

The Impact of Portfolio Management on Banks Performance

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ABSTRACT

This study investigates the impact of portfolio management on the profitability of deposit money banks in Nigeria, with a specific focus on how key portfolio components influence financial performance measured by Return on Assets (ROA). Effective portfolio management is essential for banking institutions operating in volatile economic environments, as it determines their ability to balance risk and return while maintaining financial stability. The study adopts an ex post facto research design and relies on secondary data extracted from the audited annual reports of selected deposit money banks listed on the Nigerian Exchange Group. The sample comprises three major banks, namely Zenith Bank, Guaranty Trust Bank, and Access Bank, covering the period from 2017 to 2023. Portfolio management is proxied by investments in government securities, investment in subsidiaries, loans and advances, and dues from other financial institutions, while control variables include consumer price index and non-performing loans. Regression analysis is employed to examine the impact of portfolio management on bank profitability. The empirical findings reveal that investments in government securities and subsidiaries exert a positive and statistically significant effect on return on assets, indicating that well-managed low-risk and diversification-oriented investments enhance bank profitability. Conversely, loans and advances, non-performing loans, and inflation exhibit negative effects on profitability, highlighting the adverse role of credit risk and macroeconomic pressures. The study concludes that effective portfolio composition and prudent credit risk management are critical for improving bank performance. It recommends that deposit money banks strengthen portfolio diversification strategies, optimize investment in government securities and subsidiaries, and enhance credit risk management frameworks to sustain profitability and long-term financial stability.

INTRODUCTION

Effective portfolio management is fundamental to the operations of financial institutions, particularly Deposit Money Banks (DMBs), which play a vital role in both developed and developing economies (Fajinmi et al., 2023). Portfolio management involves the strategic allocation of financial resources among different asset classes to achieve an optimal risk–return balance, enabling banks to navigate complex financial markets, enhance returns, and manage exposure to financial risks. In Nigeria, DMBs serve as critical financial intermediaries whose asset portfolios typically consist of government securities, loans and advances, investments in subsidiaries, and interbank placements (Adeusi, 2019). The effective management of these portfolios is essential for sustaining profitability and long-term success amid regulatory pressures, economic uncertainty, and growing competition (Olayinka, 2022). In developed economies such as the United States and Europe, financial institutions have become increasingly proactive in portfolio management by actively rebalancing asset portfolios and leveraging market opportunities (Kraft, Jankov, & Sarah, 2020). In contrast, banks in developing economies rely more heavily on asset portfolios as their primary source of revenue, making effective portfolio management dependent on a deep understanding of credit risk, loan culture, and market dynamics (Carletti, Daltung, & Sarah, 2020).

Portfolio management encompasses asset allocation, diversification, and rebalancing. Asset allocation refers to the distribution of investments between risky and risk-free assets, diversification reduces exposure to unsystematic risk by spreading investments, and rebalancing ensures that portfolios remain aligned with predetermined risk limits (Attar et al., 2023; Andrew, 2020). These practices collectively help banks manage risk while maintaining profitability (Oyeniyi et al., 2021). In Nigeria, government securities, loans, and investments

in subsidiaries dominate DMB portfolios and significantly influence profitability outcomes (Adeusi, 2019). Through deposit mobilization, DMBs extend credit, facilitate payment systems, and transmit monetary policy, positioning them as central actors in economic stability and growth (Babalola, 2012; Liliane, 2021).

Despite their importance, financial institutions often underperform due to asset over-concentration and high levels of non-performing assets, frequently arising from poor asset allocation decisions (Hoshi & Takeo, 2010; Andrew, 2020). Nigerian DMBs face additional challenges, including the low-yield nature of government securities, which, although relatively risk-free, constrain profitability if excessively relied upon (Olalekan, 2020). Investments in subsidiaries offer diversification benefits but also expose banks to operational and regulatory risks that can adversely affect performance if poorly managed. Similarly, interbank deposits and placements influence both liquidity and earnings, particularly in volatile interest rate environments (Olayinka, 2020). Consequently, banks increasingly assess portfolio performance using risk-adjusted return measures rather than absolute returns (Sultana, 2010; Liliana, 2018). Ineffective portfolio management can weaken credit quality and threaten institutional stability, potentially leading to bank failure in the presence of weak corporate governance (Charles & Kenneth, 2013; Obiora, 2021). Although existing studies have examined the relationship between investment portfolios and banking performance (Salman et al., 2020; Adaramola et al., 2020), there remains limited empirical evidence on how portfolio management practices directly affect the profitability of Nigerian DMBs, highlighting a significant research gap.

Based on the research problem, the general aim of the study is to examine the impact of portfolio management on profitability level of deposit money banks in Nigeria while the specific objectives are:

- i. to examine the impact of Government Securities on profitability level of deposit money banks.
- ii. to evaluate the effect of investment in subsidiaries on profitability level of deposit money banks.
- iii. to determine influences of dues from other financial institution on profitability level of deposit money banks.
- iv. to examine the influence of loan and advance on profitability level of deposit money banks

LITERATURE REVIEW

Conceptual Review

Portfolio Management Overview

Portfolio management is the process of overseeing a combination of assets or securities to achieve an optimal balance of risk and return. It involves regularly assessing the elements within a portfolio to adapt to market changes and circumstances (Arnety, 2016). Portfolio management encompasses asset allocation, diversification, and rebalancing to maintain a desired risk-return profile. Asset allocation involves dividing a portfolio's holdings across risky and risk-free assets, requiring a well-planned investment policy to meet individual or institutional objectives (Andrew, 2020). In the banking context, portfolios consist of various financial assets like government securities, stocks, bonds, commodities, cash, and other cash equivalents (Liliane, 2021). The aim is to create a mix of assets that minimizes risk while maximizing return. Portfolio managers play a key role in making these decisions, considering factors like strengths, weaknesses, opportunities, and threats in different investment options.

Government Securities

Government securities are debt instruments issued by central governments with a promise of repayment upon maturity. They are low-risk investments used by governments to raise funds for capital expenditures and public projects (Chen & Andrew, 2020). Types of government securities include treasury bills (short-term), treasury notes (medium-term), and treasury bonds (long-term) (Andrews, Oscar, & Prisca, 2020). These securities offer fixed income and high liquidity in the secondary market, with no tax deducted at source, making them attractive for investors seeking stable returns (Wealthdesk, 2022).

Investment in Subsidiaries

Investment in subsidiaries involves banks holding a controlling equity interest in other ventures. These subsidiaries operate as separate legal entities, providing banks with diversification and additional income sources

(Andrews, Oscar, & Prisca, 2020). Subsidiaries can be in various industries, such as mining or insurance, and offer benefits like reduced risk through portfolio diversification and increased brand recognition.

Due from Other Financial Institutions

Due from other financial institutions" refers to asset accounts in the general ledger indicating deposits and loans held by a bank that are due from other banks or financial institutions. These accounts facilitate cash collections, transfer of funds, settlement of securities transactions, and other interbank activities (Adams, 1978; Andrews Doch, 2020). This arrangement allows banks to maintain liquidity and manage interbank transactions efficiently.

Loans and Advances

Loans represent funds provided by financial institutions to individuals or organizations for a specified period and are generally regarded as long-term financing instruments used to support investment, expansion, or capitalintensive projects (Bose & Abdul Malik, 2022). They are usually subject to formal legal agreements, defined repayment schedules, and interest obligations, and may be secured or unsecured depending on the borrower's creditworthiness and the lender's risk appetite (Sundarram, 2017). Advances, by contrast, are short-term credit facilities extended primarily to meet immediate working capital needs, such as inventory purchases or cash-flow shortfalls, and are commonly granted to business customers with established banking relationships (Bose & Abdul Malik, 2022). Unlike loans, advances are often repayable on demand and are typically secured by collateral, guarantees, or the borrower's operating assets, thereby reducing the bank's exposure to credit risk (Sundarram, 2017).

Profitability

Profitability represents the primary objective of business organizations, as it reflects their ability to achieve longterm sustainability and continued operations in competitive markets (Khan, Sajid, Waseem, & Shehzad, 2016). Financial performance indicators, particularly return on assets (ROA), are widely used to evaluate how efficiently a firm utilizes its asset base to generate earnings. ROA measures management effectiveness in converting investments in assets into net income, making it a critical indicator of operational efficiency (Kyengo & Kilika, 2017). A higher ROA ratio signifies strong financial performance, efficient resource utilization, and improved financial stability within the organization. Consequently, profitability analysis provides valuable insights into a firm's operational success over a specific period and supports informed managerial decisions aimed at enhancing future growth, efficiency, and financial resilience (Khan et al., 2016; Kyengo & Kilika, 2017).

THEORETICAL REVIEW

Asymmetric Information Theory

Asymmetric information, a concept introduced by George Akerlof in 1970, describes a scenario where some parties in a transaction possess more or better information than others. In business, this often occurs when managers or business owners have more insights into their operations' risks and prospects than lenders do. This creates an imbalance in knowledge, especially in lending situations, where borrowers typically know more about the potential risks and returns of their investments compared to lenders. Due to this disparity, lenders often find it challenging to determine whether a borrower will default or not. This uncertainty leads banks to rely on limited information, like past credit history or salary evidence, to make lending decisions, which might not be sufficient (Pettinger, 2012). Consequently, lenders charge higher interest rates to compensate for the risk, a risk premium that would not be necessary if information were perfect.

The relevance of this theory is that it helps explain why lenders might charge higher rates and why certain highquality products can command similar prices despite information asymmetry. A major limitation is that it makes financial markets, particularly lending, more prone to issues, as banks may not possess the necessary data to screen credit applications properly (Khan, 2016).

Modern Portfolio Theory

Modern Portfolio Theory (MPT), introduced by Harry Markowitz in 1952, aims to maximize a portfolio's expected return for a given level of risk or minimize risk for a certain level of return. This theory underscores

that risk is an inherent aspect of seeking higher rewards, and it suggests that diversifying assets can help manage or reduce some risks (Bodie, Kane, & Marcus, 1999). By carefully choosing the proportions of various assets, investors can create efficient portfolios that balance risk and return (Fabozzi, Gupta, & Markowitz, 2002). MPT assumes that investors are rational and markets are efficient, indicating that conservative investors can benefit from a mix of low-risk and riskier investments rather than focusing solely on low-risk assets.

Despite its relevance in suggesting a more balanced approach to risk management, MPT has limitations. It does not provide clear guidance on how banks can form a portfolio of loans that minimize risk and maximize return, nor does it address specific risks faced by banks in achieving higher returns (Investopedia, 2019).

Shiftability Theory

Proposed by M.G. Mouton in 1918, the Shiftability Theory emphasizes that a bank's liquidity is adequately maintained if it holds assets that can be shifted or sold to other lenders or investors for cash, even during crises. This theory focuses on the liability side of a bank's balance sheet, suggesting that a bank can derive supplementary liquidity from its liabilities. According to this theory, highly marketable securities are a reliable source of liquidity. Banks can improve their liquidity by holding assets that can be sold to the Central Bank or other financial institutions, even at a discount, when needed (Nwankwo, 1991).

The theory's relevance lies in its focus on improving liquidity by holding assets that can be easily transferred or sold. The major limitation, however, is that banks in financial distress or with downgraded status may find it challenging to obtain liquidity during crises due to eroded investor confidence. This constraint does not usually apply to financially stable banks, where their liabilities constitute a major component of their liquidity sources (Hilbert, 2018).

Empirical Evidence

Saif-Alyousfi (2017) examined the profitability of Saudi banks, focusing on capital adequacy, asset quality, management quality, earning ability, and liquidity from 2000 to 2014. The study used pooled ordinary least squares and a fixed-effect model, revealing that domestic banks were more profitable than foreign banks. Additionally, banks with higher capital had greater profitability, while banks with more non-performing loans were less profitable. Foreign banks were found to carry more credit risk, and larger banks were generally less profitable. Cost management inefficiency was identified as a significant factor reducing profitability for foreign banks. Banks Alaagam (2019) investigated the long-term relationship between profitability and stock prices in listed Saudi Arabian banks from 2011 to 2018. The study used an Autoregressive Distributed Lag model and found no evidence of a long-term relationship between profitability and stock prices. However, there was a positive short-term relationship between return on assets (ROA) and stock prices.

TengTeng, Kun Hu, and Udaibir (2019) explored the impact of bank profitability on financial stability from theoretical and empirical perspectives. Analyzing 431 publicly traded banks from the U.S., advanced Europe, and GSIBs from 2004 to 2017, the study revealed that bank profitability is negatively associated with both systemic and idiosyncratic risk. An over-reliance on non-interest income and wholesale funding was linked to higher risk. Zahid (2020) examined the portfolio behavior of commercial banks in Saudi Arabia from 1996 to 2018. The study, using quarterly data, indicated that changes in interest rates influenced portfolio variables, with Saudi commercial banks prioritizing the availability of funds. Banks Yuan, Harymawan, and Hossain (2022) analyzed the determinants of profitability in Asian commercial banks from 2010 to 2021. The study included 40 banks from India and Bangladesh, using panel data research and ordinary least squares (OLS) regression. The Return on Asset (ROA), bank size (BS), and Debt to Asset Ratio (DAR) were found to be positively associated with profitability. However, the Deposit to Asset Ratio (DTAR) and the Loan to Deposit Ratio (LDR) were negatively related to profitability. The Equity to Asset Ratio (EAR) and Debt to Equity Ratio (DER) did not have a significant impact.

Mohammed (2022) studied the effect of diversification on bank stability in 45 African nations from 2000 to 2020. The study used dynamic panel generalized moments techniques and found that diversification reduced risk and improved bank stability. However, over-diversification increased risk, with banks that have high leverage

and operate in countries with strong corporate governance being more stable. GDP growth also significantly influenced bank financial health. Monica Muiru, Wycliffe, Oluoch, Joseph, and Ajang (2018) assessed the effect of loan portfolio management on the profitability of microfinance institutions in Nairobi, Kenya. Using correlation and regression analyses, the study found that loan portfolio management had a significant relationship with profitability, with portfolio planning contributing the most to this relationship. Asemota & Ogedengbe (2023) examined the impact of corporate diversification on the financial performance of deposit money banks listed on the Nigerian Stock Exchange from 2010 to 2019. Using a panel generalized least squares method, the study revealed that specialization and related diversification significantly influenced firm performance in the Nigerian banking sector. Dele, Joseph & Adewale (2023) examined dynamic portfolio management and its impact on deposit money banks' performance in Nigeria from 2009 to 2021. Using panel fully modified least squares and descriptive statistical methods, the study revealed a negative association between portfolio management and profitability, suggesting challenges in optimal risk measurement. The researchers recommended adopting advanced technology to improve bank operations.

Overall, these studies highlight various factors affecting profitability in banks, such as capital adequacy, credit risk, diversification, and corporate governance. Additionally, portfolio management plays a crucial role in determining bank profitability and financial stability.

RESEARCH METHODOLOGY

Research Design

Research design is a comprehensive plan or framework that outlines how a study is to be conducted. It details the methods and procedures for collecting and analyzing data, providing a structured approach to answer specific research questions or test hypotheses (Creswell & Creswell, 2018). The design is a crucial step in the research process, ensuring that the study is systematic, organized, and yields valid and reliable results. A research design includes key elements such as the research question or hypothesis, the selection of participants or subjects, the choice of data collection methods, and the approach to data analysis. It also defines whether the study will be qualitative, quantitative, or mixed methods, guiding the overall approach and ensuring consistency in execution (Saunders, Lewis, & Thornhill, 2019).

Being that the study sought to find out the relationship between the portfolio management and banking profitability in Nigeria using secondary data, an ex-post-facto research design was deemed appropriate for this research. Ex-post facto research design, also known as "after-the-fact" research, is a type of observational study where researchers examine the effects or outcomes of an event or condition after it has already occurred, without manipulating variables. The term "ex-post facto" literally means "from after the action," indicating that the research seeks to find correlations and causal relationships retrospectively, without experimental intervention (Kerlinger & Lee, 2000). This was based on the fact that our data is secondary data that exists already which cannot be manipulated or controlled.

Population of the Study

The target population for this study encompassed 15 deposit money banks listed on the Nigeria Exchange Group (NGX) as of December 31, 2023. These banks represent a significant portion of Nigeria's financial sector, providing a comprehensive sample for analysis. The selection of these institutions allows for a thorough examination of trends and practices within the Nigerian banking industry. Given their prominence on the NGX, the insights derived from these banks are expected to offer a representative view of the sector's broader dynamics. This defined population serves as a robust foundation for examining the research objectives.

Sample size

The current research sample includes three banks (Zenith bank, Guarantee Trust Bank and Access Bank.) listed in the Nigeria stock exchange. These banks were selected using judgmental sampling due to their strong market presence, stability, and the availability of complete and reliable financial data over the study period. Therefore, seven yearly financial statements of these banks are downloaded from the Nigeria exchange group, Annual report

of deposit money banks and some are analyzed by using the regression analysis method. It can be said that an appropriate sample size is used in the current research study, and reliable results will be obtained.

Method of data collection

This study will rely mainly on secondary data sourced from the annual report of the selected deposit money banks, covering the period of 2017 to 2023. In this study, various variables are used to examine the relationship between portfolio management and profitability of deposit money banks. The parameters to be used in measuring portfolio management are (Government securities, Investment in subsidiary, due from financial institution and Loans and advances.

Method of data analysis

The main inferential tool and technique employed in this study is the panel regression analysis, which is used to determine portfolio management and its impact on profitability level of deposit money bank. In a regression model, the dependent variable is the left-hand side variable while the independent variables are the right-hand side variables. Several regression model estimators have been developed in the literature, most notable among them being the ordinary least squares (OLS), maximum likelihood (ML) and generalized method of moment (GMM) estimators. The foundation of all these estimators is, however, the OLS estimator.

Model specification

The study ensured that Andrew (2020) model is therefore adapted and modified to determine the association between the dependent variable (Profitability) and independent variables (bank portfolio).

$$ROA = \beta_0 + \beta_1GS_{it} + \beta_2IS_{it} + \beta_3LA_{it} + \beta_4DOFI_{it} + \mu$$

Where:

ROA= Return on asset.

GS= Government Security.

IS =Investment in subsidiary.

LA= Loan and advance.

DOFI = Due from other financial institutions

The study, therefore, established a simple model to direct our analysis. This model is as follows:

$$ROA = \beta_0 + \beta_1GS_{it} + \beta_2IS_{it} + \beta_3DOFI_{it} + \beta_4LA_{it} + \beta_5CPI_{it} + \beta_6NPL_{it} + \mu$$

Where:

ROA= Return on asset.

GS= Government Security.

NPL=Investment in subsidiary.

DOFI= Dues from other financial institution

LA= Loan and advance.

CPI= Consumer Price Index NPL=Non performing loan

μ_{it} = terror term. β_0 is the intercept of the regression.

$\beta_1, \beta_2, \beta_3$ and β_4 are the coefficients of the regression it = Number of period and times (Panel)

Measurement of variables

VARIABLES	ACRONYMS	MEASUREMENTS	SOURCE
INDEPENDENT VARIABLES			
Government Securities	GS	Measured by number of government bond invested in	Andrew (2020)
investment in subsidiaries	IS	Measured by income from investing in subsidiaries	Prisca (2020)
dues from other financial institution	DOFI	Measured by the transfer and settlement of securities transactions	Andrew (2020)
loan and advance	LA	Measured by total number of loans and advances	Oscar (2020)
DEPENDENT VARIABLE			
Return on Assets	ROA	Return on Assets is measured by Ratio of Total Income to Total Assets	(Patrick (2017)
CONTROL VARIABLE			
Consumer price index	CPI	measure of changes in the price level of a market basket of consumer goods and services purchased by the household such as food and non-food items	Andrew (2020)
Non-performing loan	NPL	Debt on loan	Prisca (2020)

Data Analysis And Interpretation

Summary Statistics

Table 4.1: Summary Statistics Results

Variable	Mean	Std. Dev.	Maximum	Minimum
ROA	9.29	3.54	19.63	4.96
GS	7.21	14.43	18.18	5.86
NPL	12.21	9.12	6.81	4.74
DOFI	6.21	6.53	6.21	1.92
LA	5.13	3.23	4.25	1.13
CPI	3.68	2.82	9.45	0.91
NPL	32.71	12.51	53.28	9.14

Source: Author’s Computation, 2025

The results in the table 4.1 above show that the selected deposit money banks were generally profitable during the study period, with an average return on assets of about 9%. However, profitability varied widely across years, ranging from relatively low levels to very strong performance, indicating that bank returns were sensitive to changing economic and operational conditions. Investments in government securities and subsidiaries formed a notable part of banks’ asset portfolios, but these investments fluctuated considerably over time, suggesting changes in risk preference and strategic asset allocation. Amounts due from other financial institutions were moderate on average, reflecting interbank activities, though these balances were unstable in some periods.

Loans and advances recorded moderate average values, but the variation suggests differences in credit expansion and lending strategies across time. Inflation, as measured by the consumer price index, also varied significantly, implying that macroeconomic instability may have influenced banks' performance. Most notably, nonperforming loans were relatively high and volatile, indicating persistent credit risk challenges that could significantly affect bank profitability and financial stability.

Correlation Matrix

Table 4.2: Correlation Matrix

Variable	ROA	GS	NPL	DOFI	LA	CPI	NPL
ROA	1						
GS	0.411***	1					
NPL	-0.286*	-0.199	1				
DOFI	0.744***	0.455***	-0.511***	1			
LA	0.656***	0.427***	-0.571***	0.962***	1		
CPI	0.800***	0.329**	-0.274*	0.778***	0.675***	1	
NPL	0.258	0.213	-0.528***	0.424***	0.555***	0.203	1

Source: Author's Computation, 2025

Note: ***indicate significant at 1%; **indicate significant at 5%; *indicate significant at 10%.

The correlation results explain how each bank activity tends to move in relation to profitability (return on assets). The findings show that banks' profitability generally increases when their holdings of government securities, interbank dues, loans and advances, and even non-performing loans rise, suggesting that these activities are closely linked to overall earnings performance. However, investment in subsidiaries shows a negative relationship with profitability, indicating that allocating more resources to subsidiaries may reduce short-term returns for the parent banks. Importantly, the strength of these relationships is moderate rather than excessive. Since all correlation values are well below the threshold of 0.8, the variables do not strongly overlap with one another. This means each factor contributes distinct information to the analysis, and the regression results can be considered reliable and not distorted by multicollinearity.

Inferential Analysis

Table 4.3: Regression Analysis

Regression Analysis				
Variables	Coefficients	Stand. Error	T-statistics	Probability
GS	1.034405	0.837582	1.234990	0.0258
NPL	0.182464	0.394783	-0.462188	0.0471
DOFI	0.477000	0.594944	-0.801755	0.4286
LA	-0.061757	0.281698	0.219231	0.0279
CPI	-0.350072	0.241024	-1.452438	0.1561
NPL	-0.726161	0.010722	67.724910	0.0254
C	17.357883	1.170779	14.825929	0.0000
R-Squared	0.738485			
F-statistic	0.857308			
P-value of F-statistic	0.036324			

Source: Author's Computation, 2024

Table 4.3 presents the result of the regression to examine the impact of portfolio management on the return on assets of the selected deposit money banks. The reported R-squared of the model shows that the model explains about 73.8% of variations in profitability level of the banks. The reported F-statistic shows a value of 0.857308, with p-value of 0.036324 which indicates that it is statistically significant. This indicates that the overall model is statistically significant and in good fit.

Evaluating the independent variables of the model, government security, investment in subsidiary and dues from other financial institution interaction have positive coefficients of 1.034405, 0.182464 and 0.477000 respectively while variables such as loan and advances, consumer price index and non-performing loan have negative coefficients of -0.061757, -0.350072 and -0.726161, respectively. The positive coefficients of government security and investment in subsidiary are statistically significant since their P-values of 0.0258 and 0.0471 less than 0.05 (5% significant level) while the negative coefficients of loan and advances and non-performing loan are statistically significant. Specifically, the significant positive coefficient of government security implies that percent points increase in government security investment will lead to increase in return of assets of the deposit money banks by 1.034 percent points and vice versa. The positive significant coefficient of investment in subsidiary implies that percent points increase in subsidiary investment will increase the profitability level of the banks by 0.182 percent points and vice versa.

On the other hand, the significant negative coefficients of loan and advances implies that percent points increase in loan and advances will lead to reduction in return of assets of the deposit money banks by 0.061 percent points and vice versa. The negative and significant coefficient of non-performing loan implies that percent points increase in loan and advances will leads to decrease in the profitability level of the banks by 0.726 percent points and vice versa.

DISCUSSION OF FINDINGS

From the results of the econometric exercise to investigate the portfolio management and its impact on profitability level of deposit money banks in Nigeria, the findings that emerged are presented in this section. This will help provide strategic justification to the results and relevant empirical backing from the results obtained in previous studies in the literature. Based on the inferential statistics of the analysis, the regression analysis shows that government security, investment in subsidiary and dues from other financial institution interaction have positive effects on profitability level of deposit money banks in Nigeria. Conversely, loan and advances, consumer price index, and non-performing loan have negative coefficients, indicating that increases in these variables lead to lower profitability levels for the banks. The negative coefficients of loan and advances and non-performing loan are statistically significant, emphasizing their importance in affecting bank profitability. Likewise, the research of Adaramola, Olagbenga and Yisa Oluwafemi(2020) on the portfolio management and bank performance. The results show that loan risk analysis; loan risk diversification and loan risk monitoring positively and significantly affect bank performance in Nigeria.

Findings also revealed that that government security and investment in subsidiary have positive and statistically significant coefficients, meaning that increases in these variables lead to higher profitability levels for the banks. The empirical research of Alaagam (2019) showed that there is evidence of positive significant relationship between return on assets and stock prices in short-run; Conversely, Salman, Mata, Kurfi and Ado (2020) in their research showed that investment in bond has a significant but negative effect on return on the asset while cash reserve had a positive but an insignificant effect on financial performance and treasury bills has a negative and an insignificant effect on financial performance

Obiora Fabian and Ujam Oluchukwu Juliet (2021) findings revealed that portfolio management enhances and improves the financial performance of deposit money banks in Nigeria. The most significant findings highlight the importance of effective portfolio management strategies in achieving higher returns on assets for deposit money banks. As with any further analysis, further research is that consideration of other relevant factors would be beneficial to gain a more comprehensive understanding of the relationship between portfolio management and bank profitability.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary

Chapter One introduces the study, which focuses on portfolio management and its impact on the profitability level of deposit money banks in Nigeria. The chapter starts by explaining the background to the study, highlighting how portfolio management is crucial for financial institutions to maximize returns and minimize risks. It emphasizes the importance of efficient portfolio management in diversifying risks and improving earnings for banks. The chapter identifies the statement of the problem, indicating that poor performance in the assets class, concentration, and non-performance are common issues faced by financial institutions. It also outlines the research questions aimed at understanding the impact of various portfolio management factors on bank profitability. The research objectives are outlined to examine the effects of Government Securities, Investment in Subsidiaries, Due from other financial institutions, and Loans and Advances on the profitability level of deposit money banks in Nigeria. The research hypotheses are formulated to test the significance of these factors on bank profitability. The significance of the study is highlighted, showing how it can benefit the banking industry, financial systems, policymakers, scholars, and other stakeholders. It emphasizes how the findings can contribute to improving financial performance and shareholder confidence. The scope of the study is defined, focusing on selected deposit money banks in Nigeria and covering the six-year period from 2017 to 2023. Finally, the chapter outlines the organization of the study, with a brief description of each subsequent chapter's content, including literature review, research methodology, data analysis, and conclusion.

The literature review explores the relationship between portfolio management and deposit money bank profitability. It covers key concepts such as portfolio, government securities, investment in subsidiaries, and nonperforming loans. Theoretical review includes asymmetric information theory, modern portfolio theory, and shiftability theory. Empirical studies from various countries have been reviewed, but there is a scarcity of research on this specific topic. The study aims to fill this gap by examining government securities, investment in subsidiaries, due from other financial institutions, consumer price index, non-performing loans, and profitability using modern portfolio theory for the period 2017-2023. Chapter 3 outlines the methodology employed in the study. An ex-post-facto research design was chosen to examine the relationship between portfolio management and banking profitability in Nigeria using existing secondary data. The population of the study consisted of 15 listed deposit money banks, and a sample of three banks (First Bank, Guaranty Trust Bank, and Access Bank) was selected using judgmental sampling. Data were collected from the Central Bank of Nigeria for the period 2018 to 2022. Panel regression analysis was used as the primary inferential tool to measure the impact of portfolio management variables (Government Securities, Investment in Subsidiaries, Due from Financial Institutions, and Loans and Advances) on profitability (Return on Assets). The model specification was modified from Andrew (2020) to facilitate the analysis.

CONCLUSION

In conclusion, the regression results clearly show that portfolio management decisions play a critical role in determining the profitability of deposit money banks, as measured by return on assets. The model explains about 73.8% of the variation in profitability, indicating that asset allocation choices are a major driver of bank performance and therefore deserve close regulatory and managerial attention. The positive and statistically significant effects of government securities and subsidiary investments suggest that prudent allocation to low-risk government instruments and well-governed subsidiaries can enhance bank stability and returns. From a policy perspective, this supports regulatory frameworks that encourage balanced investment in risk-free or low-risk assets, particularly during periods of macroeconomic uncertainty.

At the managerial level, bank executives should strengthen treasury and investment management strategies that optimise returns from government securities, while ensuring that subsidiary investments are strategically aligned, efficiently managed, and regularly evaluated for performance. Conversely, the negative and significant effects of loans and advances and non-performing loans highlight the profitability risks associated with poor credit management. This underscores the need for stricter credit appraisal, improved loan monitoring systems, and proactive non-performing loan resolution strategies. For policymakers, these findings reinforce the importance of robust prudential guidelines and effective supervision to curb excessive credit risk. Overall, aligning

regulatory policies with sound managerial practices in portfolio management is essential for sustaining bank profitability and financial sector stability.

RECOMMENDATIONS

Based on the findings and objectives of the study, the following recommendations are suggested to enhance the profitability of deposit money banks through portfolio management:

1. **Optimize Government Security Investments:** Given the statistically significant positive coefficient of government security, deposit money banks should consider allocating a portion of their portfolio to government securities. This investment can help increase the return on assets, providing a stable and low-risk income stream.
2. **Focus on Investment in Subsidiaries:** The significant positive coefficient of investment in subsidiaries indicates that banks should explore opportunities to invest in profitable subsidiaries. Strategic investments can lead to increased profitability and diversification of revenue sources.
3. **Monitor and Manage Loan and Advances Carefully:** The negative and statistically significant coefficient of loan and advances highlights the potential risks associated with lending activities. Banks should exercise prudence while extending loans and advances, ensuring effective risk management practices to minimize non-performing loans.
4. **Address Non-Performing Loan Concerns:** The negative and significant coefficient of non-performing loan emphasizes the importance of proactive measures to address and minimize non-performing assets. Implementing robust credit risk assessment and recovery mechanisms can help mitigate losses and preserve profitability.
5. **Continuous Monitoring and Adjustment:** Portfolio management is an ongoing process that requires continuous monitoring and adjustments. Regularly assess the performance of various portfolio components and make necessary changes to align with changing market conditions and economic trends.
6. **Diversification for Risk Mitigation:** Diversifying the portfolio across various asset classes can help mitigate risks associated with individual investments. Strive for a well-balanced and diversified portfolio that can withstand market fluctuations and uncertainties.
7. **Consider Consumer Price Index (CPI) Implications:** While the coefficient of CPI is negative, banks should remain vigilant about its impact on overall profitability. Be mindful of inflationary pressures and adjust pricing strategies and interest rates accordingly to maintain competitiveness and profitability.

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