**EFFECTS OF DEPOSITS MOBILIZATION ON THE FINANCIAL PERFORMANCE OF MICROFINANCE BANKS IN NIGERIA -A STUDY OF UMUCHINEMERE PRO-CREDIT MICRO FINANCE BANK LIMITED (2005-2014)**

**BY**

**CHIKWEM OLUCHI SARAH**

**U14/MSS/BAF/O16**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**FACULTY OF MANAGEMENT AND SOCIAL SCIENCES**

**GODFERY OKOYE UNIVERSITY**

**UGWUOMU-NIKE,**

**ENUGU STATE**

**JULY, 2018**

**TITLE PAGE**

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**CHIKWEM OLUCHI SARAH**

**UI4/MSS/BAF/016**

**BEING A PROJECT TOPIC SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, FACULTY OF MANAGEMENT AND SOCIAL SCIENCES, GODFREY OKOYE UNIVERSITY, UGWUOMU- NIKE, ENUGU STATE**

**IN PARTIAL FULFILLMENT OF THE REQIUREMENTS FOR THE AWARD OF THE BACHELOR OF SCIENCE (B.Sc.) DEGREE IN BANKING AND FINANCE**

**SUPERVISOR: ASSOC. PROF. NWANNE T.F.I**

**JULY, 2018**

**DECLARATION**

I, Chikwem Oluchi Sarah, with the registration number U14/MSS/BAF/016 is a bona fide student in the Department of Accounting and Finance under the Faculty of Management and Social Sciences in Godfrey Okoye University. I would like declare that the work entitled The effect of deposit mobilization in the performance of micro finance bank in Nigeria a study of Umuchinemere Pro-credit Micro Finance Bank ltd was submitted by me in partial fulfillment of the requirements for the award of the Bachelor of Science (B.Sc) in banking and finance, Is my original work and has not been submitted either in part or full for any other degree or diploma either in this or any other tertiary institution.

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Chikwem Oluchi Sarah Date

**CERTIFICATION**

This is to certify that this research entitled the Effects of Deposit Mobilization on the financial performance of microfinance banks in Nigeria: A Study of Umuchinemere Pro-credit Micro Finance Bank 2005 - 2014 was written by Chikwem Oluchi Sarah with registration number U14/MSS/BAF/016, presented to the Department of Accounting and Finance of Godfrey Okoye University, Enugu. Has been assessed and approved by the department of Accounting and finance, Godfrey Okoye University Enugu.

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**ASSO. PROF NWANNE T.F.I DATE**

SUPERVISOR

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**DR. UDEH S. N DATE**

HEAD OF DEPARTMENT

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**PROF. OCHEOHA A.O DATE**

DEAN, FACULTY OF MSS

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**EXTERNAL EXAMINER**  **DATE**

**DEDICATION**

This project is dedicated to my parent, Mr. and Mrs. Chikwem, for their love and support.

**ACKNOWLEDGEMENTS**

All thanks goes to Almighty God for granting me the privilege to undertake this programme and bringing it to a successful end.

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**ABSTRACT**

*Dwindling nature of deposits mobilization in microfinance industry necessitated this study. It is to establish the effect of deposit mobilization on the financial performance of micro finance banks in Nigeria: A study of Umuchinemere Pro-credit micro finance bank Nigeria limited 2005 - 2014. The main objective is to examine the effect of customer deposit on the financial performance of the bank and one specific objectives. Two hypotheses were formulated, two research questions, The research design used is ex-post facto. The population of the study was all microfinance banks in Enugu and a sample of one (1)microfinance bank was considered. The data was sourced from the annual report of Umuchinemere pro-credit micro finance bank. Regression analysis and correlation techniques were used to analyse the data. The analysis was carried out using statistical package for social sciences(SPSS).One of the findings of these work is that Customer deposit has effect on the financial performance of Microfinance bank in Nigeria and that Interest rate charges has effect on the financial performance of Microfinance bank in Nigeria. In conclusion Micro Finance Banks are essential in the development of financial system in Nigeria. I recommend that the bank should give due emphasis to its deposit mobilizing tasks since mobilizing deposit is a way to survival and managing deposits is not possible without knowing and controlling the fundamental factors affecting it.*

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**CHAPTER ONE**

**INTRODUCTION**

* 1. **Background to the Study**

The desire to enlarge banking facilities in the rural areas of Nigeria started with the rural banking scheme in the 1970s, and up to the 1980s. However, by the end of the 1980s, it became clear that the conventional banks were no longer willing to open more rural branches; this was simply because such branches were mostly unprofitable. Opening them therefore ran contrary to the profit objective of the owners. In facing this challenge, Nigeria, like most other countries of the world have adopted the concept of micro financing as a means of mobilizing deposits in the rural areas. Microfinance banks in Nigeria operate in diverse environments where they render various categories of services and products to the target clients.

Microfinance banking is a type of banking service that is provided to unemployed or low income individuals or groups. Microfinance banking as a means of creating economic and social development has come a long way in Nigeria. Various comprehensive surveys of the diversified activities of microfinance banks have been provided since 2005 when the policy guidelines became operative. Since its inception, Microfinance Institutions (MFIs) has contributed in a special way in supporting small and medium enterprises by

effectively channeling the idle funds obtained through deposit mobilization to the general public in the forms of loans (short, medium or long term loan), so that it is being put into valuable production and other investment projects helping people to reach their goals.

The importance of Microfinance Institutions can never be overemphasized. Deposit mobilization is one of the major objectives of banks. Deposit is the foundation of all banking activities. However, microfinance banks as well as the banking sector in general do depend on customer’s deposit to advance its clients.

Since the proclamation of the term Micro financing in Nigeria in the mid-term 1970’s, several countries have copied this model, mostly in the developing world. However, the government of Nigeria adopted this policy in the year 2005 and inaugurated the microfinance scheme. The main objective for the promulgation of this policy is to provide finance to the economically active poor, excluded from financing from conventional banks, provide employment, engender rural development and reduce poverty. More so, in Nigeria it is important to note that there are over nine hundred (900) Microfinance banks today in Nigeria and they are regulated and supervised by the Central Bank of Nigeria.

Bello (2005) is of the view that banking system is the backbone of financial intermediation through the mobilization and channeling of financial resources. Therefore, Micro-finance Banks acts as a financial intermediary; by financial intermediary the Microfinance Banks serves as a middleman for parties in a financial transaction. It consolidates deposits and uses the funds to transform them into loans.

Deposits are indispensable tool Microfinance banking use to enhance its profitability through advancing deposits to its customers in form of loans which yield interest to the banks. The lending activity is made possible only if the banks can mobilize enough funds from their customers.

According to Sharma (2009), the bank credit and bank deposits are very closely related with each other that they represent, roughly speaking, two sides of the same coin, and the balance sheets of banks. Banks all over the world thrive on their ability to generate income through their lending activities. The lending activity is made possible only if the banks can mobilize enough funds from their customers. Therefore, in order to thrive in their ability to generate income through their lending activities, most microfinance banks have adopted different strategies or techniques which would help to facilitate their goals of mobilizing enough funds from their customers. This is made possible through improving their services, initiating modern technological banking system processes, locating the banks at strategic places where their services are needed, adopting appropriate promotion strategy and imposing a considerable interest rate on loans.

Mohan (2012) stated that mobilization of deposits is one of the important functions of banking business. Mobilization of deposit plays an important role in providing satisfactory services to different sectors of the economy. The success of the micro-finance banking greatly lies on the deposit mobilization.

The performance of Microfinance bank can be measured through various indicators which could be financial and social performances. These indicators help the financial institutions to measure their success in terms of their returns and to ensure that they also positively benefit the lives of their clients. That is to say, sound finances and good returns are important indicators of success; however, social performance is another increasingly important benchmark used to assess many institutions.

* 1. **Statement of the Problem**

In the Nigerian financial sector, according to EFIA Access to financial services in Nigeria 2016 survey, indicated that about 40.1 million Nigeria adults, representing 41.6% of the adult population are financially excluded. That is, they do not have access to Deposit Money Banks, Microfinance Banks, Mobile Money, Insurance and Pensions. Therefore, banks have the sole responsibility to approach this group of persons and make them understand the importance and benefits of saving. Notwithstanding the above importance of micro financing in Nigeria. To the best of my knowledge as a researcher, not much work has been done to find out the relationship between deposit mobilization and the financial performance of micro financing in Nigeria. This therefore informs the necessity to investigate this relationship as a contribution to knowledge and an attempt to fill the research gap; hence, the decision to embark on this study. Therefore, this study is carried out to determine, if really, the financial performance of Microfinance Banks are affected by deposit Mobilization.

**1.3 Objectives of the Study**

The general objective of this study is to determine the effects of deposits mobilization on the financial performance of Microfinance banks in Nigeria with particular reference to Umuchinemere Pro-credit Micro Finance Bank Nigerian Limited. The specific objectives are:

1. To examine the effect of customers deposits on the financial performance of Microfinance bank in Nigeria.
2. To evaluate the effect of interest rate charges on the financial performance of Microfinance Banks in Nigeria.

**1.4 Research Questions**

In the light of the objective of the research, the following research questions were considered pertinent:

1. What is the effect of customer deposit on the financial performance of Microfinance bank in Nigeria?
2. What is the effect of interest rate charges on the financial performance of Microfinance Banks in Nigeria?

**1.5 Research Hypotheses**

In the light of the forgoing research question some hypotheses were formulated to guide the study:

**H1:** Customer deposit has no effect on the financial performance of Microfinance bank in Nigeria.

**Ho:** Customer deposit has effect on the financial performance of Microfinance bank in Nigeria.

**H1:** Interest rate charges have no effect on the financial performance of Microfinance bank in Nigeria.

**Ho:** Interest rate charges have effect on the financial performance of Microfinance bank in Nigeria.

**1.6 Significance of the Study**

This research is significant in many aspects. The subject matter of the effects of deposit mobilization on financial performance in microfinance banks in Nigeria has drawn so much attention and interest among Nigerians at home and abroad.

This research would be of immense benefit to the banking sector of the Nigeria economy, enabling them to understand the essence of using numerous techniques or strategies in ensuring that the required amount of deposit is mobilized to meet the lending volume required by the public and at the same time maintain extra cash for withdrawals by depositors.

The research is expected to portray the banking customers’ response to the changing banking operation, that is introduction of new technology, techniques and strategies towards giving the customers qualitative and efficient banking services (meeting the customers need).

Finally, the findings from this research will be useful to future researchers in related areas, government agencies, students, bankers and even the public at large.

**1.7 Scope of the Study**

The case study has been considered appropriate for this research as a result of the way its branches are situated at every strategic business unit in Enugu, Nigeria. Thereby, giving way to a better assessment and analysis of data to arrive at a high degree of accuracy through the collection of data. The study covers a period of ten (10) years (2005– 2014).

**1.8 Definition of Terms**

**a) Interest rate:** Is the amount of interest due per period, as a proportion of the amount lent, deposited or borrowed. It refers to the interest rate in microfinance bank. (Homer, Sylla, R.E; Sylla, R. (1996)

**b) Salary Account:** Salary account is a type of saving account where your salary gets credited. The salary accounts are aimed at helping a person manage their salary. It is specially designed for people who live from hand to mouth; hence in most instances, a salary account allows a minimum balance of zero. This means that the person can withdraw all of the money from their salary account and not have to pay a penalty. (Kazi, 2012)

c) **Deposit Money Bank**: Are resident depository corporations and quasi-corporations which have any liabilities in the form of deposits payable on demand, transferable by cheque or otherwise usable for making payment. The bank here refer to Umuchinemere pro-credit micro finance bank. http://esa.un.org/unsd/sna/1993/introduction.asp.

**d) Microfinance Bank:**  A Microfinance Bank is any company licensed by the Central Bank to carry on business of providing Microfinance services that are needed by the economically active poor, micro, small and medium enterprises. It refers to Umuchinemere Pro-credit Microfinance Bank. www.echomicrofinance.com

**e) Commission on Turn over:** A monthly percentage Charge on current account usually depends on the frequency of transactions within the period. (Kazi,2012)

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.0 Introduction-** This chapter discussed past studies related to this topic and has to do with Conceptual, Theoretical, and Empirical Review which are discussed in details.

**2.1 Conceptual Framework**

**2.1.1 Definition of Deposits**

Deposit is the money placed with a bank or other financial institution. Deposits are generally made into either a checking or savings account, although many other types of accounts exist where deposits can also be made or deposit is a claim of customer over the bank on his account. A deposit will often be made into a savings account for the purpose of wealth storage, but such a deposit will usually only earn a relatively low interest rate. On the other hand, a deposit made into a checking account allows the funds to be made available for use through the writing of a  
cheque. Other types of deposits to different types of accounts include: Term, Time, Call, Counter, Bank, Security, Current, Demand, Direct and Fixed Deposits (Hellman, Murdock & Stiglitz, 2000). A deposit is generally required upon the opening of almost all fiduciary accounts at banks and other financial and credit institutions. Banks mobilize deposits by making finances and by investing in various financial markets. Basically deposit mobilization is related to the creation of credits.

The banks would have special campaigns where they would interact with a lot of people and invite them to make deposits with their bank, Nada (2010).

**2.1.2 Importance of Deposit Mobilization**

First, deposit means a claim of customer over the bank on his account in economic concept, any kind of wealth needs to be distributed fairly. It affected the economic stability of the state. One of wealth type in individual level is money, which can be deposited in a bank. Microfinance Bank is one of the players who have this important role to mobilize the deposits. To mobilize the deposits, Microfinance Bank can do several activities. First, making finance activities. Those activities are good in wealth distribution, which can be useful for another party who needs the money. In sample nowadays, financing activities in property, car, trading, etc are the type of financing which are distributed by the banks from depositor to the borrower (Cantoni, 2004).

Second is provision of working capital. Next is shifting of funds into productive hands. Moreover, the last is to stabilize Microfinance Bank performance in order to be a backbone of national economy. So does bank in financial market, investment functions are usually performed by Treasury Office of the bank. Treasury invests deposit for ensuring optimum utilization of available resources, rising additional resources required for meeting credit demands, and also managing market and  
liquidity risks. All of those purposes are the bank’s strategy to make bank survive in operation of the deposit mobilization, which affected the state’s economy (Ramchandra & Reddy, 2005)

1. **Deposits as a source of fund for loan**

States deposits are the main source of banks to provide loan Herald and Heiko (2008). This deposit is mainly provided by people (Salehi, 2010). However, deposits can also be provided by business organizations, NGOs, government and so on. Therefore, whether deposits are from individuals, businesses and government they are important financial source of banks.

1. **Focusing on deposit is cheaper than raising equity**

Banks as any other business organizations can collect funds from debt and/or equity. In the banks context, raising equity is more expensive or costly than attracting deposits. Lorenzo (2010) states that, if the lending channel plays a role, the deposit growth should lead to an increase in the supply of loans due to the additional source of financing for banks. As demand for loan increases because of the development work done by individuals, businesses and government, banks should extend their deposit base. When a commercial bank creates a deposit by lending to a business man, it is clearly performing a function for which it is entitled to a return in the form of interest payments.

1. **Banks make profit using their deposits**

Deposits provide most of the raw materials for bank loans and thus represent the ultimate source of the bank’s profits and growth (Mahendra, 2005). Banks make profit by using their deposits, therefore it is said that depositors are main source of fund to banks (Sheku, 2005). They achieve their objectives mainly by attracting deposits and investing the money on profitable investment portfolio.

1. **Fund investment and/or development projects**

Debt is largely held by domestic commercial banks which are funded mainly from deposits, the government demand for bank assets enabled banks to continue to expand their deposit base rapidly (Herald &Heiko, 2008).Individual investors and government are mainly depending on the deposits of banks to fund their investments and/or development projects. Generally, the banking system can be viable only if it can mobilize deposits at the required rate.This can be done only by making a bank deposit more attractive (Bhatt, 1970). The ability of a bank’s management and staff to attract checking and savings accounts from business and individuals is an important measure of the bank’s acceptance by the public (Mahendra, 2005). Banks’ management major concern is the variability of deposits for several reasons. Kaufman (1972) mentioned the reasons why the variability of banks’ deposit is important as follows:-

⮚ Deposit variability is frequently included as an important determinant of portfolio strategy. The more volatile a bank’s deposits are the more liquid its mix of assets will be.

⮚Deposit variability affects bank holdings of cash and excess reserves, variability affects the distribution of total member bank reserves within the banking system and thereby the path and speed of monetary policy actions.  
⮚Deposit variability affects the mix of banks assets; it affects the availability of funds for loans and consequently the loan rate.

To the extent deposit variability affects both the mix of earnings assets and the frequency of engaging in costly reserve adjustments, variability affects the profitability of individual banks.

⮚ Deposit variability is an important factor influencing bank use of the Federal Reserve discount window and thereby affects discount administration.

**2.1.3 Mechanisms for Saving Mobilization**

Traditionally, customers of banks walk to the banking premises to deposit money. This method of savings mobilization is not able to mop up enough savings. In response to the problem of inability to mobilize enough savings, many banks have devised mechanisms of generating savings.

Among the mechanisms for savings mobilization identified by bank’s include moving from shop to shop to collect daily deposits, the use of the *Susu* scheme, sending agents to economic zones to mobilize savings, among others. It is evident that the bank uses a number of mechanisms to mobilize savings. Apart from the traditional of mobilizing savings where customers walk to the bank to save, there are other ways through which the bank mobilizes savings. In addition, the  
bank moves from shop to shop to collect deposits. This mode of mobilizing savings is done through special arrangement with the customer. Customers who qualify must have a high sales turnover. Other mechanisms of savings identified  
were the Susu scheme where Susu collectors go from home to home and from workplace to workplace to collect small daily deposits.

Therefore to maximize its profit the microfinance bank should increase its deposit. Mahendra (2005) had also mentioned deposits as a foundations upon which banks thrive and grow and unique items on a bank’s balance sheet that distinguish them from other type of business organizations. Commercial banking is a service industry with a high degree of built in profit potential. The number one expense item for a bank is interest paid. Microfinance banks mainly depend on the funds deposited with them by the public to lend it out to others in order to earn interest income. Hamid (2011) said that if banks lose their deposit base they rely on non-deposit based funding which is expensive.

Deposits are of three kinds, namely:

i. Current or demand deposits

ii. Fixed or Time deposits / Term deposits.

iii. Savings deposits

Hence, the competition for deposits is really a competition for profits. Microfinance banks compete for deposits in order to become profitable and thus to be able to supply more funds to the public. However, such financial growth is profitable only if microfinance bank does not incur additional expenses to obtain and retain cash (Devinaga, 2010). Microfinance banks earn a return on their deposits and capital by investing deposit funds and capital funds in assets

**2.1.4 The Determinants Microfinance Banks Deposits**

An important indicator of the success and efficiency of any credit agency, which is also a banking institution is, the extent to which it is able to mobilize the savings of the community in the form of deposit. But deposit mobilization is very difficult task. It depends upon various factors - exogenous as well as endogenous, to the banking system.

1. **Saving interest rate**

One of the most effective factors for deciding to deposit in banking system is the interest rate Mohammad and Mahdi (2010). Moreover, this article shows the impact of interest rate on the performance of the banking system to achieve the goals that are expected from the banking system. Herald and Heiko (2008) also mentioned interest as one of the determining factor for Microfinance banks deposits. Philip (1968) states that the offering of attractive interest rate on bank deposits may be considered to have had a beneficial effect. Moreover, Mustafa and Sayera (2009) states that low deposit rates are discouraging saving mobilization. (Bhatt, 1970) states that the banking system is unlikely to be in a position to meet the demand for bank credit unless concerted policy is pursued to raise the rate of savings generally and the rate of savings in the form of deposits in particular. Interest rate in the banking system is held as investment cost from the investor’s point of view and opportunity cost from the depositor’s point of view Mohammad and Mahdi (2010). Thus, capital market forces balance interest rates. In other words, the just and correct interest rate should be determined through market mechanism, that is, interest rate is balanced in supply and demand conditions in proportion with the inflation rate.

As to Erna and Ekki (2004), Economists mainly conventional ones, believe that depositors are attracted to deposit their money in banks because of the opportunity cost of holding cash in hand is high when the interest rate is also high. This can easily be explained by the utility maximization (cost minimization) premise, as a depositor will choose an action that will maximize their welfare or satisfaction. According to Richard(1971), regulation of the commercial banking industry affects the returns which commercial banks realize on their deposits and capital. That is although deposits are the source for profit of banks it is influenced by regulation of the country. Accordingly, the higher profit rate on demand deposits is to a large extent the result of the prohibition against the payment of interest on these deposits. Therefore, depositors are motivated by returns. Using an Adaptive Expectation Model (AEM), it is founded that depositors are indeed motivated by returns in Malaysia (Erna and Ekki, 2004). On the other hand, Erna and Ekki (2004) states that the rate of interest does not have influence on the volume of the deposit.

**ii. Inflation**

As to Herald and Heiko (2008), inflation is one of the factors that determine banks deposits. Fischer showed that in Latin America the effect of inflation on savings and time deposit to GDP was significantly negative (Mohammad & Mahdi, 2010). The classical belief is that, because bank assets and liabilities are expressed in monetary terms and because these assets will normally grow in line with growth in money supply, banks are relatively immune from the effects of inflation. According to (Devinaga, 2010), this will make borrowing more costly than before and thereby the demand for funds will be reduced. Similarly with a reduction in their credit creating capacity, the banks will be more cautious in their lending policies. Since the banks demand for fund decreases obviously the deposits will decrease. Banking system was affected by inflation in terms of deposit absorption and facilities grant (Mohammad and Mahdi, 2010).

Banking system as an important effective factor in economic performance has also been under the influence of inflation. As far as the effect of inflation on financial sector conceived the literature demonstrates that inflation affects the capacity of financial sector for optimal allocating of resources. That is as inflation rate increases, true yield rate of money and assets decreases; therefore deposits are no longer attractive. Also the increase of inflation rate has a negative effect on the performance of financial sector through the market credits and in turn, on the performances of banks and capital markets and finally on the long term economic growth (Mohammad and Mahdi, 2010).

**iii. Real interest rate**

Real interest rate is nominal interest rate minus inflation rate. Mohammad and Mahdi (2010) said that in negative real interest rate condition, people withdraw their resources from banking system. According to this author some research supposed that decrease in real interest rate could decrease true demands for money (in its extensive definition including savings and time deposits). Therefore it states that the interest rate and deposit of the banks have positive relationship.

**iv. Per capita income of the society**

According to Jim (2008), per capita is the level of GDP divided by the population of a country or region. Changes in real GDP per capita over time are often interpreted as a measure of changes in the average standard of living of a country. If households and firms desire to hold more money, deposits will increase. So the relationship between income and deposits is positive that is as the income of the society increases the same happens for the l bank’ deposits. Income is expected to have a positive effect on deposits (Baqui and Meyer, 1987).

Therefore as society’s per capita income increases the same will happen for commercial banks deposits. Mahendra (2005) also indicates that income of the society matters for banks’ deposit growth.

**vi. Economic growth**

Economic performance is generally being measured through GDP (Gross Domestic Product), a variable that has also become the de facto universal metric for 'standards of living. It is universally applied according to common standards, and has some undeniable benefits mainly due to its simplicity. According to (Herald and Heiko, 2008), growth is one of the determining factors for banks deposits. GDP is calculated by adding up the value-added at each stage of production (deducting the cost of produced inputs and materials purchased from an industry’s suppliers. Erna and Ekki (2004) finds four variables, GDP, number of Islamic bank’s branch offices, profit sharing rate, and interest rate that are thought to have influence on the volume of deposits. So, GDP can influence the growth of banks deposits.

**Bank specific factors**

**a. Liquidity of the banks**

The concept of liquidity in finance principally lies in two areas: a) Liquidity of financial instruments in the financial market b) The liquidity related to solvency. The former related to liquid financial markets and financial instruments, smooth transactions and no barriers. As to ISMAL (2010), the latter discusses the obligation of banks to make payments to third parties. Some examples of this includes: setting up liquidity management policies, reserve liquidity, balancing assets and liabilities and preparing liquid financial instruments (ISMAL, 2010). An important measure of liquidity is loan to deposit ratio. The loans to deposit ratio is inversely related to liquidity and consequently the higher the loans to deposit ratio the lower the liquidity and vice versa (Sheku, 2005). The basic need for liquidity, asset, liability, capital adequacy, credit and interest rates risks management are now more challenging than before. The banks’ liquidity management involves acquiring sufficient liquid asset to meet the bank’s obligation to depositors. According to the theories of financial intermediation, the two most crucial reasons for the existence of financial institutions, especially banks, are their provision of liquidity and financial services (ISMAL, 2010). According to (ISMAL, 2010), regarding the provision of liquidity, banks accept funds from depositors and extend such funds to the real sector while providing liquidity for any withdrawal of deposits, however the banks’ role in transforming short term deposits into long term loans makes them inherently vulnerable to liquidity risk(Bank for International Settlements, 2008b:). Individual, business and government will be willing to deposits their money in banks if they are certain that they are save to withdraw the money whenever they want, this is the question of liquidity of banks. The more liquid banks can attract the deposits. According to (Nada, 2010), Banks perceived as risky should have had more difficulty attracting deposits and making loans than banks perceived as safe. When banks fail to pay for its depositors then it faces liquidity risk that makes other depositors not to deposit in that particular bank.  
**b. Profitability of the bank**

Erna and Ekki (2004) states that the long run relationship between banks deposits and the profitability of the banks. Higher bank profits would tend to signal increased bank soundness, which could make it easier for these banks to attract deposits Herald and Heiko (2008). However, the effect of bank profitability and bank size are found to be insignificant once controlling for the other variables. So, the effect of profitability and banks size on commercial bank deposit is lower as compared with other variables.

**c. Security of the bank**

Security of banks matters in mobilizing deposit. Riskier banks would be able to attract deposits only paying higher Interest rates. The security of banks has its own impact on its attractiveness for depositors. For example in the existence of deposit insurance the depositors no longer are concerned about the soundness of their banks because their deposits are insured in the event of bank failure. So the bank should secure its system so as to mobilize more deposit than before and to attract new depositors and maintain the exiting depositors.

**d. Banking accessibility**

There is a relationship between banks deposits and bank’s branch expansion. Not only are deposits influenced by bank branches, but the expansion of bank branches is also influenced by the level of deposits in any area (Baqui& Meyer, 1987). It is expected that banks make decisions on expanding their facilities by considering factors such as level of competition, deposit potential, regional income and existence of road and vehicles. As deposit potential is one thing that banks consider in expanding its branches, the deposit can also be a reason for branch expansion strategy that the banking sector uses. According to Erna and Ekki (2004) there is a long run relationship between bank branch and banks deposits. It is often argued that branching stabilizes banking system by facilitating diversification of bank portfolios (Mark & Kris, 2006). Restrictions on branching have been linked to the instability of banking systems. (Daniel, 2005) states that the lack of widespread branching bank networks hindered the development of large-scale industrial firms. It is stated that unit banks become increasingly incapable of receiving deposits from a widespread geographic area. The single office bank is also not able to monitor geographically diffuse debtors as easily as could be done with multiple offices. Moreover, it can be concluded that under branch banking the mobility of capital is almost perfect.

**d. Bank size**

Herald and Heiko (2008) states that although insignificant once controlled by other variables, bank sizes have an effect on deposits. Smaller banks have to generate fewer deposits in absolute terms to achieve the same deposit growth than large banks, thus possibly favoring smaller banks in achieving higher deposit growth. But a larger bank with economies of scale as well as larger branch network might be able to better attract deposits (Herald and Heiko, 2008).

**e. Reserves**

(Thorn, 1959) states that reserves that are fixed legally can influence the deposits that banks can hold. According to them reserve requirements determine the maximum amount of loans and investments that each banks and the banking system as a whole may maintain in relation to deposits. Thus, if the reserve requirement is 20 percent of deposits, loans and investment (of the bank’s own choosing) may not exceed 80 percent of deposits.

Therefore, reserve requirements limit the total expansion of bank deposits that can occur on the basis of any primary increase in deposits. Reserve requirements also have the effect of limiting the reduction in bank credit and deposits that is forced up on the banking system by a primary decrease in deposits. The banks can obtain currency to pay out to customers only by drawing down their reserve deposits at the central bank or by using till money (Thorn S., 1959). Till money, according to Thorn S. (1959) state that the currency that banks keep on hand to satisfy day to day needs. They pointed out that bank deposits are a large part of the money supply in virtually all countries.

**f. Transaction cost**

Important indicator of management’s effectiveness in any bank are whether or not deposited funds have been raised at the lowest possible cost and whether enough deposits are available to fund those loans the bank wishes to make (Mahendra, 2005). This last point highlights the two key issues that every bank must deal with in managing its deposits (Mahendra, 2005):-

⮚ Where can the bank raise funds at the lowest possible cost?

⮚ How can management ensure that every bank always has enough deposits to support the volume of loans and other financial services demanded by the public?  
**g. Financial technologies**

Financial technologies such as card banking enable customers’ access to cash services 7-days- 24 hours by making large cash carrying unnecessary (Gunnar and Zhao, 2013). It shifts out the traditional frontier of access to banks. Deposit per capita of countries had grown well after the introduction of card payment, ATM and mobile/internet banking technologies in their financial system. A study in Georgia indicated that these technologies have reduced public preference to holding cash in purse.

**2.1.5 Concept of Financial Performance**

The concept of performance or financial performance has not been defined in any specific manner by any study. To this end, it could be said that firm performance can be defined depending on the focus of the study. This is based on the fact that performance is a multi - dimensional concept and its explanation continues to occupy a prominent place in literature (Theiri and Ati, 2011). The outcome of management process from the point of strategic planning to the implementation of such plans, support the measurement of corporate performance. Corporate performance is an important issue in corporate finance considering the recent levels of financial scandals and various degrees of firms‟ failures.

Corporate profit is one of the most closely followed economic indicators. Profits are source of retained earnings, providing much of the funding for investment in plant and equipment that raises productive capacity. Profits are also frequently used in measuring the rate of return on investment and the relationship between earnings and equity valuation. Profits may also be used to evaluate the effects of changes in policy on corporations or profits or in economic conditions. Profitability is the primary goal of all business ventures, without profit the business will not survive on the long run.

Therefore, the measurement of current or past profitability and projecting future profitability is very important. Profitability is the most important measure of the success of the business and a business that is not profitable cannot survive. Consequently, profitability of firm plays an important role in the structure and development of firm because it measures the performance, success of the firm and enhances the reputation of the firm Nousheen and Arshad (2013). Profitability provides a summary measure of corporate success or failure and thus serves as an essential indicator of economic performance. Consequently, a business that is highly profitable has the ability to reward its owners with a large return on their investment. Profitability of a firm is the ability to generate revenue in excess of cost in relation to the company’s capital base (Victor, Samuel and Eric, 2013).

Owolabi and Obida (2010) defined profitability to mean: the ability to make profit for all business activities of an organization. They further described it as management efficiency in the use of organizational resources in adding value to the business. Profitability is a way of measuring economic success of a firm in terms of capital invested in the firm (Roxana, 2010).

Profitability is determined by the extent of the net accounting profit (return on asset, return on capital employed, return on equity and others). Hence, a sound and profitable company is best able to absorb negative shocks and contribute to the stability of the nation’s economy in general. Corporate performance or firm’s performance refers to the result of management process in relation to corporate goals. It is a product of the activities and return on investment in a given period (Mohammad and Ebrahim, 2010). Firm performance helps to reveal the result of investment activities of the organizations thus informs and send out signals to the public in relation to their worth/value to help investors make valuable economic decisions. The concept of performance is a controversial issue in finance largely due to its multidimensional meanings as opined by (Jegers, 1987).

**2.1.6 Measurement of Financial Performance**

Firm performance is used as a measure to dictate an organization’s growth and development. It shows the level of improvement made by an organization or firm within a period of time. There is no specific measure to employ in order to arrive at performance; however, the measure of corporate performance could be arrived at by the use of a number of indices or variables which include productivity, profitability, growth or even customer satisfaction are most likely used (Aliu, 2010). The study conducted by Muhammad, Ammar& Muhammad (2013) examines the impact of capital structure on banking performance using ROA, ROE and EPS. Mesut (2013) examines firm size effect on ROA in his study “Does firm size affect the firm profitability” in Turkish firms. A study by Harold, Jooh&Berhe (2006) investigates the impact of major marketing factors on ROE and ROA in US pharmaceutical industry.

**2.2 Theoretical Review**

The theory underpinning this study is the bank led theory:

**2.2.1 Bank Led Theory**

Bank-led model offers a distinct alternative to conventional branch-based banking in that customer conducts financial transactions at a whole range of retail agents instead of at bank branches or through bank employees. The bank is the ultimate provider of financial services and is the institution in which customers maintain accounts. Retail agents have face-to-face interaction with customers and perform cash-in/cash-out functions much as a branch-based teller would take deposits and process withdrawals. Virtually any outlet that handles cash and is located near customers could potentially serve as a retail agent. Whatever the establishment, each retail agent is outfitted to communicate electronically with the bank for which it is working. The equipment may be a mobile phone or an electronic point-of-sale (POS) terminal that reads cards. Once an account is established or loan approved, the customer goes to the retail agent to conduct all or certainfinancial transactions. The retail agent checks the customer’s identification documentation and processes the transaction, debiting the customer’s and crediting the payee’s bank account if it is a purchase or a transfer of funds between accounts. Unless the transaction is merely a transfer of funds, cash is either deposited to or withdrawn from the retail agent’s cash drawer. An electronic record of the transaction is either routed directly from the retail agent to the bank or is handled by a payment processing agent that settles the transaction between the customer’s account and the payee’s account. (Lyman, Ivatury & Staschen, 2006).

The bank led theory is related to the study as it focus on how financial institution like bank deliver their financial services through a retail agent, where the bank develops financial products and services but distribute them through retail agents. This can be a way of mobilizing deposits, microfinance banks use as a new model to increase financial inclusion and facilitate the transaction especially in the areas where the bank is not present. This model facilitates the banks to raise its deposits and lead to financial performance.

**2.3 Empirical review**

This section provides the relevant empirical review related to the study of deposit mobilization and financial performance in banks. According to Gockel and Brow (2007), Bank Deposit is money placed into a banking institution for safe keeping. Bank deposits are made to deposit accounts at a banking institution, such as savings accounts, checking accounts and money market accounts. The account holder has the right to withdraw any deposited funds, as set forth in the terms and conditions of the account. The deposit itself is a liability owed by the bank to the depositor (the person or entity that made the deposit), and refers to this liability rather than to the actual funds that are deposited. A Bank Deposit is generally made when opening an account or in the course of routine business or personal transactions that involve placing funds with the bank for future use. Bank deposits can be made in a number of different ways. The most direct way is to walk into a bank or a bank branch in which you hold an account. Bank deposit is done by filling in a Bank Deposit slip with the particulars of your account and the amount of money you wish to deposit. Bank Deposits can be made via wire transfer, as well as through a direct deposit plan from employers in many cases. According to Kazi (2012), in banking sector, deposit mobilization is a scheme intended to encourage customers to deposit more cash with the bank and this money in turn will be used by the bank to disburse more loans and generate additional revenue for them. The main business for banks is accepting deposits and granting loans. The more the loans the banks disburse the more profit they make. Also, banks do not have a lot of their own money to give as loans. They depend on customer deposits to generate funds for granting loans to other customers. Traditionally, customers of banks walk to the banking premises to deposit money. This method of savings mobilization is not able to mop up enough savings. The World Development Report (2008), in response to the problem of inability to mobilize enough savings, many banks have devised mechanisms of generating savings. Among the mechanisms for savings mobilization identified by bank’s include moving from shop to shop to collect daily deposits, sending agents to economic zones to mobilize savings, among others. It is evident that the bank uses a number of mechanisms to mobilize savings. Apart from the traditional of mobilizing savings where customers walk to the bank to save, there are other ways through which the bank mobilizes savings. In addition, the bank moves from shop to shop to collect deposits. This mode of mobilizing savings is done through special arrangement with the customer. Customers who qualify must have a high sales turnover. Laura, Alfred, Sylvia(2009), carried out a study on how to mobilize more deposits, financial institutions offer a range of savings products that are tailored to their particular clientele. They offer the widest variety of specialized savings products, so that their customers have a choice between immediately accessible, liquid products, or semi-liquid accounts or time deposits with accordingly higher interest rates. Simple and clear design of basic savings products enables depositors to easily select the product that best suits their needs. The simple and transparent design of the savings products also enables staff to administer them with ease, reducing administrative costs. According to Tanzi (2013), fiscal policy relates government revenue to its expenditure. In most developing countries, taxation is the main source of government revenue and the effectiveness of which rests on its ability to generate required revenue and support investment. Taxation is often defined as the levying of compulsory contributions by public authorities having tax jurisdiction, to defray the cost of their activities. Ali-Nakyea (2008) said that, no specific reward is gained by the tax payer. The money collected is used for the common good of the citizenry -for the production of certain services, as aforesaid, which are considered to be more efficiently provided by the State rather than by individuals e.g. maintenance of law and order at home, and defense against external enemies, etc.. According to Katang and Ntui (2008), in the most basic terms, commercial banks take deposits from individual and institutional customers, which they then use to extend credit to other customers. They make money by earning more in interest from borrowers than they pay in interest to those whose deposits they accept. They are different from investment banks and brokerages in that those kinds of institutions focus on underwriting, selling, and trading corporate and municipal. Therefore one of the most important ways leading to financial performance is the effective use of deposit mobilized extended to customers as generation of interest.

Venkateshan (2012) **carried out a study on** “An Empirical Approach to Deposit Mobilization of Commercial Banks in Tamil Nadu”. The researcher made an attempt to study the trend and growth in deposit mobilization of Scheduled Commercial Banks in Tamil Nadu during the period from 1999-2000 to 2008-2009. The Compound Growth Rate (CGR) and Linear Growth Rate (LGR) were calculated from using simple regression analysis. The study found that, there has been a remarkable growth in mobilization of all kinds of deposits in Scheduled Commercial Banks in Tamil Nadu on the whole. Pai (2006) carried out a study on Trends in the Indian Banking Industry: Analyses of Inter- regional Trends in Deposits and Credits”. The researcher makes an attempt to study the banking industry focuses on broad trends across banks and different regions in India. The study focuses on five groups of banks both private and public sector. Deposit and credit are the two performance criteria. The study revealed that, the performance of banks regarding deposits and credits at the two points of time has been largely similar. The study observed that, private scheduled commercial banks have shown superior performance. The study also reveals that, their growth on these two parameters, at the two points in time, have been comparable between them.

Gagan and Rajasekhar (2005) carried out a study on Urban Bias in the Flow of Funds and Deposit Mobilization: Evidence from Karnataka, India. The researcher examines the impact of contrasting policies on the flow of credit and deposit mobilization in rural and urban areas in Karnataka State. The study found that the formal financialinstitutions tended to gravitate towards urban areas in the credit provision after the reforms were introduced. During the reform period, rural areas witnessed negative net flow of funds through banking channels. The study also found that, one unit increase in deposits leads to less credit flow in rural areas as compared to urban areas.

(Lomuto, 2008), carried out a study on commercial banks in Kenya with the aim of identifying and examining the key determinants of Kenyan Commercial Banks Deposit growth.

Its main objective was to analyze the factors that influence Commercial banks deposit growth in Kenya. Time series data covering 1968 - 2006 was analyzed. First, the time series characteristics of the data were assessed using unit root tests to examine the stationarity of each variable. Secondly, the test for co integration was performed to determine the long run relationship of the non-stationary variables. Lastly, estimated model was a single regression equation with deposit as the dependent variable and explanatory variables as deposit rate, nominal exchange rate, investment income ratio, number of cheques cleared (used as proxy for  
innovations in the financial sector), real GDP, ratio of monetary GDP to total GDP and Structural Adjustment Programs (SAPs). Estimation was done using Ordinary Least Squares (OLS) technique and Econometric Views (E-views) statistical package.  
Analyzed results showed that lagged Commercial bank deposits and all the other variables including Structural Adjustment Programs (SAPs) significantly affect Commercial bank deposit growth in Kenya. Based on these results, several policy implications were drawn that aim at encouraging deposits growth by Commercial banks for the benefit of the domestic deposit mobilization.

**2.4 Summary and Gap in Literature**

The above chapter reviewed the various theories and empirical studies that explain the relationship between level of deposit and bank performance, the related research has not taken into consideration the deposit mobilization factor together with the performance of micro finance banks and how it can be improved as a means of increasing their financial performance. After having observed the gap in this area of research, the researcher conducted the research on the effect of deposit mobilization on the financial performance of microfinance in Nigeria most specifically for Umuchinemere Pro-credit Microfinance Bank Ltd.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 Introduction**

This chapter presents the methodology employed in the study to assess the impact of deposit mobilization on the financial performance of listed microfinance banks in Nigeria, specifically; this chapter took into account the entire research design that is, the population and sample size of the study; the nature and source of data, and the way these data were collected and analyzed. The validity and reliability of the data were also highlighted.

* 1. **Research Design**

Nachmias (2003) defined research design as a program that guides the investigator in the process of collecting, analyzing and interpreting observations. Or is the blue print that enables the investigator to come up with solution to the problem and guides him or her in various stages of the research.This study adopted a case study approach (i.e. Umuchinemere Pro-credit Micro Finance Bank Nigerian Limited as a case).

* 1. **Sources of Data Collection**

This study focuses onsecondary source of data, which is derived from published materials, which already exist and are for other purpose other than research. Examples are Annual report and account of Umuchinemere Pro-credit Micro Finance Bank Nigeria.

**3.4 The population of the study**

The population of the study is on Microfinance banks in Nigeria, a case study of Umuchinemere Pro-credit Micro Finance Bank in Enugu due to already available data.

* 1. **Sample and SampleSize:**

The sample include Umuchinemere Pro-creditMicro Finance Bank Nigeria Limited. Due to the small sample size it is recommended that interpretation of the result from the study should be done with some degree of caution

**3.6 Instrumentation**

The instrument of data collection for this study is the annual report and accounts of Umuchinemere Pro-credit Micro Finance Bank Nigerian Limited for all the relevant years. The study covers the period from 2005-2014. The periods were chosen because of access to ready data, information obtained from the firm’s annual report and account are profit after tax, total asset, customers deposits, and interest rate charge.

* 1. **Reliability and Validity of the Data and Test Instrument**

The validity is concerned with accuracy of data. That is, the validity refers to the extent to which the data obtained is accurate for the purpose. The researcher exercised validity by soliciting an audited and published financial statements from competent Managing Directors of the banks. The data especially, the Annual Reports of the banks did not pose any problem to the researcher since they were outside their zone of indifference and therefore was authentic. This helped the researcher to get relevant information for the purpose of the study.

Reliability of data concerns its consistency. Thus, reliability refers to the extent to which the data is the same irrespective of their source. That is, the data specifically, the annual reports of the banks and publications of CBN Statistical Bulletin were not at variance with each other and therefore were reliable.

* 1. **Data Analysis Techniques**

The collected data through the secondary sources were analyzed using a regression analysis and correlation technique. This technique is employed in order to test or determine the relationship between independent variable and dependent variable in a holistic manner. Correlation co-efficient is also used to measure the strength and direction of the relationship between both variables.

**3.8.1 Empirical Model Specification**

The researcher adopts the model used by Kazi (2012) with little modifications to suit the researcher’s need. The model is as follows:

Using regression analysis, the model can be built as follows:

FP= b0 + b1CUD + b2 BIC +еit

Where,

FP= Financial performance

CUD = Customers Deposit

BIC= Bank Interest Charge

b0 = constant

b1, b2 are regression coefficients.

еit = Error term

**CHAPTER FOUR**

**DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

**4.1 Introduction**

This Chapter employed the use of descriptive statistics, correlation and linear regression model to analyze and interpret the data collected in the study, the data collected were presented in tabular form. The analysis followed the methodology specified in chapter three. The chapter is organized into three sections. Section one: data analysis, section two deals with testing of hypothesis, while section three discusses the findings.

**4.2Analysis of Data**

**4.2.1 Data Presentation**

This section provides the data used in the study. The data are in relation to the variables used in the study. The variables are Return on Asset (ROA), Customers Deposits (CUD and Interests Rate (INTR).

**Table 4.1: Umuchinemere Procredit Microfinance Bank Nigeria Limited**

|  |  |  |  |
| --- | --- | --- | --- |
| **Years** | **CUD** | **ROA** | **INTR** |
| 2005 | 2.75 | 0.006 | 1.25 |
| 2006 | 2.81 | 0.02 | 1.22 |
| 2007 | 2.87 | 0.03 | 1.22 |
| 2008 | 2.90 | 0.04 | 1.18 |
| 2009 | 2.97 | 0.05 | 1.26 |
| 2010 | 3.02 | 0.02 | 1.24 |
| 2011 | 3.13 | 0.02 | 1.20 |
| 2012 | 3.10 | 0.06 | 1.07 |
| 2013 | 3.14 | 0.03 | 1.07 |
| 2014 | 3.19 | 0.04 | 1.05 |

**Source: Annual Report of UPMFB 2005- 2014**

**4.3.1 Descriptive Statistics**

The descriptive statistics displayed in table 4.2 below provides the mean, Maximum, minimum and standard deviation for each of the variables used: Return on Asset (ROA), Customers Deposits (CUD) and Interests Rate (INTR). The descriptive statistics is presented below:

**Table 4.2 The Descriptive Statistics for the data for the year 2005-2014**

|  | | | | | |
| --- | --- | --- | --- | --- | --- |
|  | N | Minimum | Maximum | Mean | Std. Deviation |
| ROA | 10 | .01 | .06 | .0316 | .01616 |
| CUD | 10 | 2.75 | 3.19 | 2.9880 | .15201 |
| INTR | 10 | 1.05 | 1.26 | 1.1760 | .08127 |
| Valid N (listwise) | 10 |  |  |  |  |

**Source: SPSS Results**

The result above displays the mean, maximum, minimum and standard deviation for all the variables. Specifically, the ROA has a minimum value of 0.01 and a maximum value of 0.06, on average, ROA has a mean of 0.0316 with a standard deviation of 0.01616. The same result is made available for other variables. From the result above, it can be observed that the ROA has the lowest standard deviation 0.01616 showing its most contribution to the model while the other variable has the highest values showing their least contribution to the model.

**4.3.2**  **Correlation**

Table 4.3 below presents the correlation results on: Return on Asset (ROA), Customers Deposits (CUD) and Interests Rate (INTR). It gives the degree of correlation and the direction of the relationship. The table below shows the correlation result.

**Table 4.3 The Correlation Results for the data for the year 2005-2014**

|  | | | | |
| --- | --- | --- | --- | --- |
|  |  | ROA | CUD | INTR |
| ROA | Pearson Correlation | 1 | .447 | -.492 |
| Sig. (2-tailed) |  | .195 | .149 |
| N | 10 | 10 | 10 |
| CUD | Pearson Correlation | .447 | 1 | -.724\* |
| Sig. (2-tailed) | .195 |  | .018 |
| N | 10 | 10 | 10 |
| INTR | Pearson Correlation | -.492 | -.724\* | 1 |
| Sig. (2-tailed) | .149 | .018 |  |
| N | 10 | 10 | 10 |
| **Source: SPSS Output**  \*. Correlation is significant at the 0.05 level (2-tailed). | | | | |

The result indicates that there is a weak positive relationship between ROA and CUD, at 5% level of significance with correlation co-efficient of 0.447. This result indicates that Customers deposits contributes positively to the financial performance of Umuchinemere Pro-credit Microfinance Bank Nigeria as proxy by ROA. While ROA and INTR, have negative relationship with a co-efficient of -0.492. This result indicates that Bank interest rate contributes negatively to the financial performance of Umuchinemere Pro-credit Microfinance Bank Nigeria as proxy by ROA.

**4.3.3 Regression Results**

This section discusses the regression results in relation to the effect of deposits mobilization and the financial performance of microfinance banks in Nigeria for the period under review. The results are presented below:

| **Table 4.4 Model Summary** | | | | | |
| --- | --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | .510a | .260 | .048 | .01577 | 2.017 |
| **Source: SPSS Output**  a. Predictors: (Constant), INTR, CUD | | | |  |  |
| b. Dependent Variable: ROA | | | |  |  |

| **Table 4.5 ANOVA** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | .001 | 2 | .000 | 1.227 | .349a |
| Residual | .002 | 7 | .000 |  |  |
| Total | .002 | 9 |  |  |  |
| **Source: SPSS Output**  a. Predictors: (Constant), INTR, CUD | | | |  |  |  |
| b. Dependent Variable: ROA | | |  |  |  |  |

| **Table 4.6 Coefficients** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | .053 | .242 |  | .221 | .832 |
| CUD | .020 | .050 | .192 | .407 | .696 |
| INTR | -.070 | .094 | -.353 | -.750 | .478 |
| **Source: SPSS Output**  a. Dependent Variable: ROA | | |  |  |  |  |

From table 4.4, the result shows that the co-efficient of the regression which is R is high at 51%. This means that only 51% of ROA is explained by the explanatory variable while 49% is unexplained. The Durbin Watson (DW) statistics of 2.017 suggests the absence of serial correlation.

From table 4.5 above, the result shows the overall fitness of the model formulated. The F-statistics as presented in the table is 1.227 which is insignificant at 5%. This shows that the model is well fitted as seen from the ANOVA table.

Table 4.6 shows the regression results on the relationship between variables used in the study. The estimated regression relationship for the model is:

ROA= 0.053 + 0.20 (CUD) - 0.070 (INTR)

The model shows that deposits mobilization has little effect on financial performance as represented by ROA.

**4.3 Testing of Hypotheses**

**Hypotheses One**

**H1:** Customer deposit has no significant effect on the financial performance of Microfinancebank in Nigeria.

**H0:** Customer deposit has significant effect on the financial performance of Microfinance bank in Nigeria.

The result from table 4.3 shows the relationship between ROA and CUD, it indicates that there is a weak positive effects between ROA and CUD at 5% level of significance with correlation co-efficient of 0.447. This therefore means that customer’s deposits influence the financial performance of microfinance banks. This therefore, leads to the acceptance of the alternate hypothesis which states that Customer deposit has effect on the financial performance of Microfinance bank in Nigeria and the null hypothesis is rejected.

**Hypotheses Two**

**H2:** Interest rate charges has no significant effect on the financial performance of Microfinance bank in Nigeria.

**H0:** Interest rate charges has significant effect on the financial performance of Microfinance bank in Nigeria.

The result from table 4.3 shows the relationship between ROA and INTR, it indicates that there is a negative relationship between ROA and INTR at 5% level of significance with correlation co-efficient of -0.492. This therefore means that bank interest charge do not influence the financial performance of microfinance banks. This therefore, leads to the acceptance of the null hypothesis which states that Interest rate charges has effect on the financial performance of Microfinance bank in Nigeria and the alternate hypothesis is rejected.

**4.5 Discussion of Findings**

The study discovered that Customer deposit has effect on the financial performance of Microfinance bank in Nigeria and that Interest rate charges has effect on the financial performance of Microfinance bank in Nigeria. Mobilization of deposits is one of the important functions of banking business. It is an important source of working fund for the bank. Deposit mobilization is an indispensable factor to increase the sources of the banks to serve effectively. Mobilization of deposit plays an important role in providing satisfactory service to different sectors of the economy. The microfinance Banks must tap deposits from urban and rural areas. This helps the microfinance banks to provide large amount of funds to priority sectors for development. The success of the banking greatly lies on the deposit mobilization. Performances of the microfinance bank depend on deposits, as the deposits are normally considered as a cost effective source of working fund. Mobilization of rural savings is one of the important objectives of the microfinance Banks. It helps to expand banking operations. The CBN encourages the microfinance banks to mobilize deposits, by providing subsidy for branch expansion. The successful functioning of microfinance banks depends on the extent of funds mobilized. Deposits are the life blood of banking companies. Deposits constitute a vital source of funds required for banking business. There are different types of deposits, with different maturity pattern carrying different rates of interests. Deposit mobilization is dependent on the cost of deposits. Mobilization of deposits for a bank is as essential as oxygen for human being. In the post liberalization scenario, the number of players in banking industry have increased considerably which developed competition in bank marketing. The survival of the fittest has made applicable for the banks. To enhance profitability, banks take steps to minimize the expenditure and are forced to mobilize low cost deposits.

In the present context bank’s efficiency is measured based on the deposit mix and on the quantum of low cost deposits in the mix. In the present era of competition and with the emergence of private and multinational banks, an ideal mix of deposits is a must to survive. Since the interest paid on deposit forms a big burden on bank, the mobilization of low cost deposits, like current account and savings bank deposit is the urgent need for the bank. Microfinance banks borrow and lend, they borrow money by accepting deposits from the public including members of the bank. Deposit mobilization is the chief source of funds to undertake lending operations, for profitable operation, the amount of deposits is very important. The microfinance banks should introduce various deposits schemes to attract the public to deposit. It is the size of the deposits that largely decides the lending potential of a microfinance bank.

**CHAPTER FIVE**

**SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

**5.1 Introduction**

This chapter is the last chapter of this research work and it contains the summary, conclusions, recommendation made based on the findings in the study and financial suggestions for further studies

**5.2 Summary of findings**

The summary of this study consists of the following. In line with the objectives, research and hypothesis, it was found that:

1. Customer deposit has positive significant effect on the financial performance of micro finance bank in Nigeria.
2. Interest rate charges have negative effect on the financial performance of micro finance bank.

**5.3 Conclusion**

Microfinance Banks are absolutely essential in the development of the financial system in Nigeria. At the moment they are the major mobilizers of local resources in the form of deposits. They are indeed the appropriate media to secure investment funds in these economies where the stock market is yet to develop. The deposits they attract over the years keep increasing, but are insufficient for self-sustainability and form a meagre proportion of the money in circulation. The implication is that large unproductive deposits are left to be squeezed into loanable funds for investment. The onus rests on the commercial banks in collaboration with all other formal and informal financial service providers and government to introduce immediate reforms towards achieving these goals. The effort towards self-sufficiency in the financial sector should embrace all caliber of people in Nigeria to make the Millennium Development Goals achievable. The survival of every microfinance bank in Nigeria highly depends on deposit because mobilizing deposit for microfinance banks is a matter of survival. Without having enough deposit for microfinance banks business is nothing. The same is true for microfinance Bank of Nigeria. This study also assured us without having enough deposit microfinance Bank of Nigeria can’t survive as a bank. According to the study deposit mobilization is very difficult tasks because of having many factors determine bank deposit. Based on this empirical evidence from the analysis the key factors for microfinance Bank of Nigeria deposit growth are excellent service, branch expansion, opening new branches, promotional effort, interest rate, awareness creation and using new banking technologies. Among these, interest rate is considered as less significant in deposit growth due to a little market based rate of adjustment are exercised in microfinance Bank of Nigeria.

**5.4 Recommendations**

Based on the research findings and conclusions above, the following are recommended for Microfinance Bank of Nigeria to mobilize more deposits:

1. It is well known that mobilizing deposit is a core activity of all microfinance banks. By the same analogy Microfinance Bank of Nigeria major activity is mobilizing deposit. Therefore the bank should give due emphasis to its deposit mobilizing tasks by considering mobilizing deposit is a way to survival.
2. Managing deposits is not possible without knowing and controlling the factors affecting it. Thus microfinance Bank in Nigeria should have identified the sources of deposit by considering the determining factors of bank deposit.
3. It has been clearly noted that enhanced accessibility has a positive relationship with bank deposit growth. Thus, by addressing banking accessibility, Microfinance Bank of Nigeria can resolve problems experienced in deposit mobilization and can channel the more resources in the hands of the community.
4. Microfinance Bank of Nigeria should expand their branches in order to increase their deposits and the bank should give priority for branch opening than other determinants. This will also educate the unbanked society on the essence of the banking system overall the country.
5. The banks should put in place strategies aiming at improving deposit mobilization policy in order to attract more customers and also ensure that there is an effective and efficient policy of converting deposit mobilized into loan in order to gain the interest paid on the deposits.
6. The banks should put in place strategies aiming at improving depositmobilizationpolicyinordertoattractmorecustomersandalsoensurethatthereisaneffectiveandefficientpolicyofconvertingdepositmobilizedintoloaninordertogaintheinterestpaidonthedeposits

**5.5 Suggestions for Further Study**

The results and the analysis have revealed some additional questions which need to be answered in future studies. More banks selected factors than the ones included in the research should have an impact on deposits mobilization. It would therefore be interesting to conduct a similar study with different microfinance banks. The dependent variable in the study was the return on assets. However, a suggestion for future studies

1. To replace the return on assets and instead use the return on equity, return on cash flow and net interest income as the dependent variable. Most previous studies have also used the return on assets and it would therefore be interesting to see the impact of a number of selected microfinance banks. A time period of ten years has been used in the study and for future research.
2. I recommend to use a longer time period. It would be interesting to see whether the results from this study are applicable if a study is conducted over a longer period of time or during another time period. Finally determinants of deposit mobilization on microfinance banks should also be investigated in Nigeria.

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**APPENDIX**

**4.1 Umuchinemere Pro-credit Microfinance Bank Nigeria Limited for the year 2005 - 2014**

|  |  |  |  |
| --- | --- | --- | --- |
| **Years** | **CUD** | **ROA** | **INTR** |
| 2005 | 2.75 | 0.006 | 1.25 |
| 2006 | 2.81 | 0.02 | 1.22 |
| 2007 | 2.87 | 0.03 | 1.22 |
| 2008 | 2.90 | 0.04 | 1.18 |
| 2009 | 2.97 | 0.05 | 1.26 |
| 2010 | 3.02 | 0.02 | 1.24 |
| 2011 | 3.13 | 0.02 | 1.20 |
| 2012 | 3.10 | 0.06 | 1.07 |
| 2013 | 3.14 | 0.03 | 1.07 |
| 2014 | 3.19 | 0.04 | 1.05 |

**Source: Annual Report of UPMFB,2005- 2014**

**Table 4.2 The Descriptive Statistics for the data for the year 2005-2014**

|  | | | | | |
| --- | --- | --- | --- | --- | --- |
|  | N | Minimum | Maximum | Mean | Std. Deviation |
| ROA | 10 | .01 | .06 | .0316 | .01616 |
| CUD | 10 | 2.75 | 3.19 | 2.9880 | .15201 |
| INTR | 10 | 1.05 | 1.26 | 1.1760 | .08127 |
| Valid N (listwise) | 10 |  |  |  |  |

**Source: SPSS Results**

**Table 4.3 The Correlation Results for the data for the year 2005-2014**

|  | | | | |
| --- | --- | --- | --- | --- |
|  |  | ROA | CUD | INTR |
| ROA | Pearson Correlation | 1 | .447 | -.492 |
| Sig. (2-tailed) |  | .195 | .149 |
| N | 10 | 10 | 10 |
| CUD | Pearson Correlation | .447 | 1 | -.724\* |
| Sig. (2-tailed) | .195 |  | .018 |
| N | 10 | 10 | 10 |
| INTR | Pearson Correlation | -.492 | -.724\* | 1 |
| Sig. (2-tailed) | .149 | .018 |  |
| N | 10 | 10 | 10 |
| \*. Correlation is significant at the 0.05 level (2-tailed). | | | | |

**Source: SPSS Output**

| **Table 4.4 Model Summary** | | | | | |
| --- | --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | .510a | .260 | .048 | .01577 | 2.017 |
| a. Predictors: (Constant), INTR, CUD | | | |  |  |
| b. Dependent Variable: ROA | | | |  |  |

| **Table 4.5 ANOVA** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | .001 | 2 | .000 | 1.227 | .349a |
| Residual | .002 | 7 | .000 |  |  |
| Total | .002 | 9 |  |  |  |
| a. Predictors: (Constant), INTR, CUD | | | |  |  |  |
| b. Dependent Variable: ROA | | |  |  |  |  |

| **Table 4.6 Coefficients** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | .053 | .242 |  | .221 | .832 |
| CUD | .020 | .050 | .192 | .407 | .696 |
| INTR | -.070 | .094 | -.353 | -.750 | .478 |
| a. Dependent Variable: ROA | | |  |  |  |  |