

# INCOME SMOOTHING AND FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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## **Abstract**

***This study examines the impact of income smoothing on the financial performance of listed deposit money banks in Nigeria. Data were extracted from the annual report and accounts of eight (8) sampled banks for the period 2012-2017. Loan loss provision was used as a proxy for income smoothing while return on assets (ROA) and return on equity (ROE) were used as a dimension for profitability to proxy banks financial performance. The study employed ordinary least square for data analysis. Findings from the study revealed that income smoothing (LLP) have negative and insignificant impacts on financial performance (ROA, ROE) of DMBs in Nigeria. It is recommended that deposit money banks in Nigeria should operate in a low risky environment and should have expertise to control their lending this is because deposit money banks that operate in more risky environments and lack the expertise to control their lending operations, it will probably result in a higher loan-loss provision ratio to cover this risk.***

***Keyword: Income smoothing, Loan loss provision, Return on asset and Return on Equity***

## **1.INTRODUCTION**

The primary objective of financial reporting is to provide information about corporations that is useful to a wide range of users in making economic decision. However, the validity of this objective is being questioned by many users of corporate financial reports because of the probable effects of earnings management (income smoothing) on information contents of such reports (Uwuigbe, Daramola & Anjolaoluwa, 2014). Income smoothing is considered as the most popular strategy among earnings management strategies (Matsuura, 2008). According to Kangarlouei, Motavassel and

Rezvani (2012), users nowadays put lots of emphasis on the income figure as one of the most important factors in decision making. Likewise, Vladu (2013) pointed out that users tend to rely on income statement primarily to assess the success of firms.

Stabilizing profit is called Income Smoothing Harahap and Sofyan (2007) Income Smoothing or profit flattening is one of the patterns of profit manipulation by controlling profits based on the fluctuation. Smoothing income include the use of certain techniques to reduce or enlarge the amount of profit from a period equal to the amount of profit from the previous period. Smoothing may be accomplished by either artificial means selection or use of accounting procedures which do not require a real economic transaction or real means (engaging in a transaction that has real economic consequences (Salno & Baridwan, 2000).

The banking sector is vital to national and global economies and banks play a key role as depository institutions and lender to firms, individuals and governments (Lobo, 2016). Banks have become more exposed to the risk of failure due to the huge amounts of money that are provided to the customers through loans, which may threaten the stability and growth of the banks. One of the solutions that were introduced to the banking sector in order to reduce such risk was by sitting aside some amount of money known as loan loss provision. Therefore, loan loss provision is considered to be an important tool that has been employed to reduce the risk of customers' failure to pay their liabilities to the bank. Given the importance of these provisions, prior literature (e.g., Lobo & Yang, 2001; Fonseca & Gonzalez, 2008; Tahir et al., 2014; Hassan & wall, 2004; Ozili, 2015) shows that banks manipulate these provisions to meet several incentives e.g., increase or decrease reported earnings, making reserves for future, tax evasion.

Given the importance of Loan loss provision, the International Accounting Standards (IAS) have issue the IAS 37 which requires the disclosure for all provisions. This standard is used to ensure that the appropriate standards of recognition will be followed, the right measurement of provisions will be used, and potential liabilities will be recognized. For example, the IAS 37 requires disclosing sufficient information to enable users to understand the nature, timing and quantity of these provisions.

While for the recognition the IAS 37 indicates that a provision should be recognized only in the following cases; when the project is a present obligation (legal or constructive) and is a result of a past event; when it is probable (more likely than not) that a certain flow out of embodying economic benefits will be required to repay an obligation; If it is possible to make a reliable estimate of the amount of commitment and standard refers that only in very rare cases proceeding of trusted estimating. IAS 37 also pointed out the need to review the provisions at the end of each period to prepare reports and their adjusting to reflect the current best estimate.

Financial performance, on the other hand, is a measure of an organization's earnings, profits, appreciation in value as evidenced by the increase in the entity's worthiness (Asimokopoulos, Samitas & Papadugonas, 2009). Investopedia (2015) defines firm's performance as a subjective measure of how well a company utilized its asset in carrying out its operation to earn incomes as well as measure general firm's performance over a given period of, compare performance of competitors, industries or sectors at large.

For many years, researchers have debated about income smoothing as an aspect of earnings management which is widely used to describe accepted accounting techniques which permit corporations to report financial results that may not accurately portray the substance of their business activities. Previous studies in Nigeria include Umobong and Ogbonna (2014) studied the effect of Income Smoothing and Earnings Quality on Financial Performance of pharmaceutical firms Quoted on Nigeria Stock Exchange for the period of 2006 to 2014. The current study focuses on income smoothing and financial performance of listed deposit money banks in Nigeria. Ajekwe, Ibiame, and Marie (2017) studied Loan Loss Provisions, Earnings Smoothing and

Capital Management under IFRS: The Case of Deposit Money Banks in Nigeria. The researchers neglect income smoothing and performance of deposit money banks in Nigeria which is the concern of this study.

Juliana (2016) carried out a study on Corporate Governance and Income Smoothing in the Nigerian Deposit Money Banks. The researcher in her study does not look at areas like financial performance of deposit money banks in Nigeria which is the concern of the current study. In 2015 Ozili studied Loan Loss Provisioning, Income Smoothing, Signaling, Capital Management and Procyclicality in Nigeria. The study does not consider income smoothing and financial performance of deposit money banks in Nigeria

Anichebe (2009), and Shehu and Abubakar, (2012) that examined other aspect of income smoothing and performance focused on other measures of like operational risk and total accruals. This study focuses on dimension of profitability to proxy financial performance (ROA and ROE) Other studies that used loan loss provision have a different time period or were conducted in a different sector (Abubakar, Abdu & Abdulmaroop; 2014 and Osemene, 2014).

At international level, most studies on the subject focus on analyzing the factors that lead to the behavior of smoothing or contrast the existence or not of this phenomenon in different Sectors. Such as Fonseca and Gonzalez (2005), Kamarudin, Ismail and Ibrahim (2003), Iniguez and Poveda (2004), Hejazi and Ansari (2012) Tahir, Ahmad and Aziz (2014).

The main objective of this study is to examine the impact of income smoothing on financial performance of listed deposit money banks in Nigeria focusing on dimension of profitability to proxy financial performance. The following hypotheses are formulated for the study:

- i. Income smoothing (LLP) has no significant impact on Return on asset (ROA) of listed deposit money banks in Nigeria.
- ii. Income smoothing (LLP) has no significant impact on Return on equity (ROE) of listed deposit money banks in Nigeria.

The remainder of the paper is organized as follows: Section two (2) provides literature on income smoothing and financial performance and previous researches about these concepts. Section three (3) presents methodology of the study. Section four (4) Presents results and discussions and lastly section five (5) discusses conclusions and recommendations.

## **2.LITERATURE REVIEW**

### **2.1. The Concept of Income Smoothing**

According to Belkaoui (2006) income smoothing is Reduction of income fluctuations from Year to year by transferring income from the years of high earnings for the periods that is less favorable. Income smoothing can be defined as an effort to minimize the number of reported earnings if actual income is greater than normal profits, and efforts to increase the number of reported earnings if actual earnings are smaller than normal profits (Amanza, 2012). Belkaoui (2000) defines as income smoothing is a deliberate attempt made to try to reduce the management of abnormal variations in the company's profits in order to achieve a normal level for the company.

### **2.2. Types of Income Smoothing**

According to Eckel (1981) in (Dewi, 2011) income smoothing can be caused by two types of incidences, namely: Natural Smoothing: is income smoothing type whereby income will be smoothed by itself without the intervention of other parties and Intentional Smoothing/Designed Smoothing : is income smoothing type that is been influenced by other parties' actions, such as management. Designed smoothing is divided into two; the artificial smoothing and real smoothening. Artificial smoothening is income smoothing type that involves the use of accounting manipulation to make income stable. Real smoothing is the type where management's actions are engaged to control the economic activities.

### **2.3. Triggers to Income Smoothing**

There are some reasons management conduct income smoothing. Hepworth (1953) in Rachmawati (2002) states motivation that pushes for income smoothing is to improve relations with creditors, investors, and employees as well as smoothing the business cycle through a psychological process. Income smoothing is

used to: Reduce tax, enhance investor confidence, as investors typically assume that stability of income will affect the stability of the dividend, maintain good relations between managers and workers, improving the company's image in the eyes of outsiders that the company has a low risk, improving the business relationship satisfaction, Improve the perception of external parties on the ability of management and increase compensation for management.

### **2.4. The Concept of Financial Performance**

Financial performance is a measure of an organization's earnings, profits, appreciation in value as evidenced by the increase in the entity's worthiness (Asimokopoulos, Samitas & Papadugonas, 2009). Investopedia (2015) defines firm's performance as a subjective measure of how well a company utilized its asset in carrying out its operation to earn incomes as well as measure general firm's performance over a given period of, compare performance of competitors, industries or sectors at large. It also entails measuring outcomes of a company's policies and operations in monetary terms, which include return on equity (ROE), return on asset (ROA). (Business Dictionary, 2015).

Return on Asset (ROA) it an important ratio that shows the profitability of a firm. It is a ratio that relates firm's income to its total assets. This ratio measures the ability of the firm to generate income by using firm assets. Thus, this ratio indicates how efficiently the assets of the company are employed to generate income. Wen (2010) indicates that the higher ROA ratio the more effective the firm is using its own recourses. Return on Equity (ROE) is a yearly financial ratio that shows how much profit a firm earned compared to the total amount of shareholder equity reported on the balance sheet. ROE measures what the stockholders require in return for their investment. A firm that has a high return on equity is expected to be one that is able to generate cash internally. Therefore, the higher ROE indicates better firm performance. ROE ratio shows the rate of return earned on the money invested in the firm by its shareholders. ROE also indicates how effectively a firm executive is investing stockholders' capital (Ongore and Kusa, 2013).

### **2.5. Empirical Studies**

A review of literature reveals that there are studies that link income smoothing and financial performance and these includes:

Michelson, Jordan and Wootton (2000) researched a study of the relationship between income smoothing and return of companies by considering a sample of 358 companies during the years 1980-1991. They concluded that "smoother" companies report more abnormal return mean in comparison to "non smoother" ones. Al-Juhmani (2001) investigated income smoothing practices in Jordanian firms listed on ASE. The results revealed that income smoothing has been practiced in Jordanian firms, but the study could not find any effect of firms' sector or size on income smoothing practices. Norani (2002) studied the effect of income smoothing on the return of the companies listed on the Tehran Stock Exchange. The study concluded that the income smoothing had no significant effect on the return of the selected companies.

Bao and Bao (2004) did a study in which they investigated the effect of income smoothing and earnings quality on the evaluation of the performance of companies selected for the purpose of this study. The data collected were from among 12,651 companies from 1992 to 2000. The study revealed that no significant difference was found between earnings per share and share price among smoother and non smoother companies. Hejazi, Ansari, Sarikhani and Ebrahimi (2004) investigated the effects of income smoothing and earnings quality on evaluating the performance of companies listed on the Tehran Stock Exchange. The study used 96 companies among those listed within the years from 1999 to 2003. The results of the study indicated that their performance is not influenced by income smoothing or earnings quality. In other words, no significant difference was found between the performance mean of smoother and no smoother companies and between those having high earnings quality and those having low earnings quality.

Chipalkatti and Rishi (2007) to determine whether the weaker Indian banks has an incentive to under provide their Loan loss provision and understate gross non-performing assets in order to increase capital adequacy ratios. Weaker banks are defined in terms of low profitability and low capital ratios. They highlighted that weaker banks are not engage in under provisioning of

loan losses but they found strong evidence for the second hypothesis that weaker banks understate their non-performing assets.

Hosseini and Sahar (2007) examine the relationship between income smoothing practices and firms value in Iran. This research also studies the effect of the firms' size on the tendency to smooth income using sample comprises of 200 companies listed in the Tehran Stock Exchange within the period of 1999-2005. The result indicates that income smoothing practices was present although its percentage is low. Reverte (2008) suggests that income smoothing practices are significantly lower in European union countries with an institutional framework that is more favorable to high quality financial reporting i.e. countries with stricter rules and regulation, lower ownership concentration, higher level of enforcement of rules and higher degree of investor protection. Cahan, Liu and Sun (2008) found that income smoothing is more positively associated with earnings informative in countries with strong investor protection than it is in countries with weak investor protection, suggesting that managers in weak investor protection countries are more likely to use income smoothing for opportunistic reasons while managers in strong investor protection countries are more likely to use income smoothing to convey their private information about future earnings

Rountree, Weston and Allayannis (2008) conclude that income smoothing is value creating, but not due to managers' accrual-based income smoothing endeavor, but due to decreased earnings volatility. Managers' accounting manipulation is perceived value detrimental, but originally smoother earnings are priced with a premium Thus, manager's decreased firm value when engaged in earnings alternation via accruals, but increased firm value if they managed to smooth earnings otherwise.

Asuman (2009) detect the behavior of income smoothing in the public companies in Turkey, using the discretionary accounting changes (DACs). The result shows that motivation that allows of DACs are: income smoothing, economic characteristics in the period did DACs, and the desire of the company to report earnings close to zero.

Taktak, Zouari and Boudriga (2010) conducted a study using regression analysis to test whether Islamic banks use LLP to manage their earnings. But they found that earnings management is not practiced using LLP in Islamic banks. Abu-Hilal (2010) investigated the income smoothing practices and their impact on the Palestinian national economy and revealed that 44.4% of Palestinian firms smooth their income. Ansari and Khajavi (2011) studied the relationship between income smoothing and the market price of stocks and financial ratios in Tehran. Income smoothing rate of companies listed in Tehran Stock Exchange was measured using negative correlation between changes in discretionary accruals and pre-determined profits.

Namazi and Khansalar (2011) examine the income smoothing action of the two types of companies ,an established and emerging company in the stock market Tehran, using a model of Jones. The results prove that the discretionary accruals of growing company tend to apply more intensive than already established companies. Taktak (2011) expands the study on practices of income smoothing in Islamic banks, by including 79 Islamic banks on 19 countries over the period 2001-2006. In this study, the author concludes that banks commit on natural income smoothing practices Kangarlouei, Motavassel and Rezvani (2012) investigate the effect of income smoothing on the quality of reported earnings of the active collapsed companies in TSE. The results express a very weak correlation relationship between variables, but prove the concept is the main purpose of the collapsed companies. Hamad and Abu-Nassar (2013) investigated the effect of income smoothing on the market return of the industrial and service firms listed on Asian stock exchange. The study revealed that some firms practiced income smoothing but there were no effects of firm sector or size on income smoothing practice. Winny and Anjani (2014) stated that profitability and Financial Leverage partially and significantly influenced on the Income smoothing of manufacturing firms of Sub-sector automotive & components listed in Indonesia Stock Exchange in 2009-2012.

Ranjbar and Naderkhani, (2014) Investigates the Relationship between Earnings Smoothing and Cash Flows from Operations in Iran Stock Exchange for the period of 2008 to 2012. The study document a significant negative association between earnings

smoothing and smoother firms with Cash Flows from Operations, during a sample of 60 accepted corporations for a four year.

Tahir *et al.*, (2014) examine the impact of loan loss provision on Bank Profitability in Pakistan and control for other well-known determinants. The study found that there is a negative relationship between the loan loss provision (LLP) and profitability (ROA, ROE). A comparative study by Shubita (2015) assessed the practice of income smoothing in the Gulf Cooperation Council markets (Saudi Arabia, Kuwait, United Arab Emirates, Oman and Qatar) and to examine the impact of income smoothing on the earnings quality. The results suggested that income smoothing was founded in the Gulf Cooperation Council markets and it improved earnings quality in three countries out of the four.

Husaini and Sayinta (2016) Analyze income smoothing and profitability in Manufacturing firms listed in Indonesia stock exchange. Their findings simultaneously indicated that profitability, leverage, the value of the firm, institutional ownership and public ownership influence on the income smoothing. Hidayat, Kanam and Widyaningsih (2016) examines the effect of comprehensive income, company size, profitability and financial leverage on income smoothing on consumer goods companies in the manufacturing sector listed on the Stock Exchange of Indonesia and the results indicated a negative impact on income smoothing.

## **2.6. Theoretical Framework**

The following are the relevant theories to the study: the agency theory, Signaling theory, information asymmetry theory. But agency theory and signaling theory are the theories that underpin the study by explaining all the variables in the study. The agency theory assumes that the respective individuals motivated solely by self-interest that is a conflict of interest between principal and agent do exist. Signaling theory describes how companies give signal to the investors that the companies have good future by distorting of information in financial statement. So the financial statements that are published in Nigerian Stock Exchange must give relevant, complete and accurate information in order to persuade the investors.

## **2.7. Methodology**

The study used ex-post facto design as the most suitable method. The selection was made because of the nature of both the dependent and independent variables of the study. Data were obtained from annual report and account of the sampled banks as well as the fact book of Nigerian Stock Exchange from 2012 to 2017.

The population of the study comprises of all the Deposit Money Banks listed on the floor of Nigerian stock exchange, as at 31<sup>st</sup> December, 2017. There are sixteen deposit money banks as follows: United Bank of Africa, Union Bank, First Bank, Wema Bank, Sterling Bank, Guaranty Trust Bank, Access Bank, Zenith Bank, First City Monument Bank, Stanbic IBTC Bank, Fidelity Bank, Diamond Bank, Sky Bank, Unity Bank, Eco Bank, Jaiz Bank.

**2.8. Sample Size and Sampling Technique**

Eight banks were selected as sample size of this study and the sample size was obtained using the yaro yamani selection formula as used by barde (2009) and Shuaibu (2014).

$$n = \frac{N}{1 + N(e^2)}$$

Where:

n = sample size

N = target population

e = margin of error at 6%

$$n = \frac{16}{1 + 15(0.06)^2}$$

$$n = \frac{16}{1 + 15(0.12)}$$

$$n = \frac{16}{1.92}$$

$$n = 8.3$$

The sample size includes: United Bank of Africa, Union Bank, First Bank, Fidelity Bank, Sterling Bank, Guaranty Trust Bank, Access Bank and Zenith Bank.

**2.9. The Dependent Variable and its Measurement**

There are two set of dependent variables in the study. Return on Asset (ROA) and Return on Equity was used as a dimension of profitability to proxy for Financial Performance. ROA was obtained by dividing profit before tax by total asset. The ROE was obtained by dividing profit after tax by total asset and is in consistent with the works of D'Amato (2010), Agye and Marfo-yaidon (2011), Helfert, (2011), Kelly, Khayum and price (2013).

**2.10. The Independent Variables and its Measurement**

The independent variable used in the study is Income Smoothing and was proxy by loan loss provision as used by Lobo and Mathieu, (2003), Kanagaretnam, Lobo, and Yang (2004), Pérez, Salas and Saurina, (2006), Anandarajan, Hasan and McCarthy, (2007), González (2008), Taktak *et al.*,(2010), Leventis, Dimitropoulos and Anandarajan, (2012) , El Sood, (2012), Balbao, López-Espinosa and Rubia (2013) ,Curcio and Hassan (2013) .

**2.11. Control Variables**

The control variables used are Bank Leverage (LEV) was measured as the ratio of total liabilities to total equity (DeFond & Jiambalvo, 1994; Jaggi & Lee, 2002; Prencipe *et al.*, 2011). Bank Growth which was measured by the growth of net interest income (net interest income in year *t* minus net interest income in year *t-1* and scaled by net interest income in year *t-1*, nonperforming loan, changes in interest income ( $\Delta IIC$ ) interest income in year *t* minus interest income in year *t-1* and scaled by interest income in year *t-1*, (Carey & Simnett, 2006; Johnson, Khurana *et al.*, 2002; Prencipe *et al.*, 2011).

**2.12. Model Specification**

The model of the study was adopted from Ranjbar and Naderkhani,(2014) but modified as follows:

$$ROA_{it} = \alpha + \beta_1 LLP_{it} + \beta_2 LEV_{it} + \beta_3 GROWTH_{it} + \beta_4 \Delta IIC + \beta_4 NPL + e_{it} \dots\dots\dots (i)$$

Where:

ROA = Return on asset

LLP = Loan loss provision

LEV = Debt (Natural log of Total debts)

GROWTH = Bank growth

$\Delta$ IIC = Changes in interest income

NPL = Non performing loan

$\alpha$  = the constant

$\beta$  = the coefficient

e = Random error term

$$ROE_{it} = \alpha + \beta_1 LLP_{it} + \beta_2 LEV_{it} + \beta_3 GROWTH_{it} + \beta_4 \Delta IIC + \beta_4 NPL + e_{it} \dots\dots\dots (ii)$$

Where:

ROE= Return on equity

LLP = Loan loss provision

LEV= Debt (Natural log of Total debts)

GROWTH = Bank growth

$\Delta$ IIC = Changes in interest income

NPL = Non performing loan

$\alpha$  = the constant

$\beta$  = the coefficient

e = Random error term

### 3.RESULTS AND DISCUSSIONS

Table 4.1 below presents the descriptive statistics of the variables included in the Regression Models as presented. It represents the variables of the 8 listed deposit money banks operating in Nigeria for the period 2012-2017. Therefore, the mean, standard deviation, minimum value and maximum value are depicted in the table below:

**Table 4.1 Descriptive Statistics of the Data**

Variables	OBS	MEAN	STD.DEV.	MIN	MAX
ROA	48	0.002	0.0011	0.0495	0.039
LLP	48	0.496	0.990	0.005	6.545
LEV	48	119.726	743.149	0.003	5.156
$\Delta$ IIC	48	-2.010	9.981	-2.751	3.851
GROWTH	48	2.811	1.481	-4.141	9.561
NPL	48	1.101	2.401	1.209	1.481

Source: Generated using STATA 12.0 from the Annual reports and accounts of the sampled banks 2012 -2017.

Table 4.1 shows that ROA has a mean of 0.002 with standard deviation of 0.0011, minimum and maximum

values of 0.0495 and 0.039 respectively. It is also evidence from the table 4.1 that LLP has a mean of 0.0496 with 0.990 as standard deviation and 0.005 and 6.545 as minimum and maximum values respectively. Table 4.1 also revealed that the mean  $\Delta$ IIC of the DMBs is -2.011 with 9.981 as standard deviation and -2.751

and 3.851 as minimum and maximum respectively. The table shows that, averagely, GROWTH for DMBs in Nigeria is 2.811 with the standard deviation of 1.481, minimum and maximum values of -4.141 and 9.561 respectively. And lastly from the table NPL shows a

mean of 1.101 with standard deviation of 2.401 and minimum of 1.209 and maximum value of 1.481.

**Table 4.2 Descriptive Statistics of the Data**

VARIABLE	OBS	MEAN	STD.DEV.	MIN	MAX
ROE	48	142.045	118.704	0.506	406.828
LLP	48	0.496	0.998	0.053	6.545
LEV	48	119.726	743.149	0.035	5.155
ΔIIC	48	-2.011	9.981	-2.751	3.851
GROWTH	48	2.811	1.481	-4.141	9.561
NPL	48	1.101	2.401	120.900	1.481

*Source: Generated using STATA 12.0 from the Annual reports and accounts of the sampled banks 2012 -2017.*

Table 4.2 shows that ROE has a mean of 142.0454 with standard deviation of 118.743, minimum and maximum values of 0 .506 and 406.828 respectively. It is also evidence from the table 4.4 that LLP has a mean of 0.0496 with 0.998 as standard deviation and 0.053 and 6.545 as minimum and maximum values respectively. Table 4.4 also revealed that the mean ΔIIC of the DMBs is -2.011 with 9.981 as standard deviation and -2.751 and 3.851 as minimum and maximum respectively. The table shows that, averagely, GROWTH for DMBs in Nigeria is 2.811 with the standard deviation of 1.481; minimum and maximum values of -4.141 and 9.561 respectively. And lastly from the table NPL shows a mean of 1.101 with standard deviation of 2.401 and minimum of 120.900 and maximum value of 1.481



**Table 4.3 Regression Results of LLP and ROA**

Dependent Variable: ROA				
Independent Variable				
	Coef.	t-value	p-value	
LLP		-0.0004058	-1.11	0.272
LEV		7.96e-07	1.66	0.104
ΔIIC		-1.61e-15	-1.06	0.297
GROWTH		-1.68e-15	1.71	0.094
NPL		-2.23e-15	-3.34	0.002
Constant		0.0025906	13.6	0.000
R2		0.3694		
F-Value		4.92		

Source: Generated using STATA 12.0 from the Annual reports and accounts of the sampled banks 2012 -2017.

Table 4.3 present the regression results of the aggregated data set for the Nigeria Deposit Money Banks. The result show that LLP has a negative and insignificant impact on ROA at 0.05 significant levels with p-value of 0.272 the findings is consistent with the findings of sarikhani *et. al*, that reported a negative relationship between income smoothening and performance of companies and in disagreement with the findings of winny and anjani (2014). LEV has a positive impact on ROA but not significant at 0.05 the findings agrees with the findings of that reported positive influence of income smoothening and profitability of companies hussaini and sayinta (2016) the found positive impact of income smoothening and leverage of companies, ΔIIC has a negative impact on ROA but significant at 0.05 and bank GROWTH has a positive and significant impact on ROA the findings concord with the findings of kanam *et. al*, (2016) that found positive impact of income smoothening and

growth in companies and lastly NPL has a negative but significant impact on ROA of DMBs in Nigeria. The R<sup>2</sup> value for the model is 0.3694 which implies that about 37% of the variation in ROA is explained by the explanatory variables captured in the model (LEV, ΔIIC, GROWTH and NPL) and the remaining 63% are controlled by other factors not included in the model.

**Table 4.4 Regression Results of LLP and ROE**

Dependent Variable: ROE				
Independent Variable				
	Coef.	t-value	p-value	
LLP		-86490.71	-0.23	0.818
LEV		-14.3339	-0.03	0.977
ΔIIC		4.74e-08	0.03	0.976
GROWTH		8.72e-10	0.87	0.392
NPL		2.98e-06	4.36	0.000
Constant		1112875	5.52	0.000
R2		0.3646		
F-Value		4.82		

Source: Generated using STATA 12.0 from the Annual reports and accounts of the sampled banks 2012 -2017.

Table 4.4 above; present the regression results of the aggregated data set for the Nigeria Deposit Money Banks. The results show that LLP has a negative and insignificant impact on ROE at 0.05 significant levels with p-value of 0.818 the result agrees with the findings of ansari and khajavi (2011) that reported negative impact of income smoothening and financial ratios and disagrees with the findings of hussaini and sayinta (2016) that found positive impact of income smoothening and profitability of companies. LEV has a negative impact on ROE but not significant at 0.05, Δ IIC, bank GROWTH and NPL both has a positive impact on ROE of DMBs in Nigeria. The R<sup>2</sup> value for the model is 0.3646 which implies that about 37% of the variation in ROE is explained by the explanatory variables captured in the model (LEV, ΔIIC, GROWTH and NPL) and the remaining 63% are controlled by other factors not included in the model.

It reveals that the major portion of banks operations are involves in borrowing and advancing activities due to banks face threats of high credit risk and they create a loan loss provisions to lessen the risk. This risk adverse policy of banks leads towards decrease in financial performance, because there are two major reasons behind it first, according to accounting principles the loan loss provisions are created from earnings of banks on annual basis. Second, banks tends to be more profitable when they are able to undertake more lending activities if a higher level of provision is maintained then bank's ability to give loan will decrease and thus depresses banks' return on asset significantly.

**Table 4.5 Correlation between LLP and ROA**

	ROA	LLP	LEV	ΔIIC	GROWTH	NPL
ROA	1.0000					
LLP	-0.0677	1.0000				
LEV	0.2317	0.8962	1.0000			
ΔIIC	-0.0849	0.1122	0.0487	1.0000		
GROWTH	-0.1814	-0.0874	-0.0300	0.1323	1.0000	
NPL	0.4860	0.0996	-0.0714	-0.2083	-0.0796	1.0000

Source: Generated using STATA 12.0 from the Annual reports and accounts of the sampled banks 2012 -2017.

Table 4.5 shows the correlation coefficient for ROA and LLP is -0.0677 indicating a negative relationship. The control variables (LEV and NPL) are positively related

with the dependent variable (ROA) and independent variable (LLP), (ΔIIC and GROWTH) are negatively related with dependent variable (ROA) and the independent variable (LLP).

**Table 4.6 Correlation between LLP and ROE**

	ROE	LLP	LEV	ΔIIC	GROWTH	NPL
ROE	1.0000					
LLP	-0.092	1.0000				
LEV	-0.1198	0.8962	1.0000			
ΔIIC	-0.1159	0.1122	0.0487	1.0000		
GROWTH	0.0679	0.0874	-0.0300	0.1323	1.0000	
NPL	0.5874	0.0996	-0.0714	-0.2083	-0.0796	1.0000

Source: Generated using STATA 12.0 from the Annual reports and accounts of the sampled banks 2012 -2017.

Table 4.6 shows the correlation coefficient for ROE and LLP is -0.092 indicating a negative relationship, The control variables (LEV and  $\Delta$ IIC) are negatively related with the dependent variable (ROE) but positively related to independent variable (LLP) and (GROWTH and NPL) are positively related with dependent variable (ROE) and the independent variable (LLP).

#### 4.CONCLUSION AND RECOMMENDATIONS

This study examines the impact of income smoothing on financial performance of listed deposit money banks in Nigeria. The study concludes that deposit money banks smooth income using loan loss provision estimates by increasing the level of provisions made against loan and that leads the banks to mislead users of accounting information by reporting higher earnings and at the long run may lead to the collapse of the banks and therefore Banks with less loan loss provision are perceived to have more safety and such an advantage can be translated into higher financial performance. So the higher loan loss provisions decreases financial performance and financial stability of the bank, and the higher provisions for loan losses decreased financial performance.

Based on the findings of the study, It is therefore, recommended that deposit money banks should operate in a low risky environment and should have expertise to control their lending this is because deposit money banks that operate in more risky environments and lack the expertise to control their lending operations, it will probably result in a higher loan-loss provision ratio to cover this risk. The study also recommended that policy makers and regulators in Nigeria should raise the awareness among external users that banks may use loan loss provision to smooth income, and the need to increase the transparency in financial reporting about loan loss provision.

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