EFFECTS OF FINANCIAL LEVERAGE ON FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA.

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Abstract
This paper examined the effect of financial leverage on the financial performance of deposit money banks (DMBS) in Nigeria. It covers the period 2009-2023 and used a sample of ten (10) DMBS listed on the Nigeria stock exchange. In order to achieve this objective, data was collected through the use of return on capital employed, debt ratio, equity ratio and it was analyzed through random effect model. Among the findings, it was revealed that financial leverage indicators significantly exert influence on return on capital employed of DMBS in Nigeria. The implication of this finding is that financial leverage enhances bank financial performance in Nigeria. The study recommends among others that debt equity mix should be adopted so as to improved their financial performance and remain competitive.
Keywords: *Financial Leverage, equity ratio, debt ratio and equity multiplier.*

INTRODUCTION

An organization capital structure is the combination of long-term financing securities consisting of debts and equities (Fumani, M.A & Moghadam, A, 2021). The decision of a firm's financial structure is one which is crucial as the determination of the optimum capital mixture would improve the firms value. This crossroads requires organization to understand their structure and financing needs when faced with the options of either debt or equity financing or a combination of both using a specified ratio or percentage. However, some firms neglect the role of planning and control in determining an adequate capital structure but rely on the managers money related decisions (Pandey, 2010). This act tends to cripple the firm's financing activities in the long-run as they find it difficult to raise capital to fund operations.

Therefore, financial decision in an organization is important and should not be undermined. This is because the implementation of appropriate financial decisions helps to drive growth and assist management in solving problems towards the attainment of a corporate objective (Hayes, 2022). Also, some schools of thought opine that finance is the life wire of an organization for the fact that it aids managers to decide where, how and when funds needed for investment would be obtained, and there decisions facilitate every other activity in the organization (FOSU, 2022). It is the most important decision of all corporate decisions.

However, inadequate financial decisions, most often than not, is associated with the failure of most corporate bodies when these wrong decisions lead to non-beneficial financial structures, therefore, it should be properly executed (Myers, 2018). Between 1994 and 2003, the Nigerian banking sectors witnessed a wave of bank failures which saw the likes of all states trust bank, citi express bank and Hallmark bank being wound up and revoked off their license by the central bank of Nigeria. This led to studies which showed that inadequate capital structure was one of the several factors responsible for the failure of this banks (Adeyemi, 2017). Overtime the Nigerian banking sector has grown to be highly competitive and strategic where players take careful and well-informed financial decision with this competition, banks tend to stand out by efficiently employing their resources as they constitute an important of growing and developing the economy. By acting as intermediaries between surplus and deficit units in the economy, banks play an important major role in providing funds to players that can create economic value for productive and developmental purposes (Ujah & Brusa, 2017).

Statement of the Problem

This study examines the effect of financial leverage on the financial performance of deposit money banks in Nigeria. The justification of this study can be seen from the need to measure the effectiveness of banks in economy over a particular period of time. Another pressing reason is that firms' capital budgeting

decisions untimely affect their productivity, risks and returns of shareholders. This eventually affects the firms market value.

However, an important financing that firms must take is to decide the proportion of debt and equity that will constitute their capital structure. It is usually a difficult task for managers to ensure that business organizations operate on the optimal mix of equity and debt.

Survey of empirical studies revealed that consensus have not been reached on the relationship between financial leverage and financial performance. Many researchers found a significant negative relationship between leverage and firms' performance (Ebaid, 2019; Dasuki, 2016; Ubesie, 2018).

Despite the negative relationship revealed by above empirical studies, many researchers also found significant positive relationship between financial leverage and financial performance **{**(Gweyi and Karanja (2021), Akande (2018), Yoon and Jang (2022), Abdulkarim & Suleiman (2021), popoo,a and Suleiman (2020).**}** Moreover, studies carried out on leverage in Nigeria revealed that most of the research work that focused on the banking sector are quite few with contradictory results, and do not separate the components of debts into long-term and short term to see their individual impact on financial performance. Thus, this study sought to fill the evidential gap.

The broad objective of this study is to investigate the effect of financial leverage on banks performance in Nigeria. Specific objectives are stated below:

i. To ascertain the effect of financial leverage on financial performance of banks in Nigeria measured by return on assets.
ii. To examine the effect of financial leverage on banks profitability in Nigeria measured by return on capital employed.

The Hypotheses for this study is stated in null forms:

i. **HO:** Financial leverage does not have any significant effect on the financial performance of banks in Nigeria measured by return on assets.
ii. **HO:** Financial leverage does not significantly affect banks profitability in Nigeria measured by return on capital employed

However, the valuation of banks and the prices of their stocks are impacted by the interplay of debt and equity (Rehman, 2015). Again, this highlights the essential nature of the choice of capital structure. With an optimal capital structure banks strive to achieve sustainable development through steady profitability and effective utilization of assets; this serves as a measurement of performance.
In this context, this research work would give insight on how Nigerian banks used borrowed capital to attain results.

LITERATURE REVIEW

Financial Leverage

Financial leverage refers to how much debt a company has used to finance their assets (Stresson & Kallum, 2017). It also refers to the use of debt (borrowed funds) to amplify returns from an investment or project. The concept of leverage is used by both investors and companies. Investors used leverage to significantly increase the returns that can be provided on an investment. They leverage their investments by using various instruments, including options, futures, and margin accounts. Companies like banks can use leverage to finance their assets. In other words, instead of issuing stock to raise capital, banks can used debt financing to increase shareholder value.

Measures of financial leverage

Financial leverage can be measured using the banks debt ratio, equity ratio and equity multiplier.
Debt ratio: Echobu (2019) Stated that debt ratio measures the extend of a company leverage. It is the ratio of total debt to total assets, expressed as a decimal or percentage. It can be interpreted as the proportion of a company's assets that are financed by debt.

Equity ratio: Enekwe (2021) posited that debt-to-equity ratio is a financial metric that measures the amount of leverage used by a company. It uses investments in assets and the among of equity to determine how well a company manages its debts and funds its assets requirements. A low equity ratio means that the company primarily used debt to acquire assets, which is widely views as an indication of greater financial risk.

Equity multipliers: Anarfo (2015) stated that equity multiplier aid to analyze how assets have been financed in a company. It is calculated by dividing a firm's total assets by its total equity.

Equity & Debt

Equity represents shares of ownership in a company and can be exchanged with investors for capital and it comprises of common stocks, preference shares, reserve, surpluses and retained earnings. Equity is a component of the capital structure which could be in the form of contributed capital and retained earnings (Iheany et al, 2016). The listed deposit money banks in Nigeria have the legal status to issue their shares to the public for subscription. From a corporate perspective, equity represents a more expensive, permanent source of capital with greater financial flexibility.

On the other hand, debts refer to borrowed capital either in the form of bonds or loans unlike equity, debt comes with the advantage of allowing a company to retain stakes of ownership but comes at the cost of future repayments, as well as accrued interest. Debt financing comprises of bonds, debentures and long-term loans (Pandey, 2010).

Banks Financial Performance

Financial performance is the measure of a company's effectiveness in using assets and equity to generate revenue. It is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. Financial performance is the extent to which a company's financial health over a period is measured. Financial performance tells investors about the general well-being of a firm. It's a snapshot of its economic health and the job its management is doing.

The financial statements are used in evaluating overall financial performance as metrics and ratios are derived from the balance sheet, the income statement, and the statement of cash flows. No single measure should be used to define the financial performance of a firm because it is a broad term that covers all areas of an organization financial health including profitability, liquidity, efficiency and leverage.

Empirical Review

Ebaid (2019) carried out a study to investigate the impact of choice of capital structure on the performance of firms in Egypt, roe, roa, and gross profit margin were used as proxies for performance while financial leverage was measured using short term debt to asset ratio, long-term debt to asset ratio, and debt to total assets. Multiple regression technique was applied to determine the relationship between leverage and performance. The result reveals that leverage has no impact on a firm's performance.

Dasuki (2016) conducted a study on the impact of debt financing on the performance of manufacturing companies. The study used a sample one hundred and eighty manufacturing firms listed on the Borsa stock exchange for the ten-year period from 2004 to 2013. Finding shows that the ratio of long-term debt to total debts has negative and significant effect on financial performance (ROA), but were in significant on ROE.

Ubes (2018) conducted a study on the impact of capital structure on the financial performance of conglomerates quoted on the floor of the Nigerian stock exchange for the five years period from 2011-2015. Findings showed that long-term debt has insignificant negative effect on financial performance.
Gweyi and Karanja (2021) examined the effect of financial leverage on firm performance of deposit taking savings and credit cooperative in Kenya, using secondary data source from financial statements of 40 savings and credit co-operative societies (SCCOS) sampled for the study from 2000 to 2012. Descriptive and analytical designs were both adopted. The result showed perfect positive correlation

between financial leverage proxier by debt-equity ratio with ROE and profit after tax at 99% confidence interval, and a weak positive correlation between debt-equity ratio with ROA and income growth.

Akande (2018) apply the ordinary least square (OLS) regression analysis on panel data collected from financial statements of 10 Nigerian firms over 20 years from 1991-2010. ROA, ROE, EPS and DPS on one hand and Dc (total debts to capital employed) on the other hand, were surrogated for firms' performance and debt finance respectively. The findings show that positive relationship exist between DC and ROA. The study therefore, concluded that financial leverage will considerably impact on firm performance.

Yoon and Jang (2022) conduct a study on the relationship between return on equity (ROE), financial leverage and size of 62 restaurant firms in use for the period 2018 to 2022 using ordinary least squares (OLS) regressions. Results show that high leveraged firms were less risky in both market and accounting-based performance.

Abdulkarim and Suleiman (2021) conducted a study on the impact of financial leverage on financial performance of quoted agricultural firms in Nigeria for a period of 2011-2019. Findings showed that long-term debt ratio had significant impact on the profitability of the sampled firms.

Evidence from the review of above empirical studies reveals that most of the studies have been carried out on non-financial companies and there is no consensus on the relationship between financial leverage and financial performance. As such, further research is needed to uncover the relationship. The study therefore provides empirical evidence for existing financial leverage theories and contribute to existing body of knowledge by investigating the relationship between financial leverage and financial performance of selected deposit money banks in Nigeria.

Pecking order theory: The pecking order theory was propounded by Myers and Majluf (1984). The foundation of this theory is the supposition that information available to managers is much more than those available to investors and, as such, managers can use the asymmetry of information to determine the appropriate structure between equity and debt to finance the operations of the firm. The theory states that, ordinarily, managers display the preference of sourcing funds in the order of retain earnings, then debts, and finally, equity financing which serves as the last resort.

The Tradeoff Theory: The tradeoff theory proposed that a firms optimal debts ratio is determined by a tradeoff between the costs and benefits of borrowing. This study sought to find the effects of financial leverage on firms' financial performance whether positive (Benefits), negative (cost) or neutral. The tradeoff theory of capital structure is the idea that company chooses how much debt equity finance to use by balancing the cost benefits. The classical version of the hypothesis goes back to Kraus and Litzenberger who considered a balance between the dead weight cost of bankruptcy and tax savings benefits of debts (Fajobi & Aboderin, 2018). A firm's optimal debt ratio is determined by a tradeoff between the bankruptcy cost and tax advantage of borrowing.

METHODOLOGY

The study used the ex-post facto design technique. The ex-post facto research design seeks to retrieve and study data for events which have already occurred. It is also known as "after the fact" research design because it is a method in which groups that already exist are compared on some dependent variables. Testing the reliability and validity of the data was deemed unnecessary since the data has been published and thus seen as certified by external auditors.

The population of the study consists of the twenty banks that survived the recapitalization exercise in 2005; thus, the justification for the study period (2009- 2023). From the population size of twenty banks, ten were selected to form the study's sample. The author decides to use banks which have traded consistently within the period of covered by the study, having available data on their websites, Secondary

data were principally used and were sourced from the Annual Reports and Accounts of ten Deposit Money Bank listed on the Nigeria Stocked Exchange.

Model Specification

The study adopted the model built by Popoola and Suleiman (2020) but was modified in line with the hypotheses to be tested. The model for the study is specified as follows:

Model 1

$ROA_{i,t}=\beta_0+ \beta_1STD_{i,t} + \beta_2DER_{i,t} + \beta_3ICR_{i,t} + \beta_4TDTAR_{i,t} + \beta_5LTD_{i,t} + \varepsilon_{i,t}$

Model 2

$ROCE_{i,t} = \alpha_0 + \alpha_1STD_{i,t} + \alpha_2DER_{i,t} + \alpha_3ICR_{i,t} + \alpha_4TDTAR_{i,t} + \alpha_5LTD_{i,t} + \mu_{i,t}$

Where: ROA= Return on assets, ROCE = Return on capital employed, DER = Debt Equity Ratio an independent variable, Interest Cover Ratio, TDTAR = Total Debt to Total Asset ratio an independent variable. STD = Short Term Debt, LTD=Long Term Debt, β_0= the intercept, β_1,…… β_6 the parameters to be estimated in the equation, i=Individual banks' data, t=Time subscript, e=Stochastic error term.

RESULTS AND DISCUSSION

The Unit Root test is conducted to ensure that panel data used is stationary. This is to avoid bias and inconsistent where the series is not stationary. The study used the Levin-Lin-Chu test, and the results are presented in table 4.1.

TABLE 4.1: Unit Root Result for the Specified Variables Using the Levin, Lin and Chu Test

Variable	t-Statistics	P-Value
Roa	(-7.7682)*	0.000
Roce	(-6.3272)*	0.000
Cr	(-7.7089)*	0.000
Rstdta	(-2.3655)*	0.000
Der	(-5.93655)*	0.000
Rtdta	(-7.7436)*	0.000
Icr	(-10.9928)*	0.000
RItdta	(-4.47722)*	0.000

Note: the unit Root test was conducted using LLC technique under the assumption of determining the trend and intercept. The specified variables are: return on assets (roa). Return on capital employed (roce), current ratio (cr) ratio of short-term debt to total assets (rsdta), debt to equity (der), ratio of total debt to total asset (rtdta), interest cover ratio (icr), ratio of long-term debt to total assets (rltdta). * = Implies significant at 1%

Source: E-Views, 2025

The results of the Unit Root test showed the LLC statistics with their corresponding P-values. Result showed that the probability value in reference to each variable is smaller than the alpha value at 1%. Thus, the null hypothesis that the panel contains a unit root is rejected at 1% level of significance. Thus, all the specified variables are I (1) variables (i.e integrated to order 1). Therefore, based on the Unit Root test, our specified variables would yield plausible regression output.

Hypothesis Testing

Relationship between Leverage Indicators and Return on Assets of DMBS in Nigeria.

Based on the nature of study and the data set, panel data regression models (The Fixed effect and Random effect Models) were estimated to observe the effect of the explanatory variables on banks' financial performance (proxied by Returns on Assets, Capital employed and Current ratio). The first section of the regression analysis involved the specification of fixed effect model to examine for temporally constant individual-level effects. In the second enquiry, the variation across entities is assumed to be random and uncorrelated with the predictors; hence, a random effect model was specified

(See Appendix B for LM results). The purpose was to find out if the effect of leverage would vary or not based on the assumptions adopted; whilst checking for the mode that best fits the dataset. The empirical results are reposted in table 4.2.

Table 4.2 Fixed Effects and Random Effects Estimates: dep. Variable=ROA

	Fixed Effects			***Random Effect***		
Variable	**Coef.**	**Std. Error**	**Prob.**	**Coef.**	**Std.Error**	**Prob.**
C	0.2831	0.0368	0.0000	0.3482	0.0367	0.0000
Rstdta	-0.0461	0.0408	0.2610	-0.0485	0.0420	0.2490
der	0.0047	0.0008	0.0000	0.0031	0.0009	0.0000
tdta	-0.3059	0.0449	0.0000	-0.3570	0.0451	0.0000
icr	-0.0076	0.0036	0.0360	-0.0021	0.0032	0.5090
rltdta	0.1664	0.0413	0.0000	0.0983	0.0357	0.0060
	Cross-Section fixed (dummy variables)			**Effect specification**		
R-squared	0.3117		**Random Effects**		**S.D**	**Rho**
Adjusted R^2	0.3117		**Cross-section random**		3.36590	0.5696
F-statistics	19.6313		**Idiosyncratic random**		2.65828	0.4304
Prob(F-statistics)	0.0000		R-squared		0.3660	
D.W stat	1.98004		Adjusted R^2		0.3453	
Hausman-test	2.8083	0.2423	F-statistic		21.8447	
Firms	**11**		**Prob(F-statistic)**		0.0000	
Observation	**176**		**Durbin-Wastson stat**		1.92381	

Source: E-Views 2025

The results on the effect of leverage on banks' financial performance model estimation in table 4.2 showed the significance of the F-test, F (0.000) = 28.77 and F (0.000) = 98.16 in both the fixed effects and the random effects estimate and the probability values are less than 5% significance level. This implies that both fixed and random effects models are robust and tits the data well. Meanwhile, the R-squared coefficients in both estimates showed that independent variables explain about 31.17% and 36.6% of the total variance in return on assets in fixed effects and random effects. Estimates respectively. From the individual effect of the explanatory variables on return on assets of deposit money banks in Nigeria, the results revealed that debt-equity ratio (DER) and ratio of long term to total assets (RLTDTA) have positive and significant effect on ROA in Nigeria; in the fixed effects (β = 0.0047, n =176, p=0.0000 and β=0.1664, n=176, p=0.0000) and random effect (β=0.0031, n=176, p=0.0000 and β=0.0983, n=176, p=0.0060) estimates. The result implies that on the average, holding other variables constant, a percentage changes in DER and RLTDTA will elicit changes in ROA to tune of 9.8% and 16.6% respectively.

Moreover, ratio of total debt to total asset (RTDTA) and Interest Cover Ratio (ICR) have negative and significant effect (β=-0.3059, n=176, p=0.0000 and β=-0.0076, n=176, p=0.0036) and random effect (β-0.3570, n=176, p=0.0000 and β=-0.0021, n=176, p=0.509) estimates. This implies that on the average, holding other variables constant, a percentage changes in RTDTA and ICR will elicit changes in ROA to the tune of 30.6% and 0.7% respectively.

The results also indicated that the RSTDTA has a negative but insignificant effect on ROA in the fixed effect (β=-0.046, n=176, p=0.261) and random effect (-0.048, n=176, p=0.249) estimates. Implying that on the average, a percent increase in RSTDTA will not elicit changes in ROA. The estimated amount of the inter-class correlation coefficient, rho, and the significance of its F-test showed that difference in the deposit money banks accounts for 19.63% and 21.84% in total variance with a prob. Value of 0.0000 in both models. It would therefore not be erroneous to assume that differences across entities (firms) exact influence on ROA of deposit money banks in Nigeria. Hence, estimates from the random –effects model is examined as a fully efficient specification of the random effects under the assumption of random and normal distribution.

Relationship between Leverage Indicators and Return on Capital employed of DMBS in Nigeria

Table 4.3 Fixed Effects and Random Effects Estimates: dep. Variable=ROCE

	Fixed Effects				*Random Effect*	
Variable	**Coef.**	**Std. Error**	**Prob.**	**Coef.**	**Std.Error**	**Prob.**
C	0.2486	0.1827	0.1750	0.0438	0.1782	0.8060
Rstdta	-0.3116	0.2025	0.1260	-0.3869	0.2018	0.0550
Der	-0.0066	0.0043	0.1290	-0.0017	0.0043	0.6920
Tdta	0.4345	0.2225	0.0053	0.6640	0.2179	0.0020
Icr	-0.0188	0.0179	0.2960	-0.04687	0.0161	0.0040
Rltdta	-0.6917	0.2049	0.0010	-0.5075	0.1778	0.0040
	Cross-Section fixed (dummy variables)			**Effect specification**		
R-squared	0.0749		**Random Effects**	**S.D**		**Rho**
Adjusted R²	0.0523		**Cross-section random**		1.5090	0.1046
F-statistics	3.4300		**Idiosyncratic random**		2.8128	0.2340
Prob(F-statistics)	0.0000		R-squared		0.1329	
D.W stat	1.8554		Adjusted R²		0.1094	
Hausman-test	2.8083	0.2423	F-statistic		5.2997	
Firms	**11**		Prob(F-statistic)		0.0000	
Observation	**176**		Durbin-Wastson stat		1.7584	

Source: E-Views 2025

The result on the effect of leverage on banks' financial performance model estimation in table 4.3 showed the significance of F-test, F (0.000) =3.46 and F (0.000) =3.43 in both the fixed effects and the random effects estimate and the probability values are less than 5% significance level. This implies that both fixed and random effects models are robust and fits the data well. Meanwhile, the R-squared coefficients in both estimates showed that independent variables explain about 7.49% and 13.29% of the total variance in return on capital employed in fixed effects and random effects estimates respectively.

From the individual effect of the explanatory variables on return on capital employed of deposit money banks in Nigeria, the results revealed that ratio of short term to total assets (RSTDTA), debt-equity ratio (DER), interest cover ratio (ICR) and ratio of long term to total assets (RLTDTA) have negative effect on ROCE in Nigeria; in the fixed effects model. However, only RLTDTA has significant effect. The results imply that on the average, holding other variables constant, a percentage changes in RLTDTA will elicit changes in ROCE to the tune of 69.1% (β =-0.6917, n=176, p=0.0010). moreover, total debt to total asset has positive and significant effect on ROCE in fixed effect (β=0.4345, n=176, p=0.0053) estimates. This implies that on the average, holding other variables constant, a percentage changes in RTDTA will elicit changes in ROCE to the tune of 43.45%.

Similarly, in the random effect estimates, RSTDTA, ICR, and RLTDTA, all have significant negative effect on ROCE of DMBs in Nigeria. This implies that on the average, holding other variables constant, a percentage changes in RSTDTA, ICR, and RLTDTA, will elicit changes in ROCE to the tune of 38.69%, 4.68%, and 50.7% respectively. Moreover, total debt to total asset has positive and significant effect on ROCE in random effect (β=0.6640, n=176, p=0.0020) estimates. This implies that on the average, holding other variables constant, a percentage changes in RTDTA will elicit changes in ROCE to the tune of 66.4%.

The result also indicated that the DER has a negative but insignificant effect on ROCE in the Random effect (β =-0.0017, n=176, p=0692)

Estimates. Implying that one the average, a percent increase in DER will not elicit changes in ROCE. The estimated amount of the interclass correlation coefficient, rho, and the significance of its F-test showed that differences in the deposit money banks accounts for 23.4% and 2.53% in total variance with prob. Value of 0.0000 in both models. It would therefore not be erroneous to assume that differences across entities (firms) exact influence on ROCE of deposit money banks in Nigeria. Hence, estimates from the random-effects models is examined as a fully efficient specification of the random effects under the assumption of random and normal distribution.

Hausman Test-Fixed Effects vs Random Effects

The estimation of the Hausman test helps to determine a better efficient model between fixed effects and random estimates in the three models for further analysis. The results are showed that the Random effects estimate is more efficient model in both equations (See Appendix B.) the Hausman test result shows a chi square value of (chi2(3) = 3.876083; p>5%) in leverage model, supports the choice of the random effects estimates. Since, the null hypothesis of random effects is not rejected (p>0.05), the study therefore, selects the coefficients of the random effects estimates as efficient and better (Gujarati (2005 p.651).

Post Estimation Test

Post estimate was also conducted to determine the reliability of the study. coefficient significance test using wald test was conducted to ensure that the model explanatory variables are significant. The result in presented in table 4.5

Table 4.4: Wald Test

	Test statistics	***Value***	***Df***	***Probability***
Leverage	F-statistic	26.8226	(2,176)	0.0000
	Chi-square	93.717	2	0.0000

Source: E-Views 2025

Table 4.5 showed the result of Wald Test. Both the F-Distribution and the Chi-Square distribution indicate that the independent variables (RSTDTA, DER, TDTA, ICR and RLTDTA are jointly significant to influence the dependent variables (ROA, and ROCE). Since their corresponding P-values are less than 5%. Thus. The null hypothesis is rejected and concludes that the explanatory variables (Leverage) have significant relationship with banks' financial performance in Nigeria.

Discussion of Results

The first hypothesis sought to examine whether leverage indicators significantly influence return on asset of deposit money bank in Nigeria. Findings shows that debt ratio exert significant influence on ROA. This result supports Gweyi and Karanja (2021), Akande (2018). The implication of this finding is that leverage enhances bank finance performance in Nigeria.

The second hypothesis sought to evaluate whether leverage indicators significantly influence return on capital employed of DMBs in Nigeria. This result supports Abdulkarim & Suleiman (2020), Yoon and Jang (2022). The implication of these findings is that leverage enhances bank finance performance in Nigeria.

CONCLUSION AND RECOMMENDATIONS

The study examined the effects of leverage on the financial performance of DMBs in Nigeria. The concession among researchers is that leverage impacts on bank performance but the level of usage has become subject of debate which empirical findings have not been able to proffer. There have been assertions that excess usage of leverage will portend negative effects and probably lead to financial risk. The study concludes that the ratio of short-term debt to total assets, debt equity ratio, total debt to total asset ratio, interest cover ratio and the ratio of long-term debt to total assets used as leverage indicators have significant effect on banks' financial performance in Nigeria. They study established that total debt to total asset, long term debt ratio and Debt equity ratio are positive drive to banks' financial performance in Nigeria.

The study suggested the following recommendations based on the findings: First, that since financial leverage decision is very critical to the survival and performance of banks; an appropriate debt-equity mix should be explored and adopted; so that they can improve their financial performance, and remain competitive.

Second, DMBs should avoid over-reliance on debt, as increase in the proportion of debt in the capital structure increases the risk of financial distress. The recapitalization exercise as seen in 2005, should be a continuous exercise to increase the stakes of shareholders.

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