

## **Monetary Policy and Commercial Banks' Credit Performance: Evidence from UBA PLC.**

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**Abstract:** *This paper seeks to assess empirically the impact of monetary policy on the performance of commercial banks in Nigeria. The paper specifically adopt United Bank for Africa (UBA) Plc as a case study. The study made use of a panel cross sectional data covering the period from 2009 to 2014. Multiple linear regression technique was employed to test the relationships inherent in the explanatory and dependent variables with the aid of Statistical Package for Social Sciences (SPSS), Version 20. The estimated model expresses banks' operating performance as a function of monetary policy represented by Monetary Policy Rate (MPR), Cash Reserve Requirement (CRR) and Liquidity Ratio (LR) while Return on Assets (ROA) is used as a proxy for banks' credit performance. The study found out that there is a positive but statistically insignificant relationship between MPR and ROA in the chosen bank. The analysis further indicated negative and statistically insignificant relationships between CRR, LR and ROA. They study concluded that the rationale for the statistically insignificant relationships observed might not be far from the commercial banks low rate of compliance with monetary policy guidelines.*

**Keywords:** *Economic growth, Price stability, Inflation, Cash Reserve Requirement (CRR), Return on Assets (ROA).*

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### **I. Introduction**

Monetary policy simply refers to any policy measure designed by the Government or the Central Bank to control the cost, availability and supply of credit. Historically, the conduct of monetary policy in Nigeria is in two phases – the pre-Structural Adjustment Programme (SAP) period and the post-SAP period. During the period before the introduction of SAP in 1986, the Central Bank of Nigeria (CBN)'s monetary policy framework placed emphasis on direct monetary policy control. However, on introduction of SAP, the CBN emphasized and is still relying on indirect approach which is anchored on the use of market instruments in monetary management.

The ultimate goals of monetary policy are basically to control inflation, maintain a healthy balance of payment (BOP), position in order to safeguard the external value of national currency and promote adequate and sustainable level of economic growth and development. In order to achieve these goals, monetary (regulatory) authorities control money supply in order to enhance price stability (low and stable inflation). Monetary management functions are assigned to the Ministry of Finance but the CBN decides on the monetary policy, therefore making the process of monitoring monetary policy a seemingly difficult task (Osiegbu, 2006).

Before 2002, the CBN operated on a short-term (one year) framework in the conduct of monetary policy. However, the apex bank has, since 2002 switched from short-term framework to a medium-term (two year) framework with the aim of freeing monetary policy from the problem of time inconsistency and minimizing over-reaction due to temporary shocks (CBN, n.d.). In 2005, some new reforms were introduced as amendments and addendum to the 2004/2005 Monetary Policy Circular No.37. They include Exchange Rate Band (of +/- 3.0%), Interest Rate Policy, Wholesale Dutch Auction Foreign Exchange Market (DAS), National Savings Certificate, to encourage the growth of domestic saving as well as to address the problem of excess liquidity in the economy on a more sustainable basis. Cash Reserve Requirement (CRR) is another policy amendment to Circular No.37. Computation of CRR (with a two weeks maintenance period) is based on each bank's total deposit liabilities, i.e., demand, savings and time deposits and of both private and public entities; certificates of deposits of both private and public entities, and promissory notes held by non-bank and other deposit items. Also, in line with the traditional function as the banker of the Government, the withdrawal of

public sector funds from deposit money banks was initiated in 2004 to address the problem of excess liquidity in the banking system; and also to encourage commercial banks to mobilize savings from traditional sources other than the public sector. Accordingly, banks are strongly advised not to rely heavily on public sector funds for their portfolio management.

Another amendment or addendum to Circular No.37 was the establishment of Settlement/Clearing Banks. Seven banks that meet the requirement for maintaining settlement accounts with the CBN were appointed and designated as Settlement Banks to perform clearing and settlement functions for other banks with effect from 1<sup>st</sup> April, 2004.

It is a known fact that commercial banks (deposit money banks) exist primarily to make profits. They make profits by accepting deposits from customers and granting credits to interested individuals, companies, and other organizations and institutions at an agreed interest rate. Therefore, since banks do not operate in a vacuum, their overall lending behaviour may generally be influenced by the environmental factors particularly the regulatory and other macroeconomic factors. The regulatory environment is more stringent and must be observed but the economic environment is perhaps the more challenging since it affords them the opportunity to exercise their discretion at least relatively, in a manner that will impact positively on their business in the long run (Odior, 2013).

As noted by Amasomma, Nwosa and Olaiya (2011) and Udude (2014), "*Monetary policy is known to be a vital instrument that a country can deploy for the maintenance of domestic price and exchange rate viability...*" The monetary authority (CBN) formulates guidelines and policy variables designed to ensure optimal performance of the banking industry. However, in the implementation of such policy variables, certain conflicting issues are to be addressed, ranging from the ability to comply with the various monetary policy guidelines as well as satisfying depositors and shareholders. To achieve its objectives, the CBN uses various instruments, which include: Open Market Operation (OMO), Required Reserve Ratio (RRR), Bank Rate, Liquidity Ratio, Selective Credit control and Moral Suasion (Chimezie, 2012 cited in Udude, 2014). This study shows empirically, how Government monetary policies through the CBN impact on the performance of deposit money (commercial) banks using the United Bank for Africa Plc. as a case study.

## **II. Research Objectives**

The broad objective of this research work is to empirically assess the impact of monetary policy on the performance of commercial banks using the United Bank of Africa (UBA) Plc. as a case study. The following are the specific objectives of this study:

- ❖ To assess empirically the impact of Cash Reserve Requirement on commercial banks' lending activities.
- ❖ To find out whether the CBN Monetary Policy Rate has any direct impact on commercial banks' operating performance.
- ❖ To find out whether liquidity ratio has significant impact on commercial banks operating performance.

## **III. Literature Review**

Abundant literatures exist on monetary policy, both conceptually and empirically. This section briefly discusses the conceptual and empirical literature on monetary policy for a proper understanding of the subject matter.

In the views of Osiegbu (2006), monetary policy refers to the measures designed to regulate and control volume, cost and direction of money and credit in the economy to achieve some specified macroeconomic policy objectives, which can change from time to time depending on the economic position of a particular country. In Nigeria, like in most countries of the world, the CBN is generally responsible for implementing the country's monetary policy by controlling the money supply and setting interest rates based on current economic conditions. It serves as bank regulator with responsibility for implementing rules and restrictions on banking activity, supervising compliance with prudential regulation and applicable laws, and otherwise safeguarding the stability of the banking sector (Odior, 2013).

Osiegbu (2006) summarized the objectives of monetary policy to include the followings:

- ❖ To facilitate full employment
- ❖ To generate rapid economic development
- ❖ To maintain price stability
- ❖ To ensure effective credit control
- ❖ To encourage liquidity control in the economy
- ❖ To ensure balance of payments equilibrium
- ❖ To maintain an effective supply and demand for money.

Hameed, Khalid and Sabit (2012) cited in Udude (2014), asserted that the foremost objective of monetary policy is to enhance the level of welfare of the masses and it is instrumental to price stability, economic growth, checking BOP deficits and lowering unemployment.

#### **IV. Monetary Policy In Nigeria Before 1986 (Pre-Sap Era)**

As mentioned earlier, monetary policy before the introduction of SAP in 1986 placed emphasis on direct monetary controls. The Nigerian financial system grew rapidly in the mid-1980s to 1990s. The number of commercial banks rose from 29 in 1986 to 64 in 1995 and declined to 51 in 1998. Merchant banks increased from 12 in 1986 to 54 in 1991 and declined to 38 in 1998. The most popular monetary policy instrument during the pre-SAP era was the issuance of credit rationing guidelines, which set the rates of change for components and aggregate commercial banks loans and advances to the private sector to stimulate the productive sectors and thereby stem inflationary pressures.

In the mid-1970s, minimum Cash Reserve Ratio (CRR) was stipulated for the banks on the basis of their total deposit liabilities. However, since such cash ratios were usually lower than those voluntarily maintained by banks, they proved less effective as a restraint on their credit operation. From the mid-1970s, it became increasingly difficult to achieve the aim of monetary. Compliance by banks with credit guidelines was less than satisfactory. Major sources of problem in monetary management were the nature of the monetary control framework, the interest rate regime and the non-harmonisation of fiscal and monetary policy.

#### **V. Monetary Policy In Nigeria Since 1986 (Post-Sap Era)**

Monetary policy since 1986 relies on market mechanisms. It should be noted that the objectives of monetary policy since 1986 remained the same as in the earlier period (pre-SAP). These included the stimulation of output and employment, and the promotion of domestic and external stability. In line with the general philosophy of economic management under SAP, monetary policy was aimed at inducing the emergence of a market-oriented financial system for effective mobilization of financial saving and efficient resource allocation. The main instrument of the market-based framework is the Open Market Operation (OMO), complemented by reserve requirement and discount window operations (Hassan, 2012). The use of stabilization securities was reintroduced in August 1990 for the purpose of reducing the bulging size of excess liquidity in banks through reduction in the maximum ceiling on credit growth allowed for banks, the recall of special deposit requirements against outstanding external payment arrears to CBN from banks, abolition of the use of foreign guarantees/currency deposits as collaterals for Naira loans and the withdrawal of public sector deposits from the banks to CBN. Commercial banks cash reserve requirement were increased in 1989, 1990, 1992, 1996 and 1999.

#### **VI. CBN Monetary Policy Instruments**

The Central Bank of Nigeria (CBN) regulates the activities of commercial banks through a couple of instruments. These, according to Hassan (2012), include but not limited to the followings:

- ❖ **Open Market Operations (OMO):** Open Market Operations has to do with the buying and selling of government securities by the Central Bank of Nigeria. It is a veritable instrument for regulating excess liquidity with commercial banks. If the CBN wants to reduce volume of cash at commercial banks' disposal, it sells securities to them thereby leaving the commercial banks with less cash to lend out. An open market operation is often used to check inflation.
- ❖ **Reserve Requirements:** Reserve requirement serve to limit the expansion of credit and money supply. Banks' ability to expand money supply through credit creation is often limited to the amount of its legal reserve. Reserve requirements are of two types, namely Primary reserve and secondary reserve.
- (a) **Primary Reserve:** Primary reserve is also called **Cash Reserve Ratio (CRR)** and as in the preceding years, it was used to complement Open Market Operations in monetary policy objectives. The calculation of the CRR was based on deposit money banks' total deposit liabilities (that is, demand, savings and time deposit), certificates of deposit, and promissory notes held by the non-banking public, and other deposit items.
- (b) **Secondary Reserve:** The secondary reserve is also referred to as **Liquidity Ratio (LR)**. Just like the CRR, commercial banks liquidity ratio requirement is computed on the bases of all deposits liabilities (demand, savings, and time) as well as certificates of deposit (CDs), promissory notes held by the non- bank public and other deposit items.

The aim of LR is to ensure that banks are liquid at all times to meet customers demand in terms of withdrawals.

- ❖ **Interest Rate Policy (Bank Rate):** Interest rate is the cost of borrowing from the CBN by commercial banks; or the price per unit of loan received for lending money to worthy borrowers. Like other monetary policy instruments, interest rate is used by the CBN to regulate the amount of cash at commercial banks' disposal.
- ❖ **Other monetary policy instruments:** used by the CBN include selective credit control, moral suasion, and direct credit control. As noted by Udude (2014), sometimes, monetary policy is tight and at other times it is loose, mostly used to stabilize prices.

## **VII. Empirical Literature**

Several empirical studies have been conducted on the macro-economic impact of CBN monetary policy. This sub-section of the research dwells on the review of the findings of some of these empirical studies.

Osiogbu (2006) conducted a study on the level of commercial banks' compliance with CBN monetary policy credit guidelines, using the compliance rate model. The study revealed that from 1991-1993; commercial banks undermined monetary policy credit stipulations by -175% levels which were not good for the economy. Of the recommended compliance rate of 16% (in 1991, 1992 and 1993) by the monetary authority (CBN), commercial banks met only 13% 1991 and 1992, and 11% in 1993. The researcher added that the problem of monetary policy management has been the role conflicts between the monetary authority and the ministry of finance. These conflicts had created a wide lead-time in the monetary policy implementation.

In a separate study, Amidu (2006) examined the link between monetary policy and banks' lending behaviour in Ghana using Ordinary Least Square Regression techniques on data, gathered for the period 1998-2004. The study reveals that Ghanaian banks' lending behaviours are affected significantly by the country's economic activities and changes in money supply. The results conform to earlier findings by of Amidu and Hinson (2006) cited in Amidu (2006), and Takeda, Rocha and Nakane (2005).

Attempt has been made by researchers in the past, to assess the impact of monetary policy on agricultural prices in Nigeria. For instance Hassan (2012) used multiple regression techniques on data collected from the Nigerian Bureau of Statistics (NBS), the Central Bank of Nigeria and the United States Federal Reserve, from 1980 to 2000. The result revealed a negative but insignificant impact of exchange rate on agricultural and aggregate prices. The result further showed that agricultural prices do not react more sensitively than aggregate prices in response to changes in money supply. The study concluded that the strong relationship between aggregate prices and agricultural prices indicate that the general price level in the economy has an influence on the movement of agricultural prices.

In a study of monetary policy, bank lending and inflation in Nigeria, Odior (2013) employed Vector Auto Regression (VAR) techniques and Error Correction Model (ECM) on data collected for the period between 1980 and 2010. Minimum rediscount rates, currency outside banks, net domestic credit, demand deposit and exchange rate were used as proxy for monetary policy. The study provided evidence to show that there is a significant, and economically important, negative relationship between inflation and monetary policy. The result further shows that net domestic credit (NDC) and Currency outside Banks (COB) are the most important variable in determining inflation in the short run in Nigeria.

In a similar development, Udude (2014) employed Vector Error Correction Mechanisms (VECM), Unit Root Test and Co-integration techniques to examine the impact of monetary policy on Nigerian economic growth between the period of 1981 and 2012. Real Gross Domestic Product was used as the endogenous variable, while broad money supply, interest rate, exchange rate and Liquidity ratio were used as exogenous variables. The unit root test showed that the variables were integrated of order two. The co-integration result indicated that there is long run relationship among the variable with two co-integrating vectors. The result of the vector error correction mechanism (VECM) test indicates that only exchange rate exerted significant impact on economic growth in Nigeria while other variables did not. In conclusion, the author asserted that monetary policy did not impact significantly on economic growth of Nigeria within the period under review and that the inability of monetary policies to effectively maximize its policy objective most times is as a result of the shortcomings of the policy instruments used in Nigeria as such limits its contribution to growth.

In a study of whether Government policies improve business performance Nigeria, Ibrahim and Muritala (2015) employed the Fully-modified OLS estimation technique, while Augmented Dickey Fuller (ADF) and Johansen Co-integration tests were used to determine the stationarity and long run properties of the variables. The long-run estimated effects of inflation (INF), Value-added Tax (VTAX) and Exchange Rate (EXRT) revealed that monetary policy (INT and EXRT) impacted negatively on Return on Assets (ROA). That a 1% increase in inflation and exchange rate will bring about 26% and 25% decrease in business performance respectively. The results also reveal that value added tax (VAT) had a positive and significant impact ROA. The major implication of these results is that fluctuation in inflation and exchange rate affect the price of product produce by these firms thus having negative impact on the demand and supply of these products.

Elsewhere in Greece, Spyros (2001) empirically examined the impact of inflation (monetary policy) on return on stock in Greece using a VAR model and found out that inflation hedges stock returns. In the same vein, Floros (2004) also investigated the causal relationship between inflation and return on assets and found that there was no causal relationship between the two variables in Greece. The findings by Onyeiwu (2012) shows that monetary policy presented by money supply exerts a positive impact on GDP growth and Balance of Payment but negative impact on rate of inflation. This is concordant with the findings of Amasomma, Nwosa and Olaiya (2011), which, through a simplified Ordinary Least Squared (OLS) technique, found that that monetary policy had a significant effect on exchange rate and money supply while monetary policy was observed to have an insignificant influence on price instability.

Research has been conducted on the impact of monetary policy on the industrial growth in Nigeria. One of such efforts is the work by Usman and Adejare (2014), which covered the period of 1970 to 2010. They found that rediscount and deposit rates have significant positive effect on industrial output but Treasury Bills has negative impact on industrial output. Several other empirical studies exist on the impact of monetary policy on the Nigerian economy. They include Ajisafe and Folorunso (2002), who found that that monetary rather than fiscal policy exerts a greater impact on economic activity in Nigeria and concluded that emphasis on fiscal action by the government has led to greater distortion in the Nigerian economy. Adeolu, Kehinde and Bolarinwa (2012) assessed how fiscal and monetary policies influence economic growth and development in Nigeria, arguing that curbing the fiscal indiscipline of Government will take much more than enshrining fiscal policy rules in our statute books. Hameed, Khalid and Sabit (2012) presented a review on how the decisions of monetary authorities influence the macro variables like GDP, money supply, interest rates, exchange rates and inflation. The study employed the Ordinary Least Square techniques to explain the relationship between the variables under study, and revealed that tight monetary policy in term of increase interest rate has significant negative impact on output. Money supply has strong positive impact on output; and also inflation and output are negatively correlated. Exchange rate also has negative impact on output as revealed by the values.

A critical assessment of the reviewed literature on the subject matter reveals that much research effort is placed on the macroeconomic impact of monetary policy, with limited emphasis on the microeconomic impact. This study contributes to the volume of literature by examining the impact of monetary policy on the operating and credit performance of commercial (Deposit money) banks, using UBA Plc. as a point of reference; thus digressing a bit from the macroeconomic impact of monetary policy.

### **VIII. Theoretical Framework**

Several theories exist on monetary policy issues; however, this study is aligned with two of such theories namely The Classical Monetary Theory and the Monetarist Theory.

**The Classical Monetary Theory:** The evolution of this school of thought can be traced to great economists of the past, such as Jean Baptist Say, Adam Smith, David Ricardo, Pigou and others who shared the same beliefs. They believe that “supply creates its own demand” The classical economists decided upon the quantity theory of money as the determinant of the general price level. Theory shows how money affects the economy. It may be considered in terms of the equation of Exchange.

$MV = PY$

**The Monetarist Theory:** According to Udude (2014), the monetarist essentially adopted Fisher’s equation of exchange to illustrate their theory, as a theory of demand for money and not a theory of output price and money income by making a functional relationship between the quantities of real balances demanded a limited number of Variables. Monetarists like Friedman emphasized money supply as the key factor affecting the wellbeing of the economy. Thus, in order to promote steady of growth rate, the money supply should grow at a fixed rate, instead of being regulated and altered by the monetary authorities. Friedman equally argued that since money supply is substitutive not just for bonds but also for many goods and services, changes in money supply will therefore have both direct and indirect effects on spending and investment respectively such that demand for money will depend upon the relative rates of return available or different competing assets in which wealth can be.

### **IX. Methodology**

This study adopts a panel cross sectional data covering the period from 2009 to 2014. Secondary data were gathered from the United Bank for Africa’s audited published financial statements, and the Central Bank of Nigeria (CBN) Statistical Bulletin. As noted in an earlier section, the CBN as from 2002, switched from short-term framework to a medium-term (two year) framework with the aim of freeing monetary policy from the problem of time inconsistency and minimizing over-reaction due to temporary shocks. Hence the choice of a six year period (2009-2014) for this study is justifiable.

### **X. Brief History of UBA PLC.**

The origin of UBA dates back to 1949 when it was first referred to as the British and French Bank Limited (BFB). It took over the assets and liabilities of BFB and was incorporated as a limited liability company on 23 February, 1961 under the Companies Ordinance (Cap 37) 1922. UBA was the first Nigerian bank to make an Initial Public Offering (IPO), following its listing on the NSE in 1970. It was also the first Nigerian bank to issue Global Depository Receipts (GDRs). In 2005, it completed one of the biggest mergers in the history of Nigeria’s capital markets following the business combination with Standard Trust Bank (STB) Plc. From then, it commenced its pan-African expansion, which has led to its presence in Ghana, Benin Republic, Cote d’Ivoire, Burkina Faso, Guinea, Chad, Cameroon, Kenya, Gabon, Tanzania, Zambia, Uganda,

Liberia, Sierra- Leone, Mozambique, Senegal, Congo DR and Congo Brazzaville. It also established presence in France and the UK to complement its already existing USA office.

United Bank for Africa (UBA) Plc. is a leading financial services grouping sub-Saharan Africa with presence in 19 African countries, as well as the United Kingdom, the United States of America and France. It is a publicly quoted company listed on the Nigerian Stock Exchange (NSE) and has a well-diversified shareholder base.

### XI. Technique Of Estimation

Multiple linear regression technique is employed to test the relationships inherent in the variables used for the study, with the aid of version 20 of the Statistical Package for Social Sciences (SPSS).

**Model Specification:** The model to be estimated expresses banks' operating performance as a function of monetary policy, represented by Monetary Policy Rate (MPR), Cash Reserve Requirement (CRR) and Liquidity Ratio (LR). There are several measures of performance but, Return on Assets (ROA) will be used for this study. The relation is expressed mathematically thus:

$$ROA = f (MPR, CRR, LR,) \dots\dots\dots (1)$$

This is further written as a regression equation thus:

$$ROA = \alpha_1 + \beta_1MPR + \beta_2CRR + \beta_3LR + \lambda \dots\dots\dots (1.1)$$

Where MPR = Monetary Policy Rate, CRR = Cash Reserve Ratio, LR = Liquidity Ratio, ROA = Return on Assets.  $\alpha_1$  is a constant; while  $\beta_1$ ,  $\beta_2$  and  $\beta_3$  represent coefficients of determination and  $\lambda$  is the error term. Return on Assets is calculated as UBA Plc's profit for the year (Profit after interest and tax) as a percentage of its total assets. MPR, CRR and LR are all obtained from CBN Statistical Bulletins (2014)

### XII. Results And Discussion

**Table 1: Presentation of Data used for the study**

Year	Return on Assets (ROA in %) <sup>3</sup>	Monetary Policy Rate (MPR %) <sup>1</sup>	Cash Reserve Ratio (CRR%) <sup>1</sup>	Liquidity Ratio (LR %) <sup>1</sup>
2006	1.35	12.25	5.00	40.00
2007	1.80	8.75	3.00	40.00
2008	2.63	9.81	3.00	35.00
2009	0.92	7.44	1.30	25.00
2010	0.15	6.13	1.00	25.00
2011	-0.48	9.00	8.00	30.00
2012	2.45	12.00	10.00	30.00
2013	2.10	12.00*	12.00*	30.00
2014	1.71	12.25*	15.30*	30.00

Sources: 1. CBN Statistical Bulletin (2014) 2. UBA Plc Annual Reports 3. Computed from UBA Plc's Annual Reports.\* Average figures.

**Table 2: Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Monetary Policy Rates	9	6.13	12.25	9.9589	2.29779
Cash Reserve Ratio	9	1.00	15.30	6.5111	5.07726
Liquidity Ratio	9	25.00	40.00	31.6667	5.59017
Return on Assets	9	-.48	2.63	1.4033	1.04231
Valid N (listwise)	9				

Source: SPSS output.

Table 2 above shows that the minimum and maximum MPR for the period under study were 6.13% and 12.5% respectively, while the mean and standard deviation were respectively 9.9589 and 2.29779. The minimum MPR was obtained in the year 2010 while the maximum MPR was obtained in years 2006 and 2014. Year 2011 has the minimum ROA of -0.48 (negative), while year 2008 recorded the maximum ROA for UBA plc. The negative ROA (-0.48) for the year 2011 is caused by the loss (N7,966 million according to 2012 restated figures in compliance with IFRS) recorded by the bank in that year.

**Table 3: Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-2.185	2.149		-1.017	.356
Monetary Policy Rates	.480	.349	1.057	1.374	.228
Cash Reserve Ratio	-.116	.145	-.563	-.799	.460
Liquidity Ratio	-.014	.090	-.074	-.152	.885

a. Dependent Variable: Return on Assets.

Source: SPSS output.

Table 3 reveals that when all the explanatory variables are absent, UBA Plc ROA will be negative as indicated by a negative constant of -2.185. The coefficient of monetary policy is positive at .480. This implies that for every 1 unit increase in monetary policy rate (MPR), UBA Plc. ROA rises by .480 (or 48%). It can also be seen from the table the coefficients of CRR and LR are both weak and negative (-.116 and -.014). By implication, a unit increase CRR and LR results in decrease in ROA by -.116 and -.014 respectively, and vice versa. The "Beta" values provide a standardized version of the slope coefficient. The same explanation can be given as with unstandardized coefficients. A unit standard deviation increase in MPR results in a 1.057 unit (105.7%) standard deviation increase in ROA and vice versa. Likewise a unit standard deviation increase in CRR and LR caused a .563 and .074 respective standard deviation fall in ROA.

**Table 4: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.668 <sup>a</sup>	.446	.114	.98127	1.826

a. Predictors: (Constant), Liquidity Ratio, Cash Reserve Ratio, Monetary Policy Rates

b. Dependent Variable: Return on Assets

Source: SPSS Output.

Table 4 above shows the model summary for the multiple regression analysis. From the table, it can be seen that the R square is .446, meaning that the explanatory variables used explain about 44.6% of the variations in the dependent variable (ROA). Taking into consideration the number of predictors entered into the model, table 4 reveals an adjusted R square of .114, meaning that the explanatory variables (MPR, CRR and LR) explain about 11.4% of the variations in the respondent variable (ROA). The greater 88.6% is explained by factors outside the model.

**Durbin-Watson Test:** The Durbin-Watson (DW) test for serial correlation (auto-correlation) stands at 1.826. This falls within the range of 1.50 and 2.50, implying the absence of serial correlation among the residuals within the study period.

### XIII. Test Of Hypotheses

The hypotheses to be tested in this study are stated thus:

**H<sub>0</sub>:** Cash Reserve Requirement (CRR) on commercial banks' has no significant impact on their operating performance.

**H<sub>0</sub>:** CBN Monetary Policy Rate (MPR) has no any significant impact on commercial banks' operating performance.

**H<sub>0</sub>:** Liquidity Ratio (LR) has no significant impact on commercial banks operating performance

From table 3, the P-values for CRR, MPR and LR are .460, .228 and .885 respectively. All these are greater than the standard value of .05 (i.e. .460, .228 and .885 > .05). Since all the calculated P-values are greater than the standard value, all the above null hypothesis are accepted, that CRR, MPR and LR, all have no significant impact on the operating performance of commercial banks.

### XIV. Conclusion

This research looks at the impact of CBN monetary policies on the operating performance of commercial banks using UBA Plc. as a case study. The results of the multiple regression analysis reveal positive but statistically insignificant relationship Monetary Policy Rate (MPR) and UBA Plc. Return on Assets (ROA). The analysis further showed negative and statistically insignificant relationships between Cash Reserve Requirement (CRR), Liquidity Ratio (LR) and ROA. A probable cause the statistically insignificant relationships is commercial banks' low rate of compliance with the CBN monetary policies.

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