
NET INCOME	248,458	797,795	2,841,380	5,805,856	13,720,470	9,227,000	7,322,322	11,004,392	15,121,704	16,001,155
OPERATING INCOME	2,128,183	4,492,000	8,276,000	19,983,000	43,577,000	59,422,000	35,163,951	44,278,900	77,505,319	84,249,718
NET PROFIT	0.116746539	0.177603517	0.343327695	0.290539759	0.645193	0.15527919	0.208233768	0.248524512	0.195105371	0.189925324
EARNING ASSET	7,905,359	11,436,232	26,105,000	85,312,000	190,235,000	286,813,000	322,531,060	319,020,875	350,489,990	450,532,965
TOTAL ASSETS	8,038,555	12,207,208	26,311,000	86,824,000	193,394,000	295,194,000	325,171,831	327,347,724	356,665,203	458,515,524
MGQL	0.983430355	0.936842561	0.992170575	0.98258546	0.98366547	0.971608502	0.991878845	0.974562679	0.982686248	0.982590428
PROVISION FOR LOAN LOSSES	133,196	770,976	206,000	1,512,000	3,159,000	8,381,000	2,640,771	8,326,849	6,175,213	7,982,559
TOTAL LOANS	8,038,555	12,207,208	26,311,000	86,824,000	193,394,000	295,194,000	325,171,831	327,347,724	356,665,203	458,515,524
LDR	0.016569645	0.063157439	0.007829425	0.036695	0.01633453	0.028391498	0.008121155	0.025437321	0.017313752	0.017409572

APPENDIX A7

GUARANTY TRUST BANK FINANCIAL RATIOS

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
INCOME TAX	973,168	1,824,000	1,434,132	2,156,231	6,029,704	6,409,456	8,248,203	-451,787,410	16,341,043	17,067,279
INCOME BEFORE TAX	5,029,725	7,258,000	10,024,132	15,350,231	27,198,704	35,012,534	47,568,458	64,745,101	103,027,923	107,091,256
ETR	0.19348334	0.25130890	0.14306795	0.14046896	0.22169086	0.18306176	0.17339648	-6.97793969	0.15860790	0.15937136
INTEREST + NON INTEREST INCOME	18,053,377	25,459,000	33,615,000	48,578,000	104,120,000	151,698,107	138,347,028	167,722,841	223,064,885	242,665,011
OPERATING COST + INTEREST EXPENSE	7,111,543	14,479,000	18,463,000	28,260,000	55,074,000	48,696,218	55,612,315	80,694,244	79,097,698	82,419,070
TOTAL ASSET	43,675,606	67,762,000	87,771,000	118,817,000	428,003,000	573,676,604	570,974,348	661,912,546	783,914,842	1,007,967,114
MC	0.16282643	0.213674331	0.210354217	0.237844753	0.128676668	0.084884441	0.097398973	0.102937513	0.100900881	0.081767618
COMP	0.41335149	0.37571205	0.38298527	0.40884722	0.24326932	0.26443140	0.24229990	0.21395543	0.28455244	0.24074695
NET INCOME	4,056,557	5,434,000	8,590,000	13,194,000	21,169,000	28,603,078	39,320,255	516,532,511	86,686,880	90,023,977
OPERATING INCOME	17,856,908	18,930,000	26,749,000	37,375,000	65,778,000	125,114,392	108,362,579	133,087,225	180,000,817	105,457,326
NET PROFIT	0.22717018	0.287057581	0.3211335	0.353016722	0.645193	0.22861541	0.362858243	3.881157722	0.481591592	0.853653135
EARNING ASSET	42,886,924	66,613,000	85,987,000	118,564,000	423,961,000	538,137,569	563,482,281	639,206,068	767,817,692	1,005,081,109
TOTAL ASSETS	43,675,606	67,762,000	87,771,000	118,817,000	428,003,000	573,676,604	570,974,348	661,912,546	783,914,842	1,007,967,114
MGQL	0.981942277	0.983043594	0.97967438	0.997870675	0.990556141	0.938050402	0.986878453	0.965695652	0.97946569	0.997136806
PROVISION FOR LOAN LOSSES	788,682	1,149,000	1,784,000	253,000	4,042,000	35,539,035	7,492,067	22,706,478	16,097,150	2,886,005
TOTAL LOANS	43,675,606	67,762,000	87,771,000	118,817,000	428,003,000	573,676,604	570,974,348	661,912,546	783,914,842	1,007,967,114
LDR	0.018057723	0.016956406	0.02032562	0.036695	0.009443859	0.061949598	0.013121547	0.034304348	0.02053431	0.002863194

APPENDIX A8

SKYE BANK FINANCIAL RATIOS

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
INCOME TAX	308,000	250,201	-375,625	2,002,000	5,299,000	1,018,000	2,137,000	350,000	3,078,000	1,113,000
INCOME BEFORE TAX	928,000	742,920	1,585,746	7,519,000	20,425,000	2,148,000	11,445,000	2,977,000	15,775,000	17,136,000
ETR	0.33189655	0.33678054	-0.23687589	0.26625881	0.25943696	0.47392924	0.18671909	0.11756802	0.19511886	0.06495098
INTEREST + NON INTEREST INCOME	5,251,782	6,158,859	21,055,904	39,367,000	74,615,000	126,665,000	80,118,000	74,617,000	127,730,000	127,340,000
OPERATING COST + INTEREST EXPENSE	2,771,000	2,197,000	11,673,000	27,672,000	47,138,000	41,535,000	38,485,000	41,476,000	39,370,000	53,911,000
TOTAL ASSET	11,237,000	12,122,680	71,717,297	112,854,000	246,390,000	355,432,000	417,395,000	566,330,000	525,890,000	565,882,000
MC	0.246596067	0.181230553	0.162764082	0.245201765	0.191314583	0.116857796	0.092202829	0.078868204	0.074863565	0.095268978
COMP	0.46736511	0.50804433	0.29359589	0.34883123	0.30283291	0.35636915	0.19194768	0.14188709	0.24288349	0.22502925
NET INCOME	620,000	492,719	1,961,371	5,517,000	15,126,000	1,130,000	9,308,000	2,627,000	12,697,000	16,023,000
OPERATING INCOME	5,251,782	6,158,859	21,055,904	39,367,000	74,615,000	126,665,000	80,118,000	74,617,000	127,730,000	127,340,000
NET PROFIT	0.118055167	0.080001669	0.093150643	0.140142759	0.645193	0.00892117	0.116178637	0.035206454	0.099404995	0.125828491
EARNING ASSET	10,939,000	12,086,680	70,097,297	110,259,000	242,277,000	318,501,000	385,833,000	540,036,000	489,251,000	553,205,000
TOTAL ASSETS	11,237,000	12,122,680	71,717,297	112,854,000	246,390,000	355,432,000	417,395,000	566,330,000	525,890,000	565,882,000
MGQL	0.973480466	0.99703036	0.977411307	0.977005689	0.983306952	0.896095456	0.924383378	0.953571239	0.930329537	0.977597803
PROVISION FOR LOAN LOSSES	298,000	36,000	1,620,000	2,595,000	4,113,000	36,931,000	31,562,000	26,294,000	36,639,000	12,677,000
TOTAL LOANS	11,237,000	12,122,680	71,717,297	112,854,000	246,390,000	355,432,000	417,395,000	566,330,000	525,890,000	565,882,000
LDR	0.026519534	0.00296964	0.022588693	0.036695	0.016693048	0.103904544	0.075616622	0.046428761	0.069670463	0.022402197

APPENDIX A9

STANBIC IBTC BANK FINANCIAL RATIOS

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
INCOME TAX	302,145	654,395	1,294,230	3,142,000	2,633,000	883,000	2,376,000	1,946,000	1,255,000	3,844,000
INCOME BEFORE TAX	1,710,547	3,012,550	5,418,250	10,992,000	14,627,000	7,141,000	10,187,000	5,994,000	11,412,000	24,617,000
ETR	0.17663648	0.21722295	0.23886495	0.28584425	0.18000957	0.12365215	0.23323844	0.32465799	0.10997196	0.15615225
INTEREST + NON INTEREST INCOME	2,445,369	4,250,440	8,164,014	12,990,610	35,087,000	52,850,000	48,934,000	57,581,000	91,860,000	111,226,000
OPERATING COST + INTEREST EXPENSE	734,822	1,237,890	2,745,764	5,819,814	24,545,000	26,694,000	30,442,000	46,885,000	44,217,000	59,669,000
TOTAL ASSET	9,102,000	12,675,000	56,339,000	91,030,000	108,789,000	124,050,000	172,995,000	240,678,000	273,239,000	292,414,000
MC	0.080731927	0.097663905	0.04873647	0.063932923	0.225620237	0.215187424	0.175970404	0.171589707	0.161825362	0.204056577
COMP	0.26866281	0.33534043	0.14490875	0.14270691	0.32252341	0.42603789	0.28286367	0.21073492	0.33618920	0.38037166
NET INCOME	1,408,402	2,358,155	4,124,020	7,850,000	11,994,000	6,258,000	7,811,000	4,048,000	10,157,000	20,773,000
OPERATING INCOME	2,445,369	4,250,440	8,164,014	12,990,610	35,087,000	52,850,000	48,934,000	57,581,000	91,860,000	111,226,000
NET PROFIT	0.575946616	0.554802562	0.505146121	0.604282632	0.645193	0.118410596	0.159623166	0.070300967	0.110570433	0.186763886
EARNING ASSET	9,080,000	12,640,000	56,143,000	82,689,301	103,769,000	112,476,000	165,673,000	232,688,000	266,344,000	289,747,000
TOTAL ASSETS	9,102,000	12,675,000	56,339,000	91,030,000	108,789,000	124,050,000	172,995,000	240,678,000	273,239,000	292,414,000
MGQL	0.997582949	0.997238659	0.99652106	0.908374173	0.953855629	0.906698912	0.957675077	0.966802117	0.974765681	0.99087937
PROVISION FOR LOAN LOSSES	22,000	35,000	196,000	8,340,699	5,020,000	11,574,000	7,322,000	7,990,000	6,895,000	2,667,000
TOTAL LOANS	9,102,000	12,675,000	56,339,000	91,030,000	108,789,000	124,050,000	172,995,000	240,678,000	273,239,000	292,414,000
LDR	0.002417051	0.002761341	0.00347894	0.036695	0.046144371	0.093301088	0.042324923	0.033197883	0.025234319	0.00912063

APPENDIX A10

STERLING BANK FINANCIAL RATIOS

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
INCOME TAX	-456,000	192,000	-346,000	288,699	1,266,571	2,412,502	-490,242	-1,268,292	546,112	1,035,334
INCOME BEFORE TAX	1,089,000	5,594,000	728,000	2,226,708	7,789,724	9,072,908	3,688,251	5,640,306	7,499,651	9,310,198
ETR	-0.41873278	0.03432249	-0.47527473	0.12965283	0.16259511	0.26590174	-0.13291991	-0.22486227	0.07281832	0.11120429
INTEREST + NON INTEREST INCOME	6,136,000	1,824,000	12,858,000	23,864,197	36,301,000	43,464,716	30,386,957	47,740,667	68,856,815	91,628,840
OPERATING COST + INTEREST EXPENSE	4,200,000	4,755,000	7,082,000	16,582,000	25,709,000	19,434,227	15,162,982	20,492,949	31,951,857	39,899,433
TOTAL ASSET	8,314,000	6,545,000	47,699,000	56,166,000	74,459,000	96,816,886	108,993,464	171,467,277	236,131,272	321,743,748
MC	0.505171999	0.726508785	0.148472714	0.295231991	0.345277267	0.200731792	0.139118269	0.086786256	0.135313958	0.124009971
COMP	0.73803217	0.27868591	0.26956540	0.42488688	0.48753005	0.44893735	0.27879614	0.20217850	0.29160396	0.28478825
NET INCOME	1,545,000	5,402,000	1,074,000	1,938,009	6,523,153	6,660,406	4,178,493	6,908,598	6,953,539	8,274,864
OPERATING INCOME	6,136,000	1,824,000	12,858,000	23,864,197	36,301,000	43,464,716	30,386,957	47,740,667	68,856,815	91,628,840
NET PROFIT	0.251792699	2.961622807	0.083527765	0.081209898	0.645193	0.153237076	0.137509426	0.144710965	0.100985487	0.09030851
EARNING ASSET	7,644,000	4,011,000	44,068,000	50,523,000	65,177,000	81,113,877	101,672,379	166,147,600	230,297,172	313,484,654
TOTAL ASSETS	8,314,000	6,545,000	47,699,000	56,166,000	74,459,000	96,816,886	108,993,464	171,467,277	236,131,272	321,743,748
MGQL	0.919413038	0.612834225	0.923876811	0.899529965	0.875340792	0.837807126	0.932830055	0.968975556	0.97529298	0.974330211
PROVISION FOR LOAN LOSSES	670,000	2,534,000	3,631,000	5,643,000	9,282,000	15,703,009	7,321,085	5,319,677	5,834,100	8,259,094
TOTAL LOANS	8,314,000	6,545,000	47,699,000	56,166,000	74,459,000	96,816,886	108,993,464	171,467,277	236,131,272	321,743,748
LDR	0.080586962	0.387165775	0.076123189	0.036695	0.124659208	0.162192874	0.067169945	0.031024444	0.02470702	0.025669789

APPENDIX A11

UNITED BANK FOR AFRICA FINANCIAL RATIOS

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
INCOME TAX	1,485,000	1,599,000	1,261,000	3,923,000	7,204,000	3,075,000	1,526,000	18,502,000	-1,195,000	5,358,000
INCOME BEFORE TAX	2,510,000	6,156,000	11,546,000	25,364,000	48,029,000	15,964,000	3,693,000	26,468,000	46,180,000	51,841,000
ETR	0.59163347	0.25974659	0.10921531	0.15466803	0.14999271	0.19262090	0.41321419	0.69903279	-0.02587700	0.10335449
INTEREST + NON INTEREST INCOME	24,510,000	26,089,000	90,447,000	109,457,000	169,581,000	219,843,000	157,666,000	126,098,000	177,429,000	214,273,000
OPERATING COST + INTEREST EXPENSE	16,379,000	18,481,000	67,833,000	70,575,000	104,027,000	107,719,000	82,458,000	115,048,000	119,792,000	158,492,000
TOTAL ASSET	58,855,000	70,086,000	119,743,000	335,391,000	461,695,000	617,847,000	600,772,000	594,090,000	598,592,000	823,374,000
MC	0.278294113	0.263690323	0.566488229	0.21042604	0.225315414	0.174345752	0.137253401	0.192197691	0.200122955	0.192490897
COMP	0.41644720	0.37224267	0.75534269	0.32635640	0.36730092	0.35582110	0.26243899	0.21065768	0.29641058	0.26023775
NET INCOME	1,025,000	4,557,000	10,285,000	21,441,000	40,825,000	12,889,000	2,167,000	7,966,000	47,375,000	46,483,000
OPERATING INCOME	24,510,000	26,089,000	90,447,000	109,457,000	169,581,000	219,843,000	157,666,000	126,098,000	177,429,000	214,273,000
NET PROFIT	0.041819665	0.174671317	0.113713003	0.195885142	0.645193	0.058628203	0.013744244	0.063173088	0.267008212	0.216933538
EARNING ASSET	58,094,000	70,046,000	114,172,000	331,689,000	459,079,000	582,229,000	579,711,000	585,910,000	595,938,000	823,193,000
TOTAL ASSETS	58,855,000	70,086,000	119,743,000	335,391,000	461,695,000	617,847,000	600,772,000	594,090,000	598,592,000	823,374,000
MGQL	0.987069918	0.999429273	0.95347536	0.988962137	0.994333922	0.942351424	0.964943439	0.986231042	0.995566262	0.999780173
PROVISION FOR LOAN LOSSES	761,000	40,000	5,571,000	3,702,000	2,616,000	35,618,000	21,061,000	8,180,000	2,654,000	181,000
TOTAL LOANS	58,855,000	70,086,000	119,743,000	335,391,000	461,695,000	617,847,000	600,772,000	594,090,000	598,592,000	823,374,000
LDR	0.012930082	0.000570727	0.04652464	0.036695	0.005666078	0.057648576	0.035056561	0.013768958	0.004433738	0.000219827

APPENDIX A12

UNION BANK FINANCIAL RATIOS

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
INCOME TAX	2,460,000	2,578,000	2,314,000	3,194,000	5,009,000	4,134,000	-70,578,000	25,133,000	1,685,000	-933,000
INCOME BEFORE TAX	10,210,000	11,953,000	12,350,000	15,320,000	29,746,000	-66,918,000	47,438,000	107,684,000	9,060,000	5,141,000
ETR	0.24094025	0.21567807	0.18736842	0.20848564	0.16839239	-0.06177710	-1.48779460	0.23339586	0.18598234	-0.18148220
INTEREST + NON INTEREST INCOME	39,185,000	44,791,000	50,736,000	71,090,000	92,935,000	130,187,000	113,961,000	85,101,000	112,794,000	121,399,000
OPERATING COST + INTEREST EXPENSE	32,290,000	38,859,000	44,839,000	59,510,000	69,984,000	103,431,000	64,209,000	89,897,000	77,037,000	59,956,000
TOTAL ASSET	108,603,000	112,209,000	149,446,000	182,456,000	291,909,000	571,592,000	254,445,000	166,172,000	164,931,000	229,542,000
MC	0.297321437	0.34630912	0.300034795	0.326160828	0.239745948	0.180952498	0.252349231	0.545058236	0.467086236	0.261198386
COMP	0.36080955	0.39917475	0.33949386	0.38962818	0.31836977	0.22776211	0.44788068	0.51597941	0.68388599	0.52887489
NET INCOME	7,750,000	9,375,000	10,036,000	12,126,000	24,737,000	(71,052,000)	118,016,000	82,551,000	7,375,000	6,074,000
OPERATING INCOME	39,185,000	44,791,000	50,736,000	71,090,000	92,935,000	130,187,000	113,961,000	85,101,000	112,794,000	121,399,000
NET PROFIT	0.197779763	0.209305441	0.197808262	0.170572514	0.645193	0.545768779	1.035582348	0.970035605	0.065384684	0.050033361
EARNING ASSET	106,420,000	107,567,000	144,692,000	173,946,000	286,109,000	362,503,000	198,203,000	152,738,000	164,249,000	217,476,000
TOTAL ASSETS	108,603,000	112,209,000	149,446,000	182,456,000	291,909,000	571,592,000	254,445,000	166,172,000	164,931,000	229,542,000
MGQL	0.979899266	0.958630769	0.968189179	0.953358618	0.980130794	0.634198869	0.778962055	0.919156055	0.995864937	0.947434456
PROVISION FOR LOAN LOSSES	2,183,000	4,642,000	4,754,000	8,510,000	5,800,000	209,089,000	56,242,000	13,434,000	682,000	12,066,000
TOTAL LOANS	108,603,000	112,209,000	149,446,000	182,456,000	291,909,000	571,592,000	254,445,000	166,172,000	164,931,000	229,542,000
LDR	0.020100734	0.041369231	0.031810821	0.036695	0.019869206	0.365801131	0.221037945	0.080843945	0.004135063	0.052565544

APPENDIX A13

UNITY BANK FINANCIAL RATIOS

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
INCOME TAX	66,000	49,000	1,006,000	741,801	8,520,672	5,114,633	899,277	642,480	1,244,760	11,057,030
INCOME BEFORE TAX	514,000	459,000	2,928,000	1,462,643	21,762,808	20,970,488	13,314,749	3,077,459	4,445,570	33,639,369
ETR	0.12840467	0.10675381	0.34357923	0.50716477	0.39152448	0.24389671	0.06753991	0.20876964	0.28000009	0.32869315
INTEREST + NON INTEREST INCOME	3,848,000	5,050,000	11,989,000	19,202,797	34,483,805	29,668,397	62,673,803	45,425,600	38,911,907	98,970,979
OPERATING COST + INTEREST EXPENSE	2,776,000	4,215,000	8,113,000	13,050,398	26,722,159	36,552,487	30,067,172	33,802,435	22,941,871	51,885,952
TOTAL ASSET	11,836,000	15,340,000	58,666,000	36,590,002	51,882,213	87,817,499	128,561,062	122,821,300	178,059,871	216,822,265
MC	0.234538696	0.274771838	0.138291344	0.356665682	0.51505434	0.416232384	0.233874639	0.189837468	0.128843579	0.239301771
COMP	0.32510981	0.32920468	0.20436027	0.52480994	0.66465562	0.33784151	0.48750222	0.25511419	0.21853271	0.45646133
NET INCOME	448,000	410,000	1,922,000	720,842	13,242,136	15,855,855	12,415,472	2,434,979	3,200,810	22,582,339
OPERATING INCOME	3,848,000	5,050,000	11,989,000	19,202,797	34,483,805	29,668,397	62,673,803	45,425,600	38,911,907	98,970,979
NET PROFIT	0.116424116	0.081188119	0.160313621	0.037538386	0.645193	0.534435851	0.198096675	0.053603673	0.082257855	0.228171321
EARNING ASSET	11,506,000	15,210,000	57,686,000	31,901,246	22,356,759	73,731,101	119,876,011	121,536,200	176,501,083	195,229,573
TOTAL ASSETS	11,836,000	15,340,000	58,666,000	36,590,002	51,882,213	87,817,499	128,561,062	122,821,300	178,059,871	216,822,265
MGQL	0.972118959	0.991525424	0.983295265	0.871856908	0.430913751	0.839594635	0.932444156	0.989536831	0.991245709	0.90041294
PROVISION FOR LOAN LOSSES	330,000	130,000	980,000	4,688,756	29,525,454	14,086,398	8,685,051	1,285,100	1,558,788	21,592,692
TOTAL LOANS	11,836,000	15,340,000	58,666,000	36,590,002	51,882,213	87,817,499	128,561,062	122,821,300	178,059,871	216,822,265
LDR	0.027881041	0.008474576	0.016704735	0.036695	0.569086249	0.160405365	0.067555844	0.010463169	0.008754291	0.09958706

APPENDIX A14

WEMA BANK FINANCIAL RATIOS

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
INCOME TAX	-55,000	35,000	5,597,000	-3,205,000	7,768,466	1,214,562	-3,274,425	-458,905	-98,418	350,777
INCOME BEFORE TAX	1,420,000	1,002,000	6,441,000	2,638,000	19,436,874	3,309,254	12,964,108	3,770,021	4,942,211	1,947,308
ETR	-0.03873239	0.03493014	0.86896445	-1.21493556	0.39967672	0.36701988	-0.25257619	-0.12172479	-0.01991376	0.18013432
INTEREST + NON INTEREST INCOME	12,856,000	15,288,000	14,837,000	26,431,000	12,938,450	16,272,245	19,929,693	22,773,921	30,716,386	49,499,541
OPERATING COST + INTEREST EXPENSE	8,621,000	11,473,000	10,190,000	15,689,000	9,265,770	13,675,895	15,268,782	21,909,083	18,597,600	34,071,134
TOTAL ASSET	41,766,000	54,493,000	75,383,000	91,490,000	44,689,651	28,636,557	44,999,856	77,947,719	83,746,900	116,165,725
MC	0.206411914	0.210540803	0.135176366	0.171483222	0.207335922	0.477567712	0.339307352	0.261610675	0.222069115	0.293297649
COMP	0.30781018	0.28054979	0.19682156	0.28889496	0.28951781	0.56823327	0.44288348	0.27193748	0.36677639	0.42611141
NET INCOME	1,475,000	967,000	844,000	5,843,000	11,668,408	2,094,692	16,238,533	4,228,926	5,040,629	1,596,531
OPERATING INCOME	12,856,000	15,288,000	14,837,000	26,431,000	12,938,450	16,272,245	19,929,693	22,773,921	30,716,386	49,499,541
NET PROFIT	0.114732421	0.063252224	0.056884815	0.221066172	0.645193	0.128727904	0.814790925	0.185691608	0.164102281	0.032253451
EARNING ASSET	39,539,000	52,413,000	65,116,000	84,527,000	39,996,651	19,711,971	12,168,454	67,236,605	73,745,728	98,631,825
TOTAL ASSETS	41,766,000	54,493,000	75,383,000	91,490,000	44,689,651	28,636,557	44,999,856	77,947,719	83,746,900	116,165,725
MGQL	0.946679117	0.96182996	0.863802184	0.923893322	0.894986873	0.688349895	0.270410954	0.862585921	0.880578601	0.84906133
PROVISION FOR LOAN LOSSES	2,227,000	2,080,000	10,267,000	6,963,000	4,693,000	8,924,586	32,831,402	10,711,114	10,001,172	17,533,900
TOTAL LOANS	41,766,000	54,493,000	75,383,000	91,490,000	44,689,651	28,636,557	44,999,856	77,947,719	83,746,900	116,165,725
LDR	0.053320883	0.03817004	0.136197816	0.036695	0.105013127	0.311650105	0.729589046	0.137414079	0.119421399	0.15093867

APPENDIX A15

ZENITH BANK FINANCIAL RATIOS

YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
INCOME TAX	1,214,117	2,008,787	3,665,091	5,779,828	2,415,000	13,388,000	9,622,000	14,000,000	1,419,000	15,279,000
INCOME BEFORE TAX	6,404,885	9,164,787	15,154,091	23,288,828	48,939,000	31,753,000	42,957,000	51,141,000	102,100,000	110,597,000
ETR	0.18956109	0.21918534	0.24185489	0.24818029	0.04934715	0.42162945	0.22399143	0.27375296	0.01389814	0.13815022
INTEREST + NON INTEREST INCOME	23,931,255	34,913,462	58,221,823	89,194,000	190,120,000	254,147,000	169,370,000	215,616,000	307,082,000	351,470,000
OPERATING COST + INTEREST EXPENSE	13,797,311	18,153,000	31,298,000	45,107,000	81,321,000	103,410,000	89,074,000		119,619,000	147,199,000
TOTAL ASSET	54,420,000	125,531,000	204,590,000	294,205,000	459,566,000	716,230,000	697,085,000	850,917,000	989,814,000	1,251,355,000
MC	0.253533829	0.144609698	0.152979129	0.153318264	0.176951733	0.144380995	0.127780687	0	0.120849978	0.117631687
COMP	0.43975110	0.27812621	0.28457805	0.30316956	0.41369466	0.35483993	0.24296893	0.21783487	0.31024213	0.28087154
NET INCOME	5,190,768	7,156,000	11,489,000	17,509,000	46,524,000	18,365,000	33,335,000	37,141,000	100,681,000	95,318,000
OPERATING INCOME	23,931,255	34,913,462	58,221,823	89,194,000	190,120,000	254,147,000	169,370,000	215,616,000	307,082,000	351,470,000
NET PROFIT	0.216903292	0.204963919	0.197331506	0.196302442	0.645193	0.072261329	0.196817618	0.172255306	0.327863567	0.271198111
EARNING ASSET	51,383,089	123,556,034	203,283,000	292,140,000	449,690,000	669,261,000	667,860,000	828,299,000	980,715,000	1,240,288,000
TOTAL ASSETS	54,420,000	125,531,000	204,590,000	294,205,000	459,566,000	716,230,000	697,085,000	850,917,000	989,814,000	1,251,355,000
MGQL	0.944194947	0.984267105	0.993611613	0.992981085	0.97851016	0.934421904	0.958075414	0.973419264	0.990807364	0.991155987
PROVISION FOR LOAN LOSSES	3,036,911	1,974,966	1,307,000	2,065,000	9,876,000	46,969,000	29,225,000	22,618,000	9,099,000	11,067,000
TOTAL LOANS	54,420,000	125,531,000	204,590,000	294,205,000	459,566,000	716,230,000	697,085,000	850,917,000	989,814,000	1,251,355,000
LDR	0.055805053	0.015732895	0.006388387	0.036695	0.02148984	0.065578096	0.041924586	0.026580736	0.009192636	0.008844013

APPENDIX A16

Dependent and Independent Variables of Banks from 2004-2013

BANKS	BANK	YEAR	ETR	COMP	NET PROFIT	MGQL	LDR
ACCESS	1	2004	0.3302096	0.4811806	0.1155871	0.968795	0.031205
	1	2005	0.3322331	0.4631213	0.0669146	0.9523614	0.0476386
	1	2006	0.3415073	0.2469057	0.0551743	0.9743936	0.0256064
	1	2007	0.2436511	0.2587592	0.2181895	0.9835225	0.036695
	1	2008	0.1567916	0.2356015	0.645193	0.9856277	0.0143723
	1	2009	0.1857274	0.2667807	0.2190133	0.9812337	0.0187663
	1	2010	0.2681111	0.1961043	0.1635543	0.9927637	0.0072363
	1	2011	0.1471155	0.1725717	0.1419503	0.9704761	0.0295239
	1	2012	0.0122401	0.3240866	0.1981765	0.9791695	0.0208305
	1	2013	0.1643069	0.2155998	0.1624594	1	0
DIAMOND	2	2004	0.2825471	0.5113131	0.0835971	0.9458871	0.015879
	2	2005	0.2827017	0.3761668	0.1583828	0.9626423	0.01781
	2	2006	0.2725996	0.2793617	0.1694808	0.9584793	0.0019938
	2	2007	0.2117672	0.3841749	0.1755349	0.9378234	0.036695
	2	2008	0.2149597	0.2513216	0.645193	0.9624328	0.0190564
	2	2009	0.1693019	0.3469496	0.0636003	0.9209138	0.0692446
	2	2010	0.3111065	0.2654367	0.0760875	0.9132058	0.0547405
	2	2011	0.1871883	0.1659081	-0.2484323	0.9418075	0.1370267
	2	2012	0.1865519	0.2436588	0.1759099	0.972239	0.027761
	2	2013	0.1051399	0.2768421	0.1770942	0.9654866	0.0345134
ECOBANK	3	2004	0.3212381	0.5124283	0.1985784	1	0
	3	2005	0.2635293	0.4159252	0.228087	0.9736219	0.0263781
	3	2006	0.2898701	0.3156066	0.2478585	0.9963791	0.0036209
	3	2007	0.2621059	0.2702792	0.2760384	0.9882419	0.036695
	3	2008	1.0055679	0.3323111	0.645193	0.9247064	0.0752936
	3	2009	1.7718708	0.2668771	0.1125503	0.8190297	0.1809703
	3	2010	0.2363208	0.2196156	0.0376442	0.8703879	0.1296121
	3	2011	0.2544211	0.1600346	0.8611773	0.9244503	0.0755497
	3	2012	0.2973179	0.2427398	3.6223709	0.9832861	0.0167139
	3	2013	0.333689	0.2253555	0.0767446	0.9670664	0.0329336
FIDELITY	4	2004	0.1521147	0.5619809	0.1669822	0.9134113	0.0865887
	4	2005	0.1811505	0.3928718	0.2079998	0.9901123	0.0098877
	4	2006	0.1184604	0.2494106	0.2732722	0.9949273	0.0050727
	4	2007	0.0552724	0.306191	0.1760501	0.9619297	0.036695
	4	2008	0.1776646	0.169656	0.645193	0.992564	0.007436
	4	2009	0.4972553	0.3281866	0.032534	0.9103136	0.0896864
	4	2010	0.2999399	0.3508983	0.1047768	0.9754914	0.0245086
	4	2011	-1.6533243	0.1970485	0.0447529	0.957142	0.042858

	4	2012	0.1604291	0.2686291	0.1504486	0.9896054	0.0103946
	4	2013	0.1447718	0.2503556	0.0608346	0.9849492	0.0150508
FIRSTBANK	5	2004	0.2133844	0.5781779	0.2459165	0.9775115	0.0224885
	5	2005	0.1955101	0.4314442	0.2462658	0.984059	0.015941
	5	2006	0.1905098	0.3486511	0.2621198	0.9794087	0.0205913
	5	2007	0.1693443	0.3617903	0.2314657	0.9885074	0.036695
	5	2008	0.1985008	0.2983315	0.645193	0.9859469	0.0140531
	5	2009	0.2393407	0.2707018	0.1893957	0.9795953	0.0204047
	5	2010	0.0421624	0.2056072	0.1535612	0.9777907	0.0222093
	5	2011	0.0964438	0.1411227	0.1721952	0.9628808	0.0371192
	5	2012	0.1837197	0.1844975	0.2099932	0.9937029	0.0062971
	5	2013	0.2275513	0.2035704	0.1751082	0.9880879	0.0119121
FCMB	6	2004	0.0609627	0.3886494	0.1167465	0.9834304	0.0165696
	6	2005	0.2701183	0.5014281	0.1776035	0.9368426	0.0631574
	6	2006	0.2194759	0.4114073	0.3433277	0.9921706	0.0078294
	6	2007	0.2143874	0.2842361	0.2905398	0.9825855	0.036695
	6	2008	0.2558474	0.2589853	0.645193	0.9836655	0.0163345
	6	2009	0.3199941	0.2427488	0.1552792	0.9716085	0.0283915
	6	2010	0.0320647	0.1778275	0.2082338	0.9918788	0.0081212
	6	2011	0.177095	0.1922528	0.2485245	0.9745627	0.0254373
	6	2012	0.0693201	0.3048306	0.1951054	0.9826862	0.0173138
	6	2013	0.1200614	0.2856074	0.1899253	0.9825904	0.0174096
GTB	7	2004	0.1934833	0.4133515	0.2271702	0.9819423	0.0180577
	7	2005	0.2513089	0.375712	0.2870576	0.9830436	0.0169564
	7	2006	0.1430679	0.3829853	0.3211335	0.9796744	0.0203256
	7	2007	0.140469	0.4088472	0.3530167	0.9978707	0.036695
	7	2008	0.2216909	0.2432693	0.645193	0.9905561	0.0094439
	7	2009	0.1830618	0.2644314	0.2286154	0.9380504	0.0619496
	7	2010	0.1733965	0.2422999	0.3628582	0.9868785	0.0131215
	7	2011	-6.9779397	0.2139554	3.8811577	0.9656957	0.0343043
	7	2012	0.1586079	0.2845524	0.4815916	0.9794657	0.0205343
	7	2013	0.1593714	0.240747	0.8536531	0.9971368	0.0028632
SKYEBANK	8	2004	0.3318966	0.4673651	0.1180552	0.9734805	0.0265195
	8	2005	0.3367805	0.5080443	0.0800017	0.9970304	0.0029696
	8	2006	-0.2368759	0.2935959	0.0931506	0.9774113	0.0225887
	8	2007	0.2662588	0.3488312	0.1401428	0.9770057	0.036695
	8	2008	0.259437	0.3028329	0.645193	0.983307	0.016693
	8	2009	0.4739292	0.3563692	0.0089212	0.8960955	0.1039045
	8	2010	0.1867191	0.1919477	0.1161786	0.9243834	0.0756166
	8	2011	0.117568	0.1418871	0.0352065	0.9535712	0.0464288
	8	2012	0.1951189	0.2428835	0.099405	0.9303295	0.0696705
	8	2013	0.064951	0.2250292	0.1258285	0.9775978	0.0224022
STANBIC	9	2004	0.1766365	0.2686628	0.5759466	0.9975829	0.0024171
	9	2005	0.217223	0.3353404	0.5548026	0.9972387	0.0027613
	9	2006	0.2388649	0.1449087	0.5051461	0.9965211	0.0034789

	9	2007	0.2858443	0.1427069	0.6042826	0.9083742	0.036695
	9	2008	0.1800096	0.3225234	0.645193	0.9538556	0.0461444
	9	2009	0.1236521	0.4260379	0.1184106	0.9066989	0.0933011
	9	2010	0.2332384	0.2828637	0.1596232	0.9576751	0.0423249
	9	2011	0.324658	0.2107349	0.070301	0.9668021	0.0331979
	9	2012	0.109972	0.3361892	0.1105704	0.9747657	0.0252343
	9	2013	0.1561523	0.3803717	0.1867639	0.9908794	0.0091206
STERLING	10	2004	-0.4187328	0.7380322	0.2517927	0.919413	0.080587
	10	2005	0.0343225	0.2786859	2.9616228	0.6128342	0.3871658
	10	2006	-0.4752747	0.2695654	0.0835278	0.9238768	0.0761232
	10	2007	0.1296528	0.4248869	0.0812099	0.89953	0.036695
	10	2008	0.1625951	0.48753	0.645193	0.8753408	0.1246592
	10	2009	0.2659017	0.4489373	0.1532371	0.8378071	0.1621929
	10	2010	-0.1329199	0.2787961	0.1375094	0.9328301	0.0671699
	10	2011	-0.2248623	0.2021785	0.144711	0.9689756	0.0310244
	10	2012	0.0728183	0.291604	0.1009855	0.975293	0.024707
	10	2013	0.1112043	0.2847883	0.0903085	0.9743302	0.0256698
UBA	11	2004	0.5916335	0.4164472	0.0418197	0.9870699	0.0129301
	11	2005	0.2597466	0.3722427	0.1746713	0.9994293	0.0005707
	11	2006	0.1092153	0.7553427	0.113713	0.9534754	0.0465246
	11	2007	0.154668	0.3263564	0.1958851	0.9889621	0.036695
	11	2008	0.1499927	0.3673009	0.645193	0.9943339	0.0056661
	11	2009	0.1926209	0.3558211	0.0586282	0.9423514	0.0576486
	11	2010	0.4132142	0.262439	0.0137442	0.9649434	0.0350566
	11	2011	0.6990328	0.2106577	0.0631731	0.986231	0.013769
	11	2012	-0.025877	0.2964106	0.2670082	0.9955663	0.0044337
	11	2013	0.1033545	0.2602378	0.2169335	0.9997802	0.0002198
UNION	12	2004	0.2409403	0.3608096	0.1977798	0.9798993	0.0201007
	12	2005	0.2156781	0.3991748	0.2093054	0.9586308	0.0413692
	12	2006	0.1873684	0.3394939	0.1978083	0.9681892	0.0318108
	12	2007	0.2084856	0.3896282	0.1705725	0.9533586	0.036695
	12	2008	0.1683924	0.3183698	0.645193	0.9801308	0.0198692
	12	2009	-0.0617771	0.2277621	-0.5457688	0.6341989	0.3658011
	12	2010	-1.4877946	0.4478807	1.0355823	0.7789621	0.2210379
	12	2011	0.2333959	0.5159794	0.9700356	0.9191561	0.0808439
	12	2012	0.1859823	0.683886	0.0653847	0.9958649	0.0041351
	12	2013	-0.1814822	0.5288749	0.0500334	0.9474345	0.0525655
UNITY	13	2004	0.1284047	0.3251098	0.1164241	0.972119	0.027881
	13	2005	0.1067538	0.3292047	0.0811881	0.9915254	0.0084746
	13	2006	0.3435792	0.2043603	0.1603136	0.9832953	0.0167047
	13	2007	0.5071648	0.5248099	0.0375384	0.8718569	0.036695
	13	2008	0.3915245	0.6646556	0.645193	0.4309138	0.5690862
	13	2009	0.2438967	0.3378415	0.5344359	0.8395946	0.1604054
	13	2010	0.0675399	0.4875022	0.1980967	0.9324442	0.0675558
	13	2011	0.2087696	0.2551142	0.0536037	0.9895368	0.0104632

	13	2012	0.2800001	0.2185327	0.0822579	0.9912457	0.0087543
	13	2013	0.3286931	0.4564613	0.2281713	0.9004129	0.0995871
WEMA	14	2004	-0.0387324	0.3078102	0.1147324	0.9466791	0.0533209
	14	2005	0.0349301	0.2805498	0.0632522	0.96183	0.03817
	14	2006	0.8689644	0.1968216	0.0568848	0.8638022	0.1361978
	14	2007	-1.2149356	0.288895	0.2210662	0.9238933	0.036695
	14	2008	0.3996767	0.2895178	0.645193	0.8949869	0.1050131
	14	2009	0.3670199	0.5682333	0.1287279	0.6883499	0.3116501
	14	2010	-0.2525762	0.4428835	0.8147909	0.270411	0.729589
	14	2011	-0.1217248	0.2719375	0.1856916	0.8625859	0.1374141
	14	2012	-0.0199138	0.3667764	0.1641023	0.8805786	0.1194214
	14	2013	0.1801343	0.4261114	0.0322535	0.8490613	0.1509387
ZENITH	15	2004	0.1895611	0.4397511	0.2169033	0.9441949	0.0558051
	15	2005	0.2191853	0.2781262	0.2049639	0.9842671	0.0157329
	15	2006	0.2418549	0.284578	0.1973315	0.9936116	0.0063884
	15	2007	0.2481803	0.3031696	0.1963024	0.9929811	0.036695
	15	2008	0.0493471	0.4136947	0.645193	0.9785102	0.0214898
	15	2009	0.4216295	0.3548399	0.0722613	0.9344219	0.0655781
	15	2010	0.2239914	0.2429689	0.1968176	0.9580754	0.0419246
	15	2011	0.273753	0.2178349	0.1722553	0.9734193	0.0265807
	15	2012	0.0138981	0.3102421	0.3278636	0.9908074	0.0091926
	15	2013	0.1381502	0.2808715	0.2711981	0.991156	0.008844

Source: Appendices A1-A15.

APPENDIX B1

HAUSMAN TEST

	---- Coefficients ----			
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
	fixed	random	Difference	S.E.
comp	.1831796	.0965632	.0866165	.1099728
netprofit	-.7104689	-.6957037	-.0147653	.0303547
mgql	-.7476853	-.3228714	-.4248139	.979831
ldr	-.012861	.2212651	-.234126	.8466472

B = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)

= 1.30

Prob>chi2 = 0.8606

APPENDIX B2

RANDOM-EFFECTS GLS REGRESSION

```
Random-effects GLS regression                   Number of obs      =       150
Group variable: bank                            Number of groups   =        15

R-sq:  within  = 0.2903                         Obs per group: min =        10
       between = 0.1709                                        avg =      10.0
       overall = 0.2744                                        max =        10

                                                Wald chi2(4)       =     56.56
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000

------------------------------------------------------------------------------
                             robust
         etr |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        comp |   .0965632   .0414078     2.33   0.016    -.7150156     .908142
  netprofit  |  -.6957037   .0935446    -7.44   0.000    -.8790477   -.5123597
        mgql |  -.3228714   3.158737    -0.10   0.919    -6.513881    5.868138
        ldr  |   .2212651   3.133645     0.07   0.944    -5.920567    6.363097
       _cons |    .597227   3.174485     0.19   0.851    -5.624649    6.819103
-------------+----------------------------------------------------------------
     sigma_u |   .15311858
     sigma_e |   .56393681
         rho |   .06865991   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

APPENDIX B3

FIXED-EFFECTS (WITHIN) REGRESSION

```
Fixed-effects (within) regression               Number of obs      =       150
Group variable: bank                            Number of groups   =        15

R-sq:  within  = 0.2912                         Obs per group: min =        10
       between = 0.1551                                        avg =      10.0
       overall = 0.2723                                        max =        10

                                                F(4,131)           =     13.46
corr(u_i, Xb)  = -0.0766                        Prob > F           =    0.0000

------------------------------------------------------------------------------
                             robust
       etr |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-----------+------------------------------------------------------------------
      comp |   .1831796   .0428433     4.28   0.070    -.6643633    1.030723
 netprofit |  -.7104689   .0983463    -7.22   0.000    -.9050214   -.5159165
      mgql |  -.7476853   3.307217    -0.23   0.821     -7.29015    5.794779
       ldr |   -.012861   3.246004    -0.00   0.997    -6.434232     6.40851
     _cons |   .9874056   3.321441     0.30   0.767    -5.583196    7.558008
-----------+------------------------------------------------------------------
   sigma_u |  .21550764
   sigma_e |  .56393681
       rho |  .12742822   (fraction of variance due to u_i)
------------------------------------------------------------------------------
F test that all u_i=0:   F(14, 131) =     1.42             Prob > F = 0.1546
```

APPENDIX B4

POOLED LINEAR REGRESSION

```
Source      |  SS       df       MS              Number of obs     =     150
------------+------------------------------         F(  4,   145) =   13.73
       Model | 18.1667047    4  4.54167617           Prob > F      =  0.0000
    Residual | 47.9624101  145  .330775242           R-squared     =  0.2747
------------+------------------------------         Adj R-squared =  0.2547
       Total |66.1291148   149  .443819562           Root MSE      =  .57513

------------------------------------------------------------------------------
                             robust
       etr   |   Coef.   Std. Err.      t    P>|t|    [95% Conf. Interval]
-------------+----------------------------------------------------------------
        comp | .0402381   .0418390     0.96   0.924    -.7866938      .86717
   netprofit |-.6875522   .0935952    -7.35   0.000    -.8725393    -.502565
        mgql |-.1351595   3.174456    -0.04   0.966    -6.409344    6.139025
         ldr | .3128405   3.167915     0.10   0.921    -5.948416    6.574097
       _cons | .4308628   3.190937     0.14   0.893    -5.875896    6.737621
------------------------------------------------------------------------------
```

APPENDIX B5

MULTICOLLINEARITY

	COMP $X1it$	***NPM*** $X2it$	***MGQ*** $X3it$	***LDR*** $X4it$
COMP $X1it$	1.0000			
NPM $X2it$	$r_{12}^2 = \frac{(\sum x_{1it}x_{2it})^2}{(\sum x_{1it}^2)(\sum x_{2it}^2)}$	1.0000		
MGQL $X3it$	$r_{13}^2 = \frac{(\sum x_{1it}x_{3it})^2}{(\sum x_{1it}^2)(\sum x_{3it}^2)}$	$r_{23}^2 = \frac{(\sum x_{2it}x_{3it})^2}{(\sum x_{2it}^2)(\sum x_{3it}^2)}$	1.0000	
$X4it$ ***LDR***	$r_{14}^2 = \frac{(\sum x_{1it}x_{4it})^2}{(\sum x_{1it}^2)(\sum x_{4it}^2)}$	$r_{24}^2 = \frac{(\sum x_{2it}x_{4it})^2}{(\sum x_{2it}^2)(\sum x_{4it}^2)}$	$r_{34}^2 = \frac{(\sum x_{3it}x_{4it})}{(\sum x_{2it}^2)(\sum x$	1.0000