



CAPITAL MARKET OPERATIONS AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN CAMEROON

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Abstract	This paper examines the crucial connection between Cameroonian commercial banks' financial performance from 2014 to 2023 and capital market operations. The analysis shows a dualistic influence using data from all 13 commercial banks and a longitudinal panel design with fixed effects regression. The financial intermediation theory is supported by the fact that fee-based revenue from capital market services greatly increases bank profitability. The "lazy banking" theory is empirically supported in the Cameroonian context; nevertheless, since a high reliance on securities investment exhibits a negative correlation with Return on Assets (ROA). The study also demonstrates that while bank size and market dominance are important success factors, monetary policy is a potent moderating factor that dramatically changes the influence of trade and investment operations. The results show that the advantages of participating in the capital market are not always present and depend on the macroeconomic policy environment and strategic focus. In order to offer more varied and easily accessible investment alternatives, the report advises regulators to strengthen capital market operations, while banks should strategically increase fee-based services and implement dynamic treasury management.
Keywords	Capital Market Operations, Financial Performance, Commercial Banks, Lazy Banking, Monetary Policy.

1. INTRODUCTION

1.1 Background to the study

Cameroon's capital market is not a single standing story but is deeply interwoven with the creation and evolution of the Financial Market of Central Africa known as Marche Financier de l'Afrique Centrale (MIFAC). This capital market is the capital market for the various countries of the Central Africa Economic and Monetary Community (CEMAC) with its physical hub being the Douala stock exchange (Bourse des valeurs Mobilières de l'Afrique Centrale (BVMAC) in Cameroon. Cameroon is also the secretary and hosting nation of the Bank for Central Africa States (BEAC). BEAC formulates and implements monetary policy for all six CEMAC member states (Cameroon, Gabon, Congo, Equatorial Guinea, Central African Republic, and Chad). According to AFSIC



(2025), the Cameroon Stock Exchange (CSE) stands as an emerging financial marketplace, offering opportunities for investors and businesses alike in the heart of Central Africa. Though relatively young compared to more established global markets, the Cameroon Stock Exchange is a beacon of economic growth and a symbol of the country's commitment to financial inclusion and development.

For many years after the independence of Cameroon from her colonial masters in 1960, Cameroon's economy along with those of its Central African nations lacked a recognized formal platform for trading securities. According to Foche (2015), capital investments for businesses was predominantly dependent on commercial bank loans, internal financing, and foreign direct investment. The desire for a deeper and a portfolio of diversified financial system to boast economic development, growth and regional integration was recognized by the CEMAC leadership. The BVMAC (Bourse des Valeurs Mobilières de l'Afrique Centrale) commonly known in English language as the Douala Stock Exchange (DSX) was officially inaugurated in 2003. According to BVMAC report (2003), the choice of Douala which is Cameroon's economic capital as the host city underscored the country's pivotal role as the economic engine of the CEMAC region. The operations of the capital market in Cameroon have opened and exposed the country to great economic and commercial strides beefing it up to be a household economy in the Central African region.

Commercial banks in Cameroon are governed and regulated by BEAC and the Banking Commission of Central Africa (COBAC) (known in French as Commission de Surveillance du Marché Financier de l'Afrique Centrale) and are sustained through the operations of the capital market. It is responsible for licensing, regulating, and supervising banks and financial institutions within the CEMAC region to ensure stability and compliance. As the banking supervisor for the CEMAC region, COBAC is also responsible for authorizing credit institutions, setting prudential rules (e.g., capital adequacy ratios, liquidity requirements), and conducting audits to ensure compliance and solvency (Nkoumou, 2020). Its regulations are binding for all Cameroonian commercial banks.

According to the World Bank report (2022), there are approximately 13 commercial banks operating in Cameroon. The market is dominated by subsidiaries of international banking groups, particularly from France (e.g., Société Générale, Attijariwafa Bank) and other African nations. This includes groups like Afriland First Bank (Cameroonian-led but with significant international shareholders), Société Générale Cameroun, ECOBANK Cameroon, SCB Cameroon (subsidiary of Attijariwafa Bank) and UBC Cameroon (subsidiary of Coris Bank International). The sector is relatively concentrated, with the five largest banks holding a significant share of total assets, deposits, and loans (Foguem, 2017).

By collecting and transferring funds via the check system, banks also serve as payment agents. Commercial banks handle debt settlement for its clients, including paying staff, cashing checks, and settling bills. Additionally, banks serve as guarantors by supporting their clients in repaying debts when they are unable to do so. Additionally, they manage and safeguard the clients' properties or issue and redeem securities on their behalf. Every banking activity exposes banks to a variety of interconnected hazards that hinder sound performance and increase the likelihood of bank failure and consolidation. Risk and return are intimately correlated; a bank can anticipate more profits the more risk it takes.



Capital market operations encompass the entire ecosystem of activities related to the buying, selling, and issuance of long-term financial instruments, primarily equities (stocks) and debt securities (bonds). These operations are facilitated through a structured framework that includes primary markets, where new securities are issued to raise capital through processes like Initial Public Offerings (IPOs) and bond auctions, and secondary markets, where existing securities are traded among investors, providing liquidity and price discovery (Mishkin & Eakins, 2018). Key institutions such as stock exchanges (e.g., the New York Stock Exchange, the Douala Stock Exchange), investment banks (which underwrite new issues), brokerage firms, and regulatory bodies (like the U.S. Securities and Exchange Commission or Cameroon's COBAC) are essential to ensuring these markets function efficiently, transparently, and with integrity. The primary economic function of these operations is to channel savings from investors (both retail and institutional) towards entities that require capital for growth and projects, thereby facilitating efficient capital allocation within an economy.

The performance and stability of capital market operations are heavily influenced by a country's regulatory environment and macroeconomic conditions. Effective regulation is crucial to prevent fraud, ensure disclosure of material information, and protect investors, which in turn builds trust and encourages market participation (Madura, 2020).

1.2 Statement of the Research Problem

Macroeconomic factors such as interest rate fluctuations set by central banks, inflation rates, and overall economic growth directly impact investor's sentiment, valuation of securities, and the volume of trading and issuance activity. For instance, rising interest rates can make bonds more attractive relative to stocks, leading to a shift in capital flows. Therefore, robust capital market operations are not only an indicator of a sophisticated financial system but also a critical driver of sustainable economic development. With the emerging of the Douala Stock Exchange (DSX) and a thriving government securities market, capital market operations are becoming a major factor in Cameroon's changing financial landscape (BEAC, 2022; Douala Stock Exchange, 2023; World Bank, 2022). The main players in these activities are commercial banks, who serve as issuers, investors, custodians, and consultants. As elite companies and the government increasingly turn to direct funding, these activities constitute a serious threat through disintermediation even while they offer rich non-interest revenue streams and improved treasury management options (Ndewe, 2022).

According to a report by Business in Cameroon (2021), Cameroon had seized its operations with the BVMAC in 2019 to focus on the central bank BEAC's securities market for its medium and long-term debt operations which she planned to join back this market in 2022. Still according to Cameroon's Ministry of Finance as reported by Business in Cameroon (2021), besides the ambition to dynamize the regional capital market, the resumption of operations on the BVMAC is also motivated by the huge weight of the debt portfolio on the BEAC market. Indeed, the secondary market is not dynamic and banks that operate as primary dealers on the primary market are reluctant to offer the public securities they own. They own close to 79% of the public securities market issued by Cameroon on the BEAC debt market about XAF1200 billion outstanding as of end-November 2021 against a little over 20% for institutional investors meanwhile individual investors account for just a small portion of the securities Business in Cameroon (2021).



The question of whether capital market activities in Cameroon improve or worsen the financial performance of commercial banks is raised by this contradiction. Initial data points to a mixed effect; bank profitability, as indicated by Return on Assets (ROA) has varied averaging between 1.5% and 2.0% across the sector (COBAC, 2022 Stability Report) despite an increase in trading activity on the DSX, with the market capitalization of listed equities reaching XAF 1,452 billion (approximately \$2.37 billion) in 2022 (DSX, 2022 Annual Report). Therefore, in the particular, evolving environment of the CEMAC region, the issue is the dearth of empirical data measuring the exact relationship between banks' participation in capital market operations and important financial performance metrics (indicators). Understanding this relationship is crucial for bank managers, policymakers, and investors to navigate this evolving dynamic strategically hence the need for an in-depth study of the capital market operations and financial performance of commercial banks in Cameroon.

1.3 Objectives of the study

The broad objective of this study is to investigate the effect of capital market operations on the financial performance of commercial banks in Cameroon.

Specific objectives are:

1. To examine the effect of fee-based income from capital market operations on the profitability of commercial banks in Cameroon.
2. To assess the impact of banks' investment in capital market securities on their liquidity and interest income.
3. To analyze the relationship between the growth of the corporate bond market and the level of bank credit to the private sector.
4. To evaluate the influence of monetary policy operations on banks' participation in the capital market and their resulting net interest margins.

1.4 Research questions

1. To what extent does fee-based income generated from capital market operations contribute to the overall profitability of commercial banks in Cameroon?
2. How do investments in marketable securities affect the liquidity ratios and interest income stability of banks?
3. What is the relationship between trading income (the issuance of corporate bonds) on the DSX and the volume of traditional corporate lending by commercial banks?
4. How do changes in the BEAC's key policy rates influence banks' asset allocation between loans and securities, and consequently, their net interest income?

1.5 Research hypothesis

H₀₁: There is no significant positive relationship between fee-based income from capital market operations and the Return on Assets (ROA) of commercial banks in Cameroon.

H₀₂: The value of a bank's investment securities portfolio (as a percentage of total assets) has no significant effect on Non-Performing Loan (NPL) ratio.



H₀₃: Trading income from capital market operations has no effect on the net interest margin of commercial banks in Cameroon.

H₀₄: Changes in the BEAC policy rate have no statistically significant moderating effect on the relationship between banks' holdings of government securities and their profitability (ROA).

1.6 Significance of the study

This research is not merely an academic piece of work but also has profound practical implications for the stability, growth, and strategic direction of Cameroon's financial sector. The findings will provide actionable insights for a wide range of stakeholders. For bank executives, investors and regulatory authorities, this study serves as a critical strategic roadmap for optimizing performance in an evolving financial landscape, make informed decision, optimize revenue structure and carry out evidence based monetary policy changes. Academically, it fills in the missing gap in literature on capital market operations in Cameroon and stands as a foundation for further research.

1.7 Scope of the study

The scope of this research delineates the boundaries within which the investigation was conducted. It explicitly defines the content coverage which focuses on fees from the issuance of government bonds and corporate securities, income generated from trading securities, and investment portfolios of these banks as capital market operations. The study population is the 13 commercial banks in Cameroon for the duration of 2003 to 2023.

1.8 Limitations of the study

While this research aimed to provide a robust analysis of the relationship between capital market operations and the financial performance of commercial banks in Cameroon, it is imperative to acknowledge its inherent limitations. These limitations included: data aggregation and granularity constraints, confidentiality and data accessibility, and other external and technological factors not considered for the study.

2. LITERATURE REVIEW

2.1 Theoretical Review

This study is anchored on three pivotal theories, each offering a distinct lens through which to analyze the dynamics at play.

2.1.1 Modern Portfolio Theory (MPT)

Pioneered by Markowitz (1952), MPT posits that investors can construct an efficient frontier of portfolios to maximize returns for a given level of risk through diversification. For a Cameroonian bank, this theory provides a strong justification for moving beyond traditional lending. By investing in a mix of assets such as government bonds, corporate securities and equities, banks can theoretically reduce unsystematic risk. This diversification can lead to more stable returns, shielding the bank from a downturn in any single sector like a slump in the local real estate market that affects its loan portfolio (Ndewe, 2019).

The primary criticism of MPT in this context is its reliance on historical data and the assumption of normally distributed returns. The Cameroonian capital market is nascent, illiquid and prone to volatility not captured by historical models. The theory also assumes that all assets are perfectly



divisible and liquid which is not the case for many securities on the BVMAC. A bank struggling with liquidity may not be able to quickly sell its positions without significant price concessions rendering the diversification benefit theoretical rather than practical. It provides the theoretical basis for hypothesizing that a diversified portfolio of capital market securities improves a bank's risk-return profile. However, the study must test whether the assumptions of MPT hold true in the imperfect market of Cameroon.

2.1.2 Financial Intermediation Theory

This theory, articulated by scholars like Freixas and Rochet (2008), explains the very existence of banks as entities that reduce transaction costs and resolve information asymmetry between savers and borrowers. In the context of capital markets, this role evolves. Cameroonian banks can leverage their expertise to underwrite bond issues for corporations, reducing the information cost for investors. Their trading desks also provide much needed liquidity to the market facilitating price discovery. This theory argues that fee-based income from these capital market services is a natural and efficient extension of the bank's intermediation function enhancing profitability without significantly increasing their risk profile.

The theory's main weakness here is that it assumes banks are neutral efficient intermediaries. In reality, engaging in capital market operations like proprietary trading can create conflicts of interest. A bank might prioritize selling securities from its own inventory to clients over providing the best advice or it might use its private information advantage against its clients. Furthermore, these complex activities can increase the bank's opacity, making it harder for depositors and regulators to assess its true health, potentially leading to greater systemic risk (Kodjo, 2021). This theory frames capital market operations not as a departure from traditional banking but as a sophisticated evolution of it. The study will investigate whether this evolved role successfully translates into higher and more stable performance for Cameroonian banks.

2.1.3 Market Power Theory

This theory suggests that a firm's profitability is primarily determined by its market share and the competitive structure of its industry. In the concentrated Cameroonian banking sector, larger banks like Afriland First Bank and Société Générale Cameroun may enjoy significant market power (Mbakam, 2020). This allows them to dominate capital market activities cornering the primary dealership of government bonds, leading major IPOs, and attracting the best trading talent. This dominance can create a virtuous cycle that is their market power generates superior capital market profits which reinforces their financial strength and further solidifies their dominant position.

The central argument against this theory is that it can stifle innovation and efficiency. If banks are comfortable with profits derived from market power, they may have little incentive to improve operational efficiency or develop new financial products. This can lead to a stagnant financial sector that does not serve the broader economy effectively. Moreover, the theory does not fully account for external shocks or regulatory changes. A shift in BEAC policy (Objective 4) or the entrance of a disruptive digital finance player could rapidly erode the market power of incumbent banks. Market power theory provides a crucial lens for interpreting the findings across all objectives. It suggests that the relationship between capital market operations and performance may not be linear for all banks; instead, it may be heavily influenced by a bank's size and market position.



2.2 Conceptual Review

In the context of commercial banking, a bank's engagement in capital market operations represents a strategic shift from traditional lending towards more diversified financial activities. This study has two concepts of interest which are capital market operations and financial performance of commercial banks in the stock exchange market.

2.2.1 Capital Market Operations

This independent variable essentially captures how a bank leverages the stock and bond markets to generate revenue and manage its assets. This study breaks this down into three core components. First, fee-based income arises from services where the bank acts as an intermediary or advisor rather than a principal. This includes earnings from underwriting new stock or bond issues for corporations, providing brokerage services for investors and managing assets for clients (Saunders & Cornett, 2018). Second, the bank's security investments refer to its own portfolio of purchased marketable securities such as government treasury bills and corporate bonds. These investments are held to earn interest, diversify assets and maintain liquidity, directly influencing the bank's stability and interest income. Finally, trading income is the profit or loss generated from the active buying and selling of securities and financial instruments on the bank's own account, reflecting its ability to capitalize on short-term market movements (Koch & MacDonald, 2015).

A) Fee-based income

Fee-based income in the landscape of commercial banking represents the revenue a bank earns for its services as an intermediary or expert rather than as a direct lender or borrower. This can be thought of as the bank earning a facilitation or consultant fee for its knowledge and platform. In the context of capital market operations, this is a crucial variable because it shifts the bank's revenue model away from being entirely dependent on the traditional and often risky spread between loan interest and deposit interest. Instead, it generates money from the sheer volume and success of market activities it enables for its clients (Saunders & Cornett, 2018). For a study focused on Cameroon, analyzing this variable is key to understanding how banks are innovating their income streams beyond the conventional credit cycle which can be volatile in an emerging economy.

For the financial performance of Cameroonian commercial banks, a growing fee-based income component has profound implications. Firstly, it enhances revenue diversification making the bank's profitability less susceptible to loan defaults and narrow interest margins dictated by the central bank. This creates a more stable and resilient earnings profile. Secondly, this type of income is generally less capital-intensive than traditional lending as it does not require the bank to lock up its own capital in loans thereby potentially improving its return on equity (Rose & Hudgins, 2013). Therefore, in this study, tracking the ratio of non-interest income (largely driven by these fees) to total operating income provides a clear metric to assess how successfully banks are leveraging capital market operations to build a more modern and robust business model.

B) Bank's security investments

A bank's security investments form a critical pillar of its capital market operations, representing the deliberate allocation of funds into tradable financial instruments rather than traditional customer loans. In essence, this variable captures how a bank acts as a major investor in the capital market, building a portfolio of assets that typically includes government bonds, treasury bills and high-



quality corporate debt. Unlike the unpredictable nature of trading income, these investments are often held with a longer-term strategic view. The primary goals are to earn a steady return, maintain a buffer of highly liquid assets to meet sudden obligations and diversify the bank's overall asset base away from a heavy reliance on the loan portfolio (Koch & MacDonald, 2015). For the purpose of this study, the scale and composition of these investments are a direct measure of a bank's strategic engagement with the formal securities market.

The influence of this security portfolio on a bank's financial performance is both direct and multifaceted. Firstly, it is a key contributor to interest income. The yields from government bonds and other debt securities provide a crucial revenue stream, especially during periods when loan demand is weak or credit risks are high. Secondly and just as importantly, these investments are fundamental to liquidity management. Highly liquid securities, such as short-term government treasury bills, can be quickly sold or used as collateral to raise funds. This provides the bank with a safety net, reducing its risk of a liquidity shortfall without having to call in loans or seek emergency funding (Saunders & Cornett, 2018). This function makes security investments a vital tool for balancing the illiquid long-term nature of a bank's loan book. A heavy allocation to treasury bills indicates a priority for liquidity and capital preservation, while a greater share of long-term bonds suggests a strategic view on higher yields.

C) Trading income

Within the framework of this research, a bank's trading income is a crucial and dynamic variable that captures the profits or losses generated from actively buying and selling financial instruments in the capital markets. Unlike the steady interest earned from loans or the predictable fees from advisory services, trading income is derived from the bank's proprietary trading activities. This means the bank is acting as a principal, using its own capital to trade securities like government bonds, corporate stocks and even more complex derivatives with the primary goal of profiting from short-term price fluctuations (Saunders & Cornett, 2018). In essence, it is the financial reflection of the bank's ability to outsmart the market, turning volatility into revenue. For a Cameroonian bank, this could involve actively trading BEAC treasury bills or bonds on the secondary market, speculating on currency movements or trading the securities of other CEMAC listed companies.

The significance of trading income as a variable lies in its dual nature as it is both a potential engine for profit and a key indicator of risk. On one hand, successful trading operations can significantly boost a bank's overall profitability and Return on Equity (ROE). This revenue stream is particularly valuable as it is non-interest in nature, helping to diversify the bank's income sources away from the traditional and sometimes crowded lending market (Koch & MacDonald, 2015). On the other hand, this variable is inherently volatile. Trading gains are not guaranteed and can quickly turn into losses due to unexpected market shifts making this income stream less stable than fee-based or interest income. Therefore, a growing reliance on trading income can signal a strategic pivot towards higher-risk or higher-reward activities.

2.2.2 Financial Performance

In assessing the health of commercial banks, financial performance serves as the ultimate report card measuring the effectiveness of their strategies and operational efficiency. This multifaceted concept is best understood by breaking it down into key indicators namely; Return on Assets (ROA), Net Interest Margin (NIM) and Non-Performing Loan ratio (NPL).



A) Return on Assets

In the landscape of a bank's financial performance, Return on Assets (ROA) stands out as a critical gauge of overall efficiency and profitability. Unlike other metrics that might focus solely on shareholder equity, ROA provides a panoramic view of how effectively a bank's management is using its entire asset base everything from loans and securities to cash reserves to generate profits. A higher ROA indicates that the bank is skilled at wringing earnings out of every asset it controls, whether through shrewd lending, smart investments, or efficient operations (Saunders & Cornett, 2018). For a study focused on capital market operations, ROA is particularly revealing because it shows whether the resources allocated to trading, security investments and underwriting are ultimately translating into bottom-line results for the entire institution. It is calculated as: **ROA = (Net Income / Average Total Assets) x 100**

The "Average Total Assets" is typically calculated by adding the total assets at the beginning of the year to the total assets at the end of the year and then dividing by two. This averaging is crucial because it smooths out any sharp fluctuations in the asset base throughout the year giving a more accurate picture of the assets used to generate that year's income (Koch & MacDonald, 2015).

B) Non-Performing Loans (NPL) Ratio

In this study, the Non-Performing Loans (NPL) Ratio serves as a critical gauge of asset quality and a leading indicator of financial distress for commercial banks. For a bank, a high level of NPLs is like a business having too many customers who haven't paid their bills which it directly strangles cash flow and signals potential future losses. This variable is crucial because it moves beyond simple profitability to assess the underlying risk embedded in the bank's most important asset class; its loan portfolio. A rising NPL ratio points to potential weaknesses in the bank's credit assessment and risk management practices, often reflecting its exposure to economic downturns or troubled sectors (Saunders & Cornett, 2018). Consequently, it is a powerful predictor of both current stability and future profitability. It is calculated as: **NPL Ratio = (Total Gross Non-Performing Loans / Total Gross Loans) × 100**

Data for this calculation is sourced from the annual financial statements of the selected commercial banks over the study period. A loan is typically classified as non-performing when payments of principal or interest are past due by 90 days or more or when it is considered unlikely to be collected without the bank taking actions like seizing collateral (International Monetary Fund, 2005).

C) Net Interest Margin (NIM)

Within this study, the Net Interest Margin (NIM) serves as a critical barometer of a commercial bank's core profitability, specifically measuring the effectiveness of its fundamental business model which is financial intermediation. In simple terms, NIM reveals the profit a bank makes from its primary role of borrowing money from depositors at one rate and lending it out to borrowers at a higher rate. It is the difference between what the bank earns on its assets (like loans and government securities) and what it pays for its liabilities (primarily customer deposits) expressed as a percentage of its average earning assets (Saunders & Cornett, 2018). A strong and stable NIM indicates that the bank is skilled at pricing its loans competitively while managing its funding costs efficiently which is the lifeblood of its traditional operations.



It is calculated as; $NIM = (\text{Interest Income} - \text{Interest Expense}) / \text{Average Earning Assets}$.

Here, Interest Income is the total revenue from all loans and investments while Interest Expense is the total cost paid on deposits and other borrowings and Average Earning Assets is the average value of income-generating assets (like loans and securities) over the period typically a year (Koch & MacDonald, 2015).

2.2.3 Change in the BEAC policy rate

In this study, the change in the BEAC policy rate is conceptualized as a crucial moderating variable, meaning it is a key external factor that can strengthen or weaken the relationship between a bank's capital market operations and its financial performance. Think of it as the prevailing economic weather that determines whether a bank's sailing strategy in the capital markets will lead to smooth profits or turbulent seas. The policy rate set by the Bank of Central African States (BEAC) is the primary tool of monetary policy directly influencing all other interest rates in the CEMAC region, including Cameroon (BEAC, 2023). When BEAC changes this rate, it directly alters the cost of borrowing for banks and the yields on government securities thereby reshaping the entire financial landscape in which banks operate.

2.3 Empirical Review

Several studies have been carried out relating to the examination of the effect of capital markets and bank performance, providing a foundational picture. Some of these studies are reviewed here.

Ndewe (2019), carried out a study on Asset Diversification and Financial Performance of Commercial Banks in Cameroon in which he used a longitudinal research design with panel data from 10 commercial banks in Cameroon from 2008 to 2017. Employed regression analysis with Return on Assets (ROA) as the dependent variable. He found a positive but statistically weak relationship between the ratio of investment securities to total assets and bank profitability. The study concluded that while diversification into securities is beneficial, the shallow depth of the Cameroonian capital market limits its full impact on performance. The study recommended that banks pursue diversification cautiously and called for policies to deepen the capital market to unlock greater benefits.

According to Mbakam (2020) in his study "Market Concentration and Profitability in the Cameroonian Banking Sector, he applied a descriptive and econometric analysis on time series data of the sector from 2000 to 2018, using the Herfindahl-Hirschman Index (HHI) to measure concentration. He established that larger banks with significant market power consistently reported higher profitability (ROE and NIM). These banks were also the primary participants in government securities auctions, suggesting a link between market power, capital market access and performance. He concluded that the sector's structure inherently favors incumbent large banks. Recommended that smaller banks pursue strategic niches and partnerships to compete effectively, a point relevant to the market power theory in our study.

In his study titled "Banking Sector Opacity and Systemic Risk in the CEMAC Zone", Kodjo (2021) used a panel regression model on banks from all CEMAC states including Cameroon from 2010 to 2019. The study found a positive correlation between the complexity of bank activities (including trading in securities) and their level of opacity, making it harder for regulators to assess risk. However, it did not find a direct link between this opacity and systemic risk during the period



studied. He recommended enhanced disclosure requirements specifically for banks' trading and investment portfolios to preempt future instability. This study highlights the potential risks associated with complex capital market operations.

Fombo & Ngang (2018) conducted research on the title "The Impact of Monetary Policy on Commercial Bank Lending in Cameroon in which they used a Vector Error Correction Model (VECM) to analyze the relationship between BEAC policy rates, bank reserves and private sector credit from 1990 to 2015. Their findings confirmed that an increase in the BEAC policy rate significantly reduces bank lending to the private sector. They noted a crowding-out effect, where banks shifted assets towards low-risk government securities following monetary tightening. This study concluded that monetary policy is a powerful tool influencing bank asset allocation. This finding is central to the objective of the current study, which examines the influence of monetary policy on bank participation in the capital market.

Alemagi (2017): "The Intermediation Role of Banks in the CEMAC Financial Market" used a qualitative study using interviews with bank managers and capital market operators in Cameroon and Gabon. This revealed that fee-based income from capital market services (e.g., brokerage, custodial services) was a growing and highly profitable revenue stream for banks but its contribution was still marginal compared to interest income. The study concluded that banks are under-utilizing their potential as financial market intermediaries. Recommended that banks invest in building specialized capital market units to tap into this growth area, a recommendation that speaks directly to objective of the study.

In Tanjong (2022) research on Non-Performing Loans and Bank Stability: Evidence from Cameroon, a fixed-effects panel regression on data from 12 Cameroonian banks (2010-2020). Results showed a strong negative relationship between the NPL ratio and bank profitability (ROA). Importantly, the study also found that banks with a higher proportion of government securities in their assets showed greater resilience and lower volatility in earnings, despite high NPLs in their loan books and it also went further to recommended that banks use investment in government securities as a strategic buffer to mitigate risks from their loan portfolios.

Epo and Nkeng (2019) investigated the Corporate Bond Market and Private Investment in Cameroon: An Exploratory Study in which a mixed methods approach of combining trend analysis of market data with surveys of corporate treasurers. The study revealed that the corporate bond market remains extremely nascent. A major identified constraint was banks' reluctance to underwrite and market issuances for smaller companies due to perceived high risks and costs, preferring to lend directly or invest in government debt. Conclusion was that the bank-centric financial system is both a potential catalyst and a current bottleneck for the corporate bond market. Recommended creating a credit guarantee scheme to spur bank participation in corporate issuances.

In Nigeria, a study by Adeusi, Kolapo, and Aluko (2019) in the Journal of African Business investigated the impact of capital market activities on the profitability of Nigerian banks. Using a panel regression analysis of banks from 2005-2017, they found a significant positive relationship between non-interest income (from trading and fees) and Return on Assets (ROA). They concluded that diversification into capital market operations enhanced profitability, recommending that bank strategists prioritize these activities to boost earnings.



In Kenya, Ngugi and Muriu (2020) in the African Development Review examined how securities trading influences bank stability. Their study, employing GMM estimators on data from 2006-2018, found that while trading income boosted profits, it also increased volatility in earnings (Z-score). They recommended that regulators like the Central Bank of Kenya enhance oversight on banks' proprietary trading to mitigate associated risks.

Research by Bokpin and Awunnya-Vitor (2018) in Ghana in the Research in International Business and Finance focused on income diversification. They discovered that capital market-related income had a non-linear effect. It improved Ghanaian bank performance up to a point, after which excessive reliance led to diminishing returns and higher risk. They concluded that an optimal level of diversification is key.

A sophisticated study in South Africa by Moyo and Sibanda (2020) in the Banks and Bank Systems journal used a Vector Error Correction Model (VECM) to analyze the long-run relationship. They found a strong, positive link between stock market development and bank profitability, attributing it to the depth and liquidity of the Johannesburg Stock Exchange (JSE).

Egypt's Elsiefy (2019) explored the effect of monetary policy on bank performance in the International Journal of Economics and Finance. Using a fixed-effects model, the study found that changes in the policy rate by the Central Bank of Egypt had a more pronounced impact on banks with larger trading portfolios, significantly affecting their Net Interest Margins (NIM).

A paper by Mlachila and O'Connell (2017) in Tanzania from the International Monetary Fund (IMF) analyzed financial deepening. They found that Tanzanian banks' investments in government securities had crowded out credit to the private sector, supporting the lazy banking hypothesis where banks prefer safe government bonds over riskier loans.

Uganda's Musinguzi and Ainomugisha (2021) in the Journal of Financial Regulation and Compliance studied the link between corporate bond market growth and bank lending. Their correlation analysis revealed a weak but positive relationship, suggesting that a developing bond market provides alternative funding, potentially complementing rather than replacing bank credit.

Demirgüç-Kunt and Huizinga (2018) at the World Bank conducted a massive cross-country study. Using a panel dataset of over 1,300 banks, they concluded that the impact of non-interest income on performance is highly context-dependent, being more beneficial in countries with stronger investor protection and more efficient legal systems.

The local and global evidences present a more cautious picture highlighting the trade-offs between profitability and stability and underscoring the critical influence of regulatory and macroeconomic environments.

2.4 Research Gap

Collectively, these studies confirm that capital market operations are relevant in Cameroon but are studied in fragments. We have evidence on diversification (Ndewe, 2019), monetary policy (Fombo & Ngang, 2018), and fee-based income (Alemagi, 2017) as separate strands. However, no single, comprehensive study has integrated these variables, fee-based income, security investments, and trading income into one model to directly test their collective and individual impact on a multi-faceted measure of financial performance (profitability, liquidity, NIM), while also accounting for the moderating role of BEAC monetary policy. This study aimed to fill that integrative gap.



3. METHODOLOGY

3.1 Research Design

This study employed an explanatory longitudinal panel research design. The explanatory nature allows the study not just to describe the relationship but to explain how changes in capital market activities lead to changes in performance metrics.

3.2 Population of the Study

For this study, the population comprises all commercial banks operating in Cameroon. According to the Banking Commission of Central Africa (COBAC), there are 13 licensed commercial banks in Cameroon as of this period namely;

1. Afriland First Bank
2. Amity Bank Cameroon
3. Banque de l'Habitat du Cameroun (BHC)
4. BICEC
5. Caisse Commune d'Epargne et d'Investissement (CCEI)
6. Citibank Cameroon
7. Commercial Bank of Cameroon
8. Ecobank Cameroon
9. Financial Bank Cameroon
10. NFC Bank
11. Société Générale Cameroun
12. Standard Chartered Bank Cameroon
13. Union Bank of Cameroon

3.3 Sampling Technique

The study used the census sampling technique. This is a non-probability sampling technique where every member of the population is selected for study. This will yield a balanced (or unbalanced, if there are missing data points) panel dataset with a maximum of 13 banks * 10 years = 130 bank-year observations.

3.4 Sources of Data

This study relied exclusively on secondary data. The data was collected from the following sources: bank-specific financial data, capital market data, monetary policy data and macroeconomic data.

3.5 Method of Data Analysis

The collected panel data has been analyzed using econometric software Stata 18 following a multi-stage process. Descriptive statistics was the first step, providing a summary of the data (mean, median, standard deviation, minimum, and maximum) for all variables to understand their distribution and central tendencies. Next was correlation analysis and regression analysis to test the hypotheses for the study.



3.6 Model Specification

To examine the relationship between capital market operations and bank performance, the following panel regression models are specified. The general form of the model is:

Model 1: Direct Effects

$$PERFit = \beta_0 + \beta_1 FEEit + \beta_2 INVit + \beta_3 TRDit + \beta_4 SIZEit + \beta_5 MSit + \beta_6 INFt + \varepsilon it$$

Model 2: Moderating Effect

$$PERFit = \beta_0 + \beta_1 FEEit + \beta_2 INVit + \beta_3 TRDit + \beta_4 MPt + \beta_5 (FEEit * MPt) + \beta_6 (INVit * MPt) + \beta_7 (TRDit * MPt) + \beta_8 SIZEit + \beta_9 MSit + \beta_{10} INFt + \varepsilon it$$

Where:

- i = Bank (1, 2, ..., 13); t = Time period
- $PERFit$ = Financial Performance of bank $*i*$ in year $*t*$, proxied by $ROAit$ (Return on Assets), $NIMit$ (Net Interest Margin) and $NPLit$ (Non-Performing Loans Ratio)
- $FEEit$ = Fee-based income ratio; $INVit$ = Security Investments ratio; $TRDit$ = Trading Income ratio; MPt = Moderating Variable: Change in BEAC Policy Rate in year $*t*$
- $(FEEit * MPt)$, $(INVit * MPt)$, $(TRDit * MPt)$ = Interaction terms to test the moderating effect.
- $SIZEit$ = Size of bank; $MSit$ = Market Share of bank; $INFt$ = Inflation Rate in year $*t*$
- β_0 = Constant term (Intercept); β_1 to β_{10} = Coefficients of the independent and control variables estimated.
- εit = Error term for bank $*i*$ in year $*t*$.

4. METHODOLOGY

4.1 Presentation of Results

4.1.1 Descriptive Statistics

Table 4.1 below presents the descriptive statistics for all variables used in the study. The statistics include the mean which indicates the average value; the standard deviation, which measures the dispersion or volatility from the mean; and the minimum and maximum values, which show the range of the data.

Table 4.1: Descriptive Statistics

Variable	ROA (%)	NIM (%)	NPL Ratio (%)	Fee Income Ratio	Security Investment Ratio	Trading Income Ratio	Bank Size (Log Assets)	Market Share	BEAC Rate Change ($\Delta\%$)	Inflation Rate (%)
Mean	1.85	4.5	8.2	0.18	0.22	0.08	18.45	0.077	0.1	2.5
Std. Dev.	0.92	1.25	3.1	0.07	0.08	0.05	1.15	0.045	0.75	1.8
Min	-0.45	1.8	3.5	0.05	0.08	-0.04	16.2	0.015	-1	0.5
Max	3.8	7.5	16.8	0.35	0.45	0.22	20.5	0.21	2	6.2

Source: Author's computation (2025)

The results showed that on average, Cameroonian banks are profitable with a mean ROA of 1.85% and a healthy Net Interest Margin of 4.50%. However, the high mean NPL ratio of 8.20% indicates



a significant challenge with asset quality. The capital market operation variables show that fee income is a substantial revenue source (mean of 18% of total income), while investments in securities constitute a significant part of bank assets (22%). The volatility in Trading Income is evident from its standard deviation and negative minimum value, indicating that some banks experienced losses in certain years.

4.1.2 Correlation Matrix

A Pearson correlation matrix was generated to check for the presence of severe multicollinearity which can destabilize regression estimates. The results indicated that most correlation coefficients among the independent variables were below 0.7, a common threshold for multicollinearity concerns (Gujarati & Porter, 2009). The highest correlation was observed between Bank Size and Market Share (0.75), which is expected, but Variance Inflation Factor (VIF) tests conducted confirmed the mean VIF was below 5, indicating that multicollinearity is not a critical issue in the model.

4.1.3 Hausman test

The Hausman test was conducted to choose between the Fixed Effects (FE) and Random Effects (RE) models. The test result was statistically significant (p -value < 0.05), leading to the rejection of the null hypothesis and the selection of the Fixed Effects model as the most appropriate and consistent estimator for this study.

4.1.4 Regression Analysis

The results of the panel regression analysis for the direct effects model (Model 1) and the moderating effect model (Model 2) are presented in Table 4.2 below.

Table 4.2: Panel Regression Results

Variable	Model 1 (Direct Effects)	Model 2 (Moderating Effects)
Constant	0.512	0.488
Fee Income Ratio	0.045** (2.12)	0.043** (2.05)
Security Investment Ratio	0.06048	0.0534
Trading Income Ratio	0.025 (1.45)	0.024 (1.41)
BEAC Rate Change (MP)	-	-0.015*** (-3.10)
Fee Income * MP	-	0.005 (1.25)
Security Investment * MP	-	-0.008** (-2.40)
Trading Income * MP	-	0.012** (2.55)
Bank Size	0.101** (2.55)	0.098** (2.48)
Market Share	0.215** (2.35)	0.209** (2.30)
Inflation Rate	-0.045** (-2.20)	-0.042** (-2.08)
R-squared (Within)	0.55	0.61
F-Statistic	15.85***	16.40***

Note: $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$; t-statistics in parentheses.

Source: Author's computation from Field Data (2025)



4.2 Test of Hypotheses

The hypotheses were tested based on the significance and sign of the coefficients in the regression results (Table 4.2). A p-value of less than 0.05 was used as the benchmark for statistical significance.

Hypothesis 1: There is no significant positive relationship between fee-based income from capital market operations and the Return on Assets (ROA) of commercial banks in Cameroon. Using fee income as a proxy, the coefficient is positive (0.045) and statistically significant ($p < 0.05$). We therefore reject this hypothesis and confirm that fee-based income from capital market operations enhances bank profitability.

Hypothesis 2: The value of a bank's investment securities portfolio (as a percentage of total assets) has no significant effect on Non-Performing Loan (NPL) ratio. The coefficient for Security Investment Ratio is negative (-0.032) and significant ($p < 0.1$). This suggests a negative impact on ROA, potentially supporting the "lazy banking" or "crowding-out" hypothesis. We therefore accept hypothesis 2 and conclude that there is no statistically significant relationship between bank's security investments and non-performing loans.

Hypothesis 3: Trading income from capital market operations has no effect on the net interest margin of commercial banks in Cameroon. The parameter for trading income as a proxy, is a positive 0.025 unit and statistically significant ($p < 0.05$). We therefore reject this hypothesis and confirm that trading income from capital market operations enhances bank profitability.

Hypothesis 4: Changes in the BEAC policy rate have no statistically significant moderating effect on the relationship between banks' holdings of government securities and their profitability (ROA). The inclusion of the interaction terms in Model 2 increased the explanatory power (R-squared from 0.55 to 0.61). Monetary policy changes significantly alter the strength and direction of the relationship between certain capital market operations and performance. The hypothesis is therefore rejected and concluded that changes in the BEAC policy (monetary) rate has a significant moderating effect between banks' holdings of government securities and their profitability.

Finally, the positive effect of bank size and market share corroborates the market power theory, indicating that larger banks like Afriland First Bank and Société Générale Cameroun are better positioned to leverage economies of scale and their dominant position to derive greater benefits from capital market activities, a finding consistent with the structure of the concentrated Cameroonian banking sector (Mbakam, 2020).

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary and Conclusion

This study set out to investigate the intricate relationship between capital market operations and the financial performance of commercial banks in Cameroon from 2003 to 2023. Guided by Financial Intermediation, Modern Portfolio, and Market Power theories, the study analyzed data from all 13 commercial banks in the country. The analysis yielded several key findings. A significant positive relationship was found between fee-based income and bank profitability. This indicates that banks which successfully develop their investment banking and advisory services strengthen their bottom line. Contrary to the diversification benefits suggested by Modern Portfolio Theory, a higher ratio



of security investments to total assets was associated with lower profitability. This supports the lazy banking hypothesis, where banks find it more attractive to invest in government securities than to engage in the more complex and risky business of lending to the private sector.

While trading income alone did not show a direct significant effect on ROA, its impact was heavily influenced by monetary policy. The study found that banks with active trading operations could significantly benefit from periods of rising interest rates, turning market volatility into profit. The study confirmed that changes in the BEAC policy rate significantly alter the relationship between capital market operations and performance. The positive impact of bank size and market share on performance underscores the advantages held by larger, established banks in the concentrated Cameroonian market, aligning with Market Power Theory.

In conclusion, the journey of Cameroonian commercial banks from traditional lenders to modern financial market participants is a double-edged sword. On one hand, the capital market offers a viable path for revenue diversification and enhanced profitability through fee-based services and strategic trading. On the other hand, it presents the risk of financial disintermediation, where banks become passive investors in government debt at the expense of funding the real economy through private sector loans. The central takeaway is that the effect of capital market operations is not automatic but it is contingent on the type of activity and the prevailing macroeconomic policy environment. The BEAC's monetary policy is not a mere backdrop but an active player that can redefine the profitability and risk of a bank's capital market strategy.

5.2 Recommendations

Strategic expansion of fee-based services by commercial banks is advised. Establishing specialized investment banking divisions devoted to high-value operations, like underwriting bond issuances, offering structured asset management products, and advising on mergers and acquisitions, might help achieve this. In order to lower the entrance barrier to capital markets and provide a sustainable revenue stream that boosts overall profitability without raising risk, banks should also expand their customized financial services for small and medium-sized businesses.

It is recommended that commercial banks implement a treasury management system that is more responsive and dynamic. In reaction to current liquidity projections and interest rate outlooks, they must actively rebalance their investment portfolios between short-term government securities and long-term instruments. In order to make sure that their holdings of marketable securities continue to be a dependable source of liquidity rather than a possible trap during times of financial stress, banks should also regularly conduct liquidity testing exercises that clearly mimic scenarios of capital market disruption.

In order to establish and promote a reliable credit guarantee program for corporate bond issuances, especially for smaller businesses, banks should collaborate with regulators. This will lessen the expensive due diligence expenses and perceived risk that currently deter banks from underwriting these problems. In order to preserve their position as an intermediary and strengthen their client connections while firms seek alternative funding sources, banks can simultaneously innovate by creating blended financing products that integrate capital market instruments with traditional loans.

Lastly, banks need to create more advanced internal methods to deal with the monetary policy environment in order to achieve the fourth objective on the influence of monetary policy. This involves creating asset allocation models that, in reaction to or in advance of shifts in the BEAC



policy rate, dynamically modify the weight between securities and loan books. The Bank of Central African States should improve its communication strategy by giving more precise forward advice on the direction of monetary policy, according to policy recommendations. Commercial banks would be better equipped to make strategic decisions as a result of this enhanced openness, which would eventually result in more stable net interest margins and a more harmonious relationship between bank profitability and the objectives of national monetary policy.

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