THE EFFECT OF BANK CONSOLIDATION ON BANK PERFORMANCE: A CASE STUDY OF THE 2005 CONCLUDED NIGERIAN BANK CONSOLIDATION EXERCISE.

BY

UGWUNTA, DAVID OKELUE
PG/M.Sc/07/46539

DEPARTMENT OF BANKING AND FINANCE
FACULTY OF BUSINESS ADMINISTRATION
UNIVERSITY OF NIGERIA, ENUGU CAMPUS

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BY

UGWUNTA, DAVID OKELUE
PG/M.Sc/07/46539

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SUPRVISOR: DR. CHIKELEZE, B.E.

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APPROVAL PAGE

This dissertation has been approved for the Department of Banking and Finance, Faculty of Business Administration, University of Nigeria, Enugu Campus, by:

……………………………

DR. CHIKELEZE, B.E.
(SUPERVISOR)

…………………………

DATE

…………………………	…………………………
DR. ONWUMERE, J.U.J.	**PROF. IKECHUKWU NWOSU**
(HEAD OF DEPARTMENT)	**(DEAN)**
………………………….	**……………………….**
DATE	**DATE.**

CERTIFICATION

I, UGWUNTA, DAVID OKELUE, a postgraduate student in the Department of Banking and Finance with Registration Number PG/M.Sc/2007/46539 have satisfactorily completed the requirements for research work for the Degree of Master of Science in Banking and Finance.

This work incorporated in this dissertation is original and has not been submitted in part or in full for any Diploma or Degree of this or any University.

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UGWUNTA, DAVID OKELUE

PG/M.Sc/O7/46539

DEDICATION

This work is dedicated to the Almighty Jehovah who makes way where there is no way, and to all men of goodwill that believe in the restoration of the dignity of man and our dear country, Nigeria.

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ABSTRACT

The banking sector is one of the few sectors in which the shareholders' fund is only a small proportion of the liabilities of the enterprise hence; the banking sector is one of the most regulated sectors in any economy as is the case in Nigeria. This is to forestall the confusion and consequences of bank failures and distresses. The consolidation of banks has been the major policy instrument being adopted in correcting deficiencies in the financial sector in the world all over and hence the 2005 concluded bank consolidation exercise in Nigeria. It also explains why there have been continued research emphases on finding out how the benefits arising from consolidation has been optimized. Most of the previous studies on the subject, however, made use of data from United States of America, Europe and advanced Asian countries. Such studies undermined the peculiarities of and differences in the operating environments and changing dynamics of business in most developing countries. The objectives of this work are: - To ascertain if the 2005 concluded consolidation has improved the profitability of consolidated banks; to find out if the 2005 concluded consolidation has enhanced cost-saving for consolidated banks; and to ascertain if the 2005 concluded consolidation has reduced the credit risk of consolidated banks. This study used Ex-post facto research design and lies within the measurement of bank performances using variables as Return on Equity (ROE) to measure profitability improvements, Cost Income Ratio (CIR) to measure cost-saving efficiency, and Ratio of Loan Loss Provision to Gross Loans and Advances (LLRGA) to measure credit risk reduction of 6 quoted banks before and after the 2005 bank consolidation, for a 10-year period 2000-2009, to fill this important research gap. Descriptive (narrative) statistical method was used to analyse variables, and compare the pre and post-consolidation performances of sampled banks, while the paired sample t-test statistics was used to test three formulated hypothesis for significant differences between the two sample means of the pre and post-consolidation periods observed at two points in time. The results revealed that the banks recorded decreases and increases in the operating variables in period or the other of the post-consolidation period. However, three out of the six sampled banks had significant differences on profitability as evidenced by the Return on Equity a measure of profitability, two banks had significant differences on cost-savings as evidenced by the Cost Income Ratio, while only one bank had a significant difference on credit risk reduction as measured by Ratio of Loan Loss Provision to Gross Loans and Advances. Thus, the contribution of this dissertation to knowledge is that the Nigerian banking consolidation, an exercise concluded in 2005 has not improved significantly the performances of all the consolidated banks in Nigeria. Therefore, this work recommend as follows:- that banking sector consolidation should be allowed to be market driven in order to achieve the synergies that accompany such exercise; that the CBN should work vehemently to curb inflation because, no matter the capital base of banks, inflation the bogeyman of Nigerian economy will always erode such capital base; regulators of the Nigerian banking sector should come up with such other policies that will enhance cost saving efficiency and eliminate or reduce high credit risk inherent in the Nigerian banking industry.

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`CHAPTER ONE INTRODUCTION

1.1: BACKGROUND OF THE STUDY

Adeyemi (2006) points out that the need for a strong, reliable and viable banking system is underscored by the fact that the industry is one of the few sectors in which the shareholders fund is only a small proportion of the liabilities of an enterprise. It is, therefore, not surprising that the banking sector is one of the most regulated sectors in any economy as is the case in Nigeria. Banking reforms have been an ongoing phenomenon around the world right from the 1980s, but it is more intensified in recent time because of the impact of globalisation which is precipitated by continuous integration of the world market and economies (Adegbagu & Olokoye 2008).

Banking reforms involve several elements that are unique to each country based on historical, economic and institutional imperatives. In Nigeria, the reforms in the banking sector preceded against the backdrop of banking crisis due to highly undercapitalization of deposit taking banks; weakness in the regulatory and supervisory framework; weak management practices; and the tolerance of deficiencies in the corporate governance behaviour of banks (Uchendu 2005). Banking sector reforms and recapitalization have resulted from deliberate policy response to correct perceived or impending banking sector crises and subsequent failures. A banking crisis can be triggered by weakness in banking system characterized by persistent illiquidity, insolvency, undercapitalization, high level of non-performing loans and weak corporate governance, among others. Similarly, highly open economies like Nigeria, with weak financial infrastructure, can be vulnerable to banking crises emanating from other countries through infectivity (Adegbagu & Olokoye 2008). Banking sector reforms in Nigeria are driven by the need to deepen the financial sector and reposition the Nigeria economy for growth; to become integrated into the global financial structural design and evolve a banking sector that is consistent with regional integration requirements and international best practices. It also aimed at addressing issues such as governance, risk management and operational inefficiencies, the centre of the reforms is around firming up capitalization (Ajayi 2005).

Capitalization has been an important component of reforms in the Nigerian banking industry, owing to the view that a bank with a strong capital base has the ability to absolve losses arising from non performing liabilities, improve its revenue, and attain cost-efficiency.

Attaining capitalization requirements may be achieved through consolidation of existing banks or raising additional funds through the capital market.

An early view of bank consolidation was that it makes banking more cost efficient because larger banks can eliminate excess capacity in areas like data processing, personnel, marketing, or overlapping branch networks (Somoye 2008). Consolidation is viewed as the reduction in the number of banks and other deposit taking institutions with a simultaneous increase in size and concentration of the consolidated entities in the sector (BIS, 2001). Irrespective of the cause, however, bank consolidation is implemented to strengthen the banking system, embrace globalization, improve healthy competition, exploit economies of scale, adopt advanced technologies, raise efficiency and improve profitability (Adegbagu & Olokoye 2008). Ultimately, the goal is to strengthen the intermediation role of banks and to ensure that they are able to perform their developmental role of enhancing economic growth, which subsequently leads to improved overall economic performance and societal welfare they concludes.

The government policy-promoted bank consolidation rather than market mechanism has been the process adopted by most developing or emerging economies and the time lag of the bank consolidation varies from nation to nation (Somoye 2008). For example, what was termed "government guided" merger was a unique banking sector reform implemented in 2002 by the Central Bank of Malaysia BNM (Bank Negara Malaysia) guiding 54 depository institutions to form 10 large banks (Rubi, Mohamed & Michael 2007). This was partly a response to the banking crises perpetrated by the 1997-1998 Asian financial crises, they noted. BIS (2001) also noted that in Japan during the banking crises of the 1990's, government funds were deployed to support reconstruction and consolidation in the banking sector.

Soludo (2004) announced a 13-point reform program for the Nigerian Banks. The primary objective of the reforms is to guarantee an efficient and sound financial system. The reforms are designed to enable the banking system to efficiently perform its functions as the pivot of financial intermediation (Lemo 2005). Thus, the reforms were to ensure a diversified, strong and reliable banking industry where there is safety of depositors' money. Of all the reform agendas, the issue of increasing shareholders' fund to N25 billion with an option of mergers

and acquisitions and the need to comply before 31st December, 2005 generated so much controversy especially among the stakeholders.

Therefore, this research work tends to assess the significant effect of the concluded 2005 banking sector consolidation in Nigeria on the performances of consolidated Nigerian banks.

1.2: STATEMENT OF THE PROBLEM.

BIS (2001) points out the motives for consolidation to include; Cost savings; Revenue enhancements; risk reduction; change in organizational focus and managerial empire building. It is believed that increased size could potentially increase bank returns, through revenue and cost efficiency gains. It may also, reduce industry risks through the elimination of weak banks and create better diversification opportunities (Berger 2000). Consolidation could increase banks' propensity toward risk taking because of increases in size, capital and leverage and off balance sheet operations (Ogowewo and Uche 2006). In addition, scale economies are not unlimited as larger entities are usually more complex and costly to manage (De Nicoló et al. 2003).

Consolidation, whether market–induced or government–policy promoted normally holds out promises of:-

- Revenue enhancements and resources maximization.
- Gains in cost-efficiency or costs saving due to economies of scale.
- Risk reduction.

Proponents of bank consolidation are of the opinion that banking sector reform help banks become stronger players, and in a manner that will ensure higher returns especially to shareholders over time. Also, that bank consolidation can lead to increased profits/ revenue for a variety of reasons including; increase in size, increased product diversification, expanding the pool of potential customers, increased size allowing firms to increase the riskiness of their portfolio. However, evidences show that performance improvements of mergers in the EU and US on ROE and ROA are seldom realized and as such, have not had a positive performance.

Nigerian banks before consolidation were made up of small sizes. Each with expensive headquarters, separate investment in software and hardware, heavy fixed costs and operating

expenses, and with bunching of branches in few commercial centres. All these leads to very high average cost for the industry and in turn, has implications for the cost of intermediation, the spread between deposit and lending rates and puts undue pressures on banks to engage in sharp practices as means of survival. Bank consolidation may improve efficiency particularly when weak, poorly managed banks are acquired by stronger, competently managed banks. Large cost-efficiency gains are possible when more efficient banks merge with less efficient banks. However, whether such mergers and acquisitions lead to significant cost-saving is uncertain as some past empirical results found no significant improvements in cost-efficiency in the US bank mergers. There are also reported lack of evidence on the economies of scale and scope for large European banks.

The trend in consolidation has been influenced by factors including risk reduction arising from improved management. Empirical evidence is consistent with the risk-reduction hypothesis and that efficiency may also improve due to greater risk diversification. Banks seeking to reduce default risk via increased size may prefer targets with lower credit risk. Acquiring banks prefer to acquire small and low risk targets and that post-merger risk-reduction is most likely in mergers between high-risk and low-risk targets. However, some scholars argue that more capital does not necessarily mean more safety, and that since capital is costly to raise banks would be under pressure to generate higher returns from the additional capital, thereby forcing them to take on greater risks. Increase in the size of institutions per se tends to be associated with a greater appetite for risk and thus a greater probability of insolvency and credit risk.

1.3: OBJECTIVES OF THE STUDY.

In view of the above, our objectives of the study included:-

(i) To ascertain if the 2005 concluded consolidation has improved the profitability of consolidated banks.

(ii) To find out if the 2005 concluded consolidation has enhanced cost-saving for consolidated banks.

(iii) To ascertain if the 2005 concluded consolidation has reduced the credit risk of consolidated banks.

1.4: RESEARCH QUESTIONS.

The following research questions guided this study.

(i) To what extent has the profitability of consolidated banks improved after the 2005 bank consolidation?

(ii) One of the gains of consolidation is cost-saving; to what extent have consolidated banks achieved this after the 2005 concluded consolidation exercise?

(iii) To what extent has the credit risk inherent in the pre-consolidation period been reduced after the 2005 concluded consolidation exercise?

1.5: RESEARCH HYPOTHESIS.

The following hypothetical statements were tested:

(i) The 2005 concluded bank consolidation has not led to any significant improvement in the profitability of consolidated banks.

(ii) The 2005 concluded bank consolidation has not significantly enhanced cost-saving for consolidated banks.

(iii) The 2005 concluded bank consolidation has not significantly reduced the credit risk of consolidated banks.

1.6: SCOPE OF THE RESEARCH.

This research work was planned to cover all the banks operating in Nigeria before and after the conclusion of the consolidation exercise. However, thirty banks (Table 2.1) were publicly owned and quoted on the Nigerian Stock Exchange before the 2005 concluded consolidation exercise. From the population of thirty publicly owned and quoted banks, a sample was drawn for the purpose of analysis. The choice of this was to ensure data availability to enhance a comparative analysis between the performances of these banks before and after the consolidation exercise i.e. pre and post consolidation periods.

In line with previous empirical studies that identified some sets of variables believed to be major determinants of bank performance, this study focused mainly on three of such variables and are: Profitability as measured by ROE (Return on Equity), cost saving as measured by CIR (Cost Income Ratio), and credit risk or asset quality as measured by LLRGLA (Ratio of Loan Loss Provision to Gross Loans and Advances).

In terms of time, this research work covered a period of ten years from 2000 to 2009. That is, five years of 2000, 2001, 2002, 2003, and 2004 before the consolidation exercise was

concluded in 2005; and then five years of 2005, 2006, 2007, 2008, and 2009 after the conclusion of the 2005 consolidation exercise.

1.7: SIGNIFICANCE OF THE STUDY.

Nigeria presents a good case study of a country that has had persistent and numerous reforms in the banking sector. Despite the increased effort of government to maintain a stable financial system, the age-long problems affecting the banking industry seems unabated.

Existence of a sound banking system will to a large extent bring a turning point in the growth of the Nigerian economy. Considering the acclaimed importance of the banking sector in the growth of the economy, the outcomes of this study would likely prove to be beneficial to banks, policy makers, and future researchers.

The expected benefits to each of the key stakeholders are illustrated as follows:

a. The Regulators.

The outcome of this study is expected to benefit policy makers such as government and its agencies in providing a platform for designing and redesigning policies that will enhance monetary and financial stability policies that will enable banks in Nigeria play its financial intermediation role well, as well as to grow the economy. Thus reiterating the views of (Ogewewo and Uche 2006), for the need for monetary stability which is a prerequisite for a sound financial system. To the regulators of the industry, it will present an analysis that will help them to come up with policies to efficiently supervise and regulate the Nigerian banking system in its quest to repositioning it to be part of the global change. Ensuring that strong, competitive, and reliable banks are in place to compete favorably in the 21st century. It will also assist the regulators and supervisors in coming up with policies that will aid them to meet up with the challenges facing a post consolidation scenario such as size and complexity of the mega banks.

b. The Sampled banks.

Specifically, for the banks studied, it will expose to a certain extent their performances in regards to our operational variables and present a comparative analysis of their activities over the studied period of time. Also, the studied banks will see the need to imbibe best-practice in corporate governance, the need to improve on self-regulation, internal control, enhance

operational efficiency, institute IT-driven culture and seek to be competitive in today's globalizing world.

c. The public.

To the general public that would come to appreciate the soundness and the liquidity position of Nigerian banks and be encouraged to access its services and products. It will also contribute to the enrichment of the literature on bank consolidation in Nigeria as well as serving as a body of reserved knowledge to be consulted and referred to by researchers.

1.8: LIMITATIONS TO THE STUDY.

The conduct of research in Nigeria is imbued with lots of problems. Resource constraints constituted the first major limitation to this study. Collecting 10-year reports of the banks and their components used as case study involved extensive travelling around the country, which invariably implied huge cost outlay. Getting the respective annual reports and statements of accounts of the sampled banks and their merged or acquired components for ten years timeframe posed serious difficulties given the poor habit of preservation of documents and materials in the country. Some of the banks archived reports have either been destroyed or lost, as they were not available at the relevant places.

While it will make sense to expand the timeframe and sample size of this study to cover at least 50% of the total number of quoted banks, doing this could have caused us to encounter many missing observations in the dataset because of the reasons given above. The data is therefore limited in temporal scope to ten years. However, efforts were made to overcome these threatening factors to justify the objectives of this study.

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CHAPTER TWO

REVIEW OF RELATED LITERATURE.

2.1: BANKING IN NIGERIA AND SUBSEQUENT RECAPITALISATION.

The growth and development of international trade along the coast of West Africa played a major role in the establishment of banks in Nigeria. Ogewewo and Uche (2006) opine that most of the early foreign banks in Nigeria were established to cater for the British trading interest and the banking needs of the colonial government. Okoro (2001) notes that the history of commercial banks can be dated to as far back as the 1890s when the first commercial bank, African Banking Corporation, which was founded by Messer Elder Dempster and Co, a shipping firm based in Liverpool opened its branch in Lagos in 1892. This bank encountered difficulties and eventually decided to transfer its interest ownership to Elder Dempster and Co., in 1893. This led to the formation of a new bank known as the British Bank of West Africa (BBWA) in the same year. The BBWA opened its first branch in Lagos in 1894 and its second branch in the old Calabar in 1900 (Nwankwo, 1980). Anglo African Bank was another established bank in 1899 in the old Calabar by Royal Niger Company now (UAC) to compete with the BBWA. It later changed its name to Bank of Nigeria whose branches were in Buruta, Lokoja and Jebba. Due to fierce competition and the monopoly for the importation of silver from royal mint enjoyed by BBWA, they sold out to BBWA in 1912 (Okolo, 2001). The Barclays Bank DOC (Dominon Colonial and Overseas), now Union Bank was another bank established in Lagos in 1917. These two banks (BBWA and Barclays Bank DOC) dominated the Nigiera banking scene between 1894 and 1933 until 1949 when the British and French bank, now called UBA was established making the third expatriate bank to dominate early Nigeria commercial banking. The foreign banks came principally to render services in connection with international trade; therefore, their relations as at that time were chiefly with the expatriate trading companies and with the government. Ogewewo and Uche (2006) points out that it was not in the aim of the foreign owned banks to service the indigenous people. Equally, Thurston, Robert and Africana (2005) notes that while the earliest banks were essentially foreign owned several wholly and or partially indigenous banks were established in the 1930s, but that the majority of these collapsed. However, Okoro (2001) notes that in the indigenous sector; the first survived bank was National Bank of Nigeria ltd which was launched in 1933. The next private bank to survive was the Agbomnagbe Bank which was later taken over by the western state government in

1969 and its name was changed to Wema Bank (Okoro, 2001). Going further, Okoro (2001) opine that between 1947 and 1952 that the total of 22 banks were registered in Nigeria according to the study conducted by the CBN and that a figure as high as 185 banks was quoted from government records and was confirmed by the financial secretary as the number actually registered in 1947 and 1952, and that most of these banks merely registered without actually commencing operations (Okoro, 2001) concludes.

The first banking Ordinance was enacted in 1952 following Mr. G.D. Paton of Bank of England's report of 1948 (Ogewewo and Uche, 2006) and that it was the first time the quantum of bank's share capital was stipulated to become a regulatory tool. Ogewewo and Uche (2006:167) commented thus: "On the issue of bank capital, the Ordinance stipulated a minimum share capital of £12,500. Existing banks were then given three years to meet the requirements of the Ordinance or cease to exist as banks. Within two years of the Ordinance taking effect, there were mass runs on most of the indigenous banks that had not met the set criteria. This led to the failure of seventeen of these indigenous banks in 1953–54 alone. The fact that there was little integration between the foreign and indigenous banks helped quarantine the remaining part of the banking industry from any contagion amongst the indigenous banks. The colonial government gladly allowed the indigenous banks to perish". Therefore, it could be asserted that the first era of consolidation through recapitalisation ever recorded in the Nigerian banking industry was between 1959 to 1969. The failure of the indigenous banks prompted the Federal government then, backed by the World Bank report to institute the Loynes commission on September, 1958. The outcome of the Commission's report led to the promulgation of the banking Ordinance of 1958, which established the Central Bank of Nigeria (CBN). The year 1959, was not only remarkable because the CBN commenced operation but also, but that the Treasury bill ordinance was enacted which led to the issuance of the Nigerian first treasury bills in April, 1960 (Somoye 2008). This period (1959-1969) also marked the establishment of formal money, capital market and portfolio management in Nigeria. In addition, the company act of 1968 was established. This period could be said to be the genesis of serious banking regulation in Nigeria (Somoye, 2008) concluded. However, Ogewewo and Uche (2006) points out seriously that since 1952, the level of bank share capital required by the Central Bank has continued to rise. Thus in 1958, the Banking Ordinance, 1952, was repealed. The new Banking Ordinance of 1958 raised the minimum share capital requirement for foreign banks from £100,000 to £200,000. The requirement for the indigenous banks remained unchanged. In practice, however, this had

little effect on the Nigerian banking industry at the time as most of the foreign banks then in existence already had paid up capital above the recommended minimum. In1962, the minimum share capital requirement for banks was again reviewed upwards: that for indigenous banks was raised to £250,000, while in the case of foreign banks, they were now required to retain in Nigeria funds equal to the minimum £250,000. It was, however, to the credit of the government at the time that it allowed a grace period of seven years for existing banks to meet the new capital requirement. Just as the seven years grace period was about to expire, a new banking decree – a law enacted by the then military dictatorship – repealed the Banking Ordinance of 1958. The Banking Decree, 1969, increased the share capital for indigenous banks to £300,000 and that for foreign banks to £750,000. The end result of all these increases was the exit of private indigenous banks from the Nigerian banking space. By 1969, all the indigenous banks that survived the 1953–54 crises had been taken over by regional/state governments. This was because share capital increases had made private indigenous participation in bank ownership difficult. By the 1970s, the Federal Government had acquired controlling shares in the three major foreign banks that dominated the Nigerian banking sector at the time, so as to directly influence their lending policies to the maximum benefit of the economy. This in part explains the relative stability that reigned in the financial system up until the adoption of the Structural Adjustment Programme in 1986.

In 1979, when Merchant banks came on board the Nigerian banking scene, the capital base was N2m (Adegbaju and Olokoye 2008). As from 1988, there had been further increase in the capital base, particularly coupled with the liberalization of the financial system and the introduction of SAP in 1986. Ogewewo and Uche (2006) notes that the adoption of the Structural Adjustment Programme created both opportunities and dangers for the financial system. Material devaluation of the currency and economic liberalism meant that indigenous enterprises could once more engage in banking. Also, the existence of official and parallel foreign exchange markets created opportunities for banks to make arbitrage profits. This situation enabled several banks to declare huge profits mainly by buying and selling foreign exchange. That this scenario persisted for a long time only succeeded in attracting more new entrants into the banking arena. This resulted in a remarkable increase in the number of banks operating in Nigeria from 40 in 1985 to 120 in 1992.

In February 1988, the minimum capital base for commercial bank was increased to N5m while that of the Merchant bank was pegged at N3m (Adegbaju and Olokoye 2008). In

October the same year, it was jerked up to N10m for commercial bank and N6m for Merchant banks. In 1989, there was a further increase to N20m for commercial bank and N12m for Merchant bank (Adegbaju and Olokoye 2008). In 1991, the Banks and Other Financial Institutions Decree repealed the Banking Decree of 1969. Again, the new Decree raised share capital to 40 million and 50 million for merchant banks and commercial banks, respectively (Ogewewo and Uche 2006). Minimum paid up capital of merchant and commercial banks was raised to a uniform level of N500 million with effect from 1st January, 1997, and by December 1998, all existing banks were to recapitalize. Distressed banks whose capital fell below existing requirement were expected to comply by 31st March, 1997 or face liquidation. This deepened banking crises in Nigeria and as a result twenty-six of such distressed banks comprising 13 each of commercial and merchant banks were liquidated in January, 1998. The CBN brought into force the risk-weighted measure of capital adequacy recommended by the Basle Committee of the Bank for International Settlements in 1990. Before then, capital adequacy was measured by the ratio of adjusted capital to total loans and advances outstanding. The CBN in 1990 introduced a set of prudential guidelines for licensed banks, which were complementary to both the capital adequacy requirement and Statement of Standard Accounting Practices. The prudential guidelines, among others, spelt out the criteria to be employed by banks for classifying non-performing loans. Ogewewo and Uche (2006) notes that in 1999, the minimum share capital requirement for new banks was raised to ₦1 billion and existing banks were given up to the end of 2002 to meet the new requirement. In 2001, when the Universal banking was adopted in principle, the capital base was still N1billion for existing banks but ₦2 billion for new banks. According to Ogewewo and Uche (2006), in January 2004, in pursuant to section 28(1)(b) of the Central Bank Act, 1991, the CBN raised the minimum share capital requirement to 2 billion for new banks. Existing banks were given until the end of 2005 to recapitalize to the new minimum of ₦2 billion. Yet before this deadline for the N2 billion capitalization had been reached, in July of the same year (i.e. 2004), the new governor of the CBN announced the need for banks to increase their capital base to N25 billion all banks are expected to comply by December 2005.

2.2: REFORMS IN THE NIGERIAN BANKING SECTOR.

In the 1970s, the Nigerian authorities introduced an array of direct controls in the banking system, through ownership as well as through interest rate and credit controls (Clark, Cull and Shirley 2005). As part of an indigenization wave, many foreign – owned banks were nationalized, since no Nigerian purchaser could be found. At the same time, entry into the

banking system was restricted, a floor for deposit and a ceiling for lending interest rates were established and a credit allocation quota of up to 70% of a bank's portfolio was enforced. However, Balogun (2007) is of the view that four phases of banking sector reforms are easily discernable in Nigeria since 1986. The first is the financial systems reforms which led to deregulation of the banking industry, in addition to credit, interest rate and foreign exchange policy reforms. In other words, interest rates and entry into the banking system were liberalized and credit allocation quotas loosened. This culminated to rapid expansion of the banking sector. At the same time, government maintained a multiple exchange rate regime, thus opening a new area of arbitrage and rent-seeking for financial institutions that had privileged access to foreign exchange auctions. Very low entry requirements and the high market premiums that could be earned with arbitrage activities in the foreign exchange markets allowed for returns on equity or more (Lewis and Stein 2002). In the following years, the number of banks tripled from about 40 commercial and merchant banks with a combined branch networks of 1,655 in 1986 to 121 and about 2,385 branches in 1992 (CBN 1993). Also, employment in the financial sector doubled and the contribution of the financial system to GDP almost tripled (Lewis and Stein 2002) concludes. The second phase began in the late 1993 – 1998, with the re-introduction of regulations (Balogun 2007). During the period, the financial system suffered deep financial distress occasioned by huge financial disintermediation because activities were channeled in arbitrage and rent–seeking. Non – performing loans (NPL) increased sharply especially in the merchant bank sector, where most of the foreign exchange speculators were concentrated and the government owned banks showed signs of distress. All these, necessitated another round of reforms, designed to manage the distress. The reforms include; a moratorium on new licenses imposed by CBN; new prudential guidelines were introduced which made the extent of distress in the banking system show even clearer; Several banks were scrutinized and de-licensed; Reintroduction of exchange and interest rate controls; Also, the privatization agency (Technical committee on privatization and commercialization, (TCPC) which scheduled the sale of government shares in eight commercial and six merchant banks in which the federal government had an ownership status was established. The third phase began with the advent of civilian democracy 1999 which saw the return to liberalization of the financial sector, accompanied with the adoption of distress resolution programmes (Balogun 2007). Few failing banks were resolved and the authorities focused more on containing than resolving the crises (Cull, Beck, Afeikhena 2005). In the serious cleanup, 26 banks license were revoked, while some of the bankrupt banks were liquidated, about 89 of them survived and had about 3,382 branches

predominantly in the urban centers as at June 2004 (Soludo 2007). By this time also, universal banking had been introduced and the banks could diversify their portfolio to cover all aspect of retail banking. The financial system was characterized by structural and operational weaknesses and that their catalytic role in promoting private sector led growth could be further enhanced through a more pragmatic reform and this led to the fourth phase of the financial sector reforms which began since 2004 (Balogun, 2007 citing Soludo 2007).

The broad objectives of the Nigerian banking sector reforms are broadly the same as in most of sub-Sahara Africa. Omoruyi (1991), CBN (2004) and several financial sector analysts summarized the objectives to include;

- less intervention in the financial market with the view to promote a more efficient resource allocation;
- Expanding the savings mobilization base in support of investment and growth through market based interest rates;
- Improving the regulatory framework and procedures so as to forestall distress;
- Fostering competition in the provision of banking services;
- Laying the basis for minimal innovational growth or conducive enabling environment.

Among the policy instruments often employed to attain these objectives are;

- Foreign exchange markets and interest rates deregulation;
- Adoption of market based approach to credit allocation;
- Pursuit of sustainable fiscal and monetary policies;
- Reforms or restructuring of financial markets via legislative changes;
- Active use of prudential regulations and enforcement of capital adequacy requirements.

In general, the extent of reforms is often guided by the severity of internal economic distortions and the adversity of the disincentives created especially for a private sector led growth (Balogun 2007).

2.3: EMPIRICAL REVIEW OF BANKING SYSTEM CONSOLIDATION AND THE NIGERIAN EXPERIENCE.

The Pan Reference Banks Dictionary of Economics defined consolidation as the action of reinvesting a capital gain made on a speculative share in a more conservative security. The term could also connote the selling of equities at a gain and reinvesting of the proceeds in fixed – interest securities. Also, Sloan and Zurcher (1970) conceptualized consolidation as a fusion of the assets and liabilities, in whole or in parts, of two or more business establishments to form an entirely new establishment. From the above definitions, consolidation represents the idea of investment and the coming together of individual firms or enterprises as a single entity. Consolidation could also mean larger sizes, larger shareholder bases and larger number of depositors. According to Adam (2005) banks or corporate consolidation could be achieved by way of mergers and/or acquisition, recapitalization and proactive regulation. Bank consolidation is more than mere shrinking of the number of banks in any banking industry. BIS (2001) found out that due to the consolidation, that the number of banking firms decreased in almost every country during the decade and the concentration of the banking industry, as measured by the percentage of a country's deposits controlled by the largest banks, tended to increase. If other banking activity, such as off-balance sheet activities, were included in the size measure, the increase in banking concentration would be even greater. It is expected to enhance synergy, improve efficiency, induce investor focus and trigger productivity and welfare gains (Nnanna 2004).

2.3.1: FACTORS/ CAUSES OF CONSOLIDATION.

BIS (2001) noted that analysis distinguishes between motives for consolidation and the environmental factors/ external forces that influences the pace and form of consolidation in the financial sector. Furthering, they however pointed out that both motives and environmental factors vary over time, across countries, industry segments, and even across business lines within a segment.

2.3.1a: Value-Maximising Motives and Non-Value-Maximising Motives.

Proceeding, BIS (2001) divided motives into two: - value-maximising motives and non-value-maximising motives.

(a) In the value-maximising motives, they pointed out that the value of a financial institution, like any other firm, is determined by the present discounted value of expected future profits. Mergers can increase expected future profits either by reducing expected costs or by increasing expected revenues.

Mergers can lead to reductions in costs for several reasons, including:

・economies of scale (reductions in per-unit cost due to increased scale of operations);

・economies of scope (reductions in per-unit cost due to synergies involved in producing multiple products within the same firm);

・replacement of inefficient managers with more efficient managers or management techniques;

・reduction of risk due to geographic or product diversification;

・reduction of tax obligations;

・increased monopsony power allowing firms to purchase inputs at lower prices;

・allowing a firm to become large enough to gain access to capital markets or to receive a credit rating;

・providing a way for financial firms to enter new geographic or product markets at a lower cost than that associated with de novo entry.

Mergers can lead to increased revenues for a variety of reasons, including:

・increased size allowing firms to better serve large customers;

・increased product diversification allowing firms to offer customers "one-stop shopping" for a variety of different products;

・increased product or geographic diversification expanding the pool of potential customers;

・increased size or market share making it easier to attract customers (visibility or reputation effects);

・increased monopoly power allowing firms to raise prices;

・increased size allowing firms to increase the riskiness of their portfolios.

(b) In the non-value-maximising motives, (BIS 2001) notes that Managers' actions and decisions are not always consistent with the maximisation of firm value. Particularly, when the identities of owners and managers differ and capital markets are less than perfect, managers may take actions that further their own personal goals and are not in the interests of the firm's owners. For example, managers may derive satisfaction from controlling a larger Organisation or from increasing their own job security. Thus, they might engage in mergers designed to increase the size of the firm or reduce firm risk, even if such mergers do not enhance firm value. Managers may acquire other firms in order to avoid being acquired themselves (defensive acquisitions), even if being acquired would benefit the firm's owners. In some cases, managers may care about the size of their firm relative to competitors, leading them to engage in consolidation simply because other firms in the industry are doing so. BIS

(2001) equally pointed out that government policy play an important role in facilitating consolidation in effort to minimize the social costs associated with firm failures. In the United States, for example, government agencies provided financial assistance to healthy banks that acquired failing banks during the banking crises of the 1980s and early 1990s. Financial crises or major problems with large depository institutions also contributed to accelerated changes in the banking landscape in France, Japan, Scandinavia and the United Kingdom. In resolving failed institutions, supervisory authorities have often encouraged mergers or forced the liquidation and sale of the weakest institutions. For example, in Japan during the banking crisis of the 1990s, government funds were deployed to support reconstruction and consolidation of the banking sector. Governments may also promote consolidation in an effort to create a "national champion" that can compete effectively in the global arena. At the same time, laws requiring regulatory approval of mergers and acquisitions or prohibiting certain types of mergers and acquisitions (because of their implications for competition, financial stability, potential conflicts of interest between commercial and investment banking, or other reasons) have the potential to hinder consolidation.

2.3.1b: Environmental Factors/ External Forces That Influences The Pace And Form Of Consolidation.

BIS (2001) asserts that the environmental factors propelling consolidation among financial service providers include the following, among others

(a) Improvements in information technology. New technological developments have encouraged consolidation because of their high fixed costs and the need to spread these costs across a large customer base. At the same time, dramatic improvements in the speed and quality of communications and information processing have made it possible for financial service providers to offer a broader array of products and services to larger numbers of clients over wider geographic areas than had been feasible in the past.

(b) Deregulation over the past 20 years as many governments have removed important legal and regulatory barriers to financial industry consolidation. The removal of these barriers has opened the way for increased M & As, both within and across national boundaries and both within and across financial industries segments.

(c) The adoption of common currency by an economic block, such as euro in the European Union, has induced changes in financial markets in the region and this has provided new opportunities for realizing economies of scale and revenue enhancement through

consolidation. However, the euro has not significantly influenced consolidations in countries outside Europe (Group of Ten, 2001) concluded.
(d) Globalisation a by-product of technological change and deregulation have been a factor encouraging consolidation among firms engaged in the provision of wholesale financial services, highlighting the importance of expansion capital markets.
(e) Shareholders' pressures on management to improve performance due to increased competition which has helped squeeze profit margins.

The interplay of these factors has put increased pressure on financial institutions to improve profitability, and consolidation has many cases seemed an attractive way to accomplish theses objectives. Also the global swing in the pendulum to "Big is beautiful and the dangers of being the odd one out" could be a driving force towards consolidation (Afolabi 2005).

2.3.2: FACTORS DISCOURAGING CONSOLIDATION.

BIS (2001) however pointed out that certain factors continue to discourage financial consolidation. They are;

Regulation

The legal and regulatory environment represents a substantial potential impediment for consolidation, as it affects directly the range of permissible activities undertaken by financial firms and may imply considerable compliance costs. In some countries antitrust laws constitute an important impediment, mainly for domestic consolidation within sectors. Prudential regulation may hinder cross-border consolidation through differences in capital requirements. Product-based supervision, which exists largely in the insurance sector, may reduce cross-border consolidation by limiting potential cost reduction from economies of scale. Potential regulatory impediments to consolidation include:

- ***Protection of "national champions"***. In some countries, the government has an explicit role in approving foreign investment in domestic financial institutions. Governments may protect domestic enterprises by setting high hurdles for foreign buyers attempting to acquire majority stakes. Conditions in some countries have enabled some categories of banks to remain insulated from market forces.
- ***Government ownership of financial institutions***. The scope for consolidation is similarly limited when banks are partially or fully government owned. For these institutions, the consolidation of business activities with others would have to be preceded by privatisation.

・***Competition policies***. Competition policies are concerned with the negative welfare effects stemming from a lack of competition. Some consolidation projects are refused on the grounds that they would result in market dominance. A further important deterrent related to competition policy rules is the fact that some mergers have to pass the test of competition authorities in different countries, which involves long delays, compliance costs and uncertainty.

・***Rules on confidentiality***. National regulations with regard to data provision and confidentiality may prevent the consolidation of information platforms on a cross-border and an across-segment basis and, thereby, impede potential cost reductions from technologically induced economies of scale.

Cultural differences.

Cultural differences appear in the consolidation process on the corporate level, between sectors, across regions or countries and between wholesale and retail businesses. The need for cultural integration as part of the consolidation process is a multidimensional issue that touches all stakeholders. Cultural differences increase the complexity, and therefore the costs, of managing size. Post-merger problems have often been ascribed to the underestimation of the difficulties involved in attempts to combine different cultures.

・***Differences between countries.*** The importance of cultural differences is especially obvious when a merger crosses national borders or spans geographically distinct regions. Factors that may discourage consolidation include differences in language, communication styles, customer needs and specific established distribution channels.

These factors determine the ease, and thus the implicit costs, of a firm's entry into a different country or region.

・***Differences in corporate cultures.*** Strong corporate identities are considered to be particularly problematic in mergers between equals. Takeover attempts often turn unfriendly when there are large perceived rifts in business cultures between the acquirer and the target. Such differences may impede the exchange of information, the pursuit of common objectives and the development of a coherent corporate identity. Divergent corporate cultures may exist between corporations within the same business segment, as well as across business lines (e.g. commercial and investment banking activities that may compete with different products for the same customer base).

Inadequate information flows

Inadequate information flows are a form of market inefficiency that may increase the uncertainty about the outcome of a merger or acquisition. They may be attributed to incomplete disclosure or large differences in accounting standards across countries and sectors. When faced with such an information asymmetry, stakeholders may disapprove of consolidation.

・***Lack of comparability of accounting report***s. Large variations in accounting principles and procedures from country to country or even across sectors can impede consolidation, as there may be considerable uncertainty regarding the risk profile and valuation of the assets of the institutions involved in the transactions. The growing complexity of large transactions in recent years has further increased the importance of reliable and transparent accounting standards in order to conduct adequate due diligence procedures in mergers and acquisitions.

・***Difficulties in asset appraisa***l. The existence of information asymmetries is a commonly acknowledged complication in appraising assets particularly in the context of bank's loan books, which include assets for which market liquidity is low. An assessment of the loan book of an institution implies the difficult task of judging the quality of risk management of the takeover target, which is especially problematic in the context of evaluating single loans.

・***Lack of transparenc***y. Ex ante pressure from shareholders to justify a merger decision may be a discouraging factor in the presence of uncertainty and information asymmetries. The potential for hidden costs, as a result of a lack of transparency, may induce acquiring management and shareholders to be more risk averse when considering an acquisition.

Corporate governance

Corporate governance encompasses the organisational structure and the system of checks and balances of an institution. There are significant differences in the legislative and regulatory frameworks across countries as regards the functions of the ("supervisory") board of directors and senior management, which affect the interrelation of the two decision-making bodies within an institution and relations with the firm's owners and other stakeholders, including employees, customers, the community, rating agencies and governments.

・***Ownership structure****s*. The organisational form and rules that govern the strategic business decisions of a company have a large bearing on whether consolidation is deemed a valid business option. For example, a strong corporate identity can be an effective defence against surrendering control to outsiders.

• ***Capital structure***. Corporate governance should not be viewed independently from corporate finance. As the way of raising capital varies, so do the possibilities for influencing or pressuring the supervisory board with regard to decisions on consolidation. Such influence appears to be greatest for firms that rely heavily on equity financing and whose shares are widely held. Where there are a few large shareholders, it is extremely difficult to sway the vote of the governing board without their express approval. Banks that have lent extensively to an enterprise may exercise similar de facto corporate control, although they may not be represented on the supervisory board.

• ***Existence of defensive strategies***. Defences against a takeover are strongest where financing is from private sources and the major share of equities is privately held.

Taxation.

Assessing the impact of the various tax regimes on investment decisions is a complex issue. The tax burden is a cost that is factored into business decisions. As such, it influences the choice of location for the different parts of a business. Although consolidation could also result in a reduction of tax obligations, enterprises often feel in practice that the direct and indirect costs imposed by taxation do not justify a merger, be it with a domestic partner or a foreign one. For example, high capital gains taxes on the sale of corporate holdings may impede the disentanglement of cross-holdings between banks, insurance and industry and, thus, hamper structural adjustment in the financial and corporate sectors. The absence of double taxation agreements between the two countries where the consolidating entities are headquartered would also be an impediment to takeovers. From an efficiency point of view, organisational structures that are optimal from a taxation perspective may be less so from the point of view of production and distribution processes.

At the same time, laws requiring regulatory approval of mergers and acquisitions or prohibiting certain types of mergers and acquisitions (because of their implications for competition, financial stability, potential conflicts of interest between commercial and investment banking, or other reasons) have the potential to hinder consolidation.

2.3.3: PATTERNS/METHODS OF CONSOLIDATION.

BIS (2001) stated that in general terms, consolidation of the financial services sector involves the resources of the industry becoming more tightly controlled, either because the number of

key firms is smaller or the rivalry between firms is reduced. Consolidation may result from combinations of existing firms, growth among leading firms, or industry exit of weaker institutions. There are several alternatives for firms combining with each other. Each has its strengths and weaknesses and may be particularly appropriate in certain situations. Two classes of methods: (1) mergers and acquisitions and (2) joint ventures and strategic alliances.

The primary methods of consolidation employed by firms are mergers and acquisitions. With both of these methods, two formerly independent firms become commonly controlled. Throughout this work, the terms merger and acquisition are used interchangeably to refer to transactions involving the combination of two independent firms to form one or more commonly controlled entities. The distinction between a merger and an acquisition is somewhat vague. A merger is often defined as a transaction where one entity is combined with another so that at least one initial entity loses its distinct identity. Thus, full integration of the two firms takes place and control over a single entity can easily be exercised. An acquisition is often classified as a transaction where one firm purchases a controlling stake of another firm without combining the assets of the firms involved. Relative to acquisitions, mergers provide a greater level of control, because there is only one corporate entity to manage. Mergers and acquisitions are also sometimes distinguished by defining mergers as transactions involving two firms that are of essentially equal size, while acquisitions are transactions where one party clearly obtains control of another. BIS (2001) noted also that there could a partial or non-controlling acquisition, whereby acquisition is similar to an acquisition of a controlling interest, except that, as the name implies, the acquiring firm does not establish control. Such deals encourage cooperation between potential rivals, because they establish a common interest among the firms. Partial acquisitions may also serve as a first step for firms before engaging in more complete consolidations of control.
(2) In looking at joint ventures and strategic alliances, BIS (2001) is of the opinion that joint ventures and strategic alliances enable firms to work together without either firm relinquishing control of its own operations and activities. Strategic alliances are partnerships between independent firms that involve the creation of tangible or intangible assets. The level of collaboration is often fairly low and focused on a well-defined set of activities, services or products. Strategic alliances may be most appropriate for the exchange of technical information and sophisticated knowledge or when there are legal, regulatory or cultural constraints making a more thorough collaboration difficult or illegal. Moreover, relative to mergers and acquisitions, strategic alliances generally involve lower formation and

dissolution costs. Like partial acquisitions, strategic alliances may enhance cooperation among firms or serve as a first step towards a merger or acquisition. A joint venture, which may be viewed as a type of strategic alliance, occurs when two or more independent firms form and jointly control a different entity, which is created to pursue a specific objective. This new entity typically draws on the strengths of each partner. Joint ventures facilitate consolidation, because they enable firms to develop strong ties. Joint ventures may also serve as a precursor to more comprehensive consolidation such as mergers.

2.4: AN EMPIRICAL OVERVIEW OF THE NIGERIAN BANKING CONSOLIDATION.

Reforms have been regular features of the Nigeria banking system. They are usually introduced either in response to the challenges posed by factors and developments such as systemic crisis, deregulation, globalization and technological innovation or as proactive measures both to strengthen the banking system and prevent systemic crises, as is the case in the current reforms. The current reforms, widely referred to as consolidation of the banking system, are part of the broad on-going national economic reforms (Afolabi 2005). However, the structure of the Nigeria banking system, pre-consolidation, initiated its ineffective performance as it was characterized by a number of structural and operational inadequacies. The inadequacies included low capital base, large number of small banks with relatively few branches, poor asset quality, illiquidity, dwindling earnings, loss making, insolvency, boardroom squabbles, poor rating of most of the banks, weak corporate governance including inaccurate reporting and non-compliance with regulatory requirements, declining ethics and huge non–performance of insider related credits. Others included over independence on public sector deposits and foreign exchange trading as well as the neglect of SMEs (Soludo 2004). Noting the above inadequacies, the CBN indicated that the current commercial banks should recapitalize from a minimum capital base of N2billion in 2004 to N25billion within a period of eighteen months with a mandatory option to mergers and acquisitions. As at the period, 89 banks were in operation made up of about 5 – 10 banks, whose capital base were already above the N25billion marks, another group of 11 – 30 banks, within the N10 to N20 billion on mark, while the remained 50 to 60 banks were quite below the N10 billion mark (Balogun 2007). Appropriate legislative backing was obtained for this, and at the end of the exercise, about 25 banks emerged and now 24 with the concluded merger of Standard Chartered Bank and IBTC bank in 2007. A total of 13 banks failed to meet the recapitalization criteria and are faced with three options (Dike 2006). The first option is their

outright liquidation. The second is for them to forge an alliance and merger into a new bank. The third option is their acquisition by banks that have achieved the capital base requirement.

Below are the approved banks and how they emerged:-

Table: 2.1; Approved Banks; How They Emerged.

S/N	**New Banks**	**Merged Partners**
1.	First Bank PLC	First Bank PLC, FBN Merchant Bankers
2.	UBA PLC	Standard Trust Bank PLC, UBA PLC, Continental Trust Bank.
3.	Union Bank PLC	Union Bank PLC, Universal Trust Bank PLC, Union Merchant Bank, Broad Bank Nigeria Limited.
4.	Afribank PLC	Afribank Bank PLC, Afribank(Merchant Bankers)
5.	Skye Bank	Prudent Bank PLC, EIB International Bank, Bond Bank, Reliance Bank Ltd, and Co-operative Bank.
6.	Wema Bank PLC	Wema Bank PLC, National Bank PLC, Lead Bank PLC.
7.	Sterling Bank	NBM Bank Nigeria Ltd., Magnum Trust Bank, Trust Bank of Africa, NAL Bank PLC, Indo Nigeria Bank.
8.	Oceanic Bank Int. PLC	Oceanic Bank International PLC, International Trust Bank.
9.	Fidelity Bank PLC	Fidelity Bank PLC, Manny Bank PLC, FSB International Bank PLC.
10.	Intercontinental Bank PLC.	Intercontinental Bank PLC, Gateway Bank PLC, Global Bank PLC, Equity Bank Nigeria Ltd.
11.	IBTC-Chartered Bank	Investment Bank and Trust Company (IBTC), Chartered Bank PLC, and Regent Bank Limited.
12.	Standard Chartered Bank Ltd.	Standard Chartered Bank Limited
13.	Platinum/Habib Bank	Platinum Bank Nigeria Ltd, Habib Bank International
14.	Unity Bank PLC	NNB International Bank PLC, Centrepoint Bank PLC, Societe Bancier, Tropical Commercial Bank, Bank Of The North, First Interstate Bank, New African Bank, Pacific Bank, & Intercity Bank PLC.
15.	Diamond Bank PLC	Diamond Bank Ltd., Lion Bank, & AIB International Bank

16.	NIB/Citi Bank	Citibank
17.	Spring Bank PLC	Citizens International Bank, ACB bank PLC, Guardian Express Bank, Omega Bank PLC, Trans International PLC, and Fountain Trust Bank.
18.	Zenith Bank PLC	Zenith Bank PLC
19.	First City Monument Bank (FCMB)	FCMB, Co-operative Development Bank PLC, Nigeria-American Bank
20.	GT Bank PLC	GT Bank PLC.
21.	First Inland Bank PLC	First Atlantic Bank PLC, Inland Bank PLC.
22.	Ecobank NigeriaPLC	Ecobank PLC.
23.	Access Bank PLC	Access Bank PLC, Marina Bank, Capital Bank Nigeria Ltd.
24.	Devcom/ETB	DEvcom Bank and Equatorial Trust Bank Ltd.
25.	Stanbic Bank	Stanbic Bank Ltd.

13 Unconsolidated Banks

1. All States Trust Bank	6. Fortune Baank	11. City Express Bank
2. Hallmark Bank	7. Liberty Bank	12. Gulf Bank
3. Trade Bank	8. Triumph Bank	13. Assurance Bank.
4. African International Bank	9. Eagle Bank	
5. Societe Generale Bank	Metropolitan Bank	

Source: Newswatch, January, 2006.

A preliminary assessment of the impact of the banking sector consolidation can be deduced from (Soludo 2007) where he notes that significant progress has been achieved in the area of financial and payment systems reforms which began in 2005. Among these achievements which he identified are as shown in the table below.

Table 2.2: Basic indicators of banking sector consolidation results

	2004	2006	% GRT
No of banks	89	25	- 71.9
No of branches	3382	4500	33.1
Total assets base of banks (N Billion)	3209	6555	104.3
Capital and reserves (N Billion)	327	957	192.7

Industry capital adequacy ratio (%)	15.2	21.6	42.6
Ratio of non – performing credit total (%)	19.5	9.5	- 513

Source: central bank of Nigeria 2007.

Prior to the just concluded banking sector consolidation programme induced by the CBN 13 – point reform agenda, the Nigerian banking system was highly oligopolistic with remarkable features of market concentration and leadership (Adeyemi 2006). Also, Lemo (2005) notes that the top ten (10) banks were found to control;

- More than 50% of the aggregate assets;
- More than 51% of the aggregate deposit liabilities; and more than 45% of the aggregate credits.

The unhealthy competition that existed in the market, which was engendered by the relative ease of entry into the market as a result of low capital base, necessitated some banks going into rent – seeking and non banking business which are not related to core banking functions. Some of the banks were preoccupied with trading in foreign exchange, government treasury bills and sometimes, indirect importation of goods through surrogate companies (Adeyemi 2006). A review of the banking system as at June, 2004 reveals that marginal and unsound banks accounted for 19.2% of the total assets, 17.2% of total deposit liabilities, while industry non-performing assets was 19.5% of the total loans and advances. The implication of this unsatisfactory statistics as noted by Lemo (2005) is that there existed threat of a systematic distress judging by the points in the CBN contingency planning framework of December 2002, which stipulated a threshold of 20% of the industry assets, 15% of deposits being held by distressed banks and 35% of industry credits being classified as non-performing. From the foregoing it was apparent that a reform of the banking system in Nigeria was inevitable.

2.5: EMPIRICAL REVIEW OF COMMERCIAL BANK PERFORMANCES IN THE POST CONSOLIDATION PERIOD IN NIGERIA.

Somoye (2008) attempts to examine the performances of government induced banks consolidation and macro-economic performance in Nigeria in a post – consolidation period. The objectively reviewed the effectiveness of the consolidation programme in the banking and the real sectors of the economy. Somoye (2008) analysed published audited accounts of twenty (20) out of (25) twenty – five banks that emerged from the consolidation exercise and data from the CBN using percentage change increase or decrease of ratio analytical

technique. He denoted year 2004 as the pre-consolidation and year 2005 and 2006 as post – consolidation periods for his analysis.

In his findings on the banking sector performance, in terms of assets, he noted that the total asset of all the 89 pre-consolidation was ₦3, 753.28 billion (US$28.250 billion) and rose up to ₦64400.78 billion (US$49.88 billion) indicating a percentage growth rate of 70.5416% within one year after consolidation. And, that the asset size of an average bank which was N42.172 billion (US$0.3174 billion) grew geometrically to ₦267.48 billion (US$2.085.6 billion) within a year post – consolidation exercise, a growth rate of 534.27%. This was an impressive performance (Somoye, 2008) noted. An assessment of the level of capitalization of an average bank pre-consolidation indicates an equity base (Net worth) of ₦7.71 billion (US$ 0.0618 Billion) rising to N38.83 billion (US$ 0.311064 billion) in 2006 indicating a growth of 404%. The leverage ratio measured in terms of equity to total asset also declined form 18.28% 2004 to 14.52% in 2006 for an average bank. He noted that this ratio compares favorably with the CBN minimum level of 10%. The post consolidation ratio is also better in terms of its distribution among the banks compared with the pre-consolidation ratio where more than 70% of the equity and assets were concentrated in the (five largest banks) less than 5% of the existing banks. He further pointed out that the intermediation activities of an average bank improved significantly by about 1,690% from an average deposit base of N10.48 billion (US$ 0.08384 in 2004 to N188.48 billion (US$ 1.50784) in 2006. The profit efficiency/asset utilization has not been impressive. Although the banks have been able to double their gross earnings from their pre-consolidation performance level, their profit and asset utilization efficiencies have declined since the conclusion of the consolidation (Somoye 2008). The industry ROE declined form 35.28% in 2004 to 11.12% in 2006, while ROA declined from 8.37% in 2004 to 2.09% in 2006 over the same period. Thus, Somoye (2008) pointed out that while the consolidation has improved the structure of the Nigerian banking industry in terms of asset size, deposit base and capital adequacy, the profit efficiency has not been impressive. The banks will need to become more efficient in terms of their ability to generate enough return to justify the increase in the equity base as well as the resources put at their disposals by their stakeholders. The lending capacity of the banks improved significantly as a result of the consolidation. As at 2004, an average bank could only lend about N14, 271 billion, whereas, the consolidation strengthened the bank where a typical bank in Nigeria in 2006 could lend an average of N80.788 billion. This represents a growth of 462.13% growth rate (Somoye 2008).

Somoye (2008) suggests that the banking sector has not shown a serious response of being able to meet monetary policy expectation. The underlying idea that consolidation policy would reduce the insolvency risk through asset diversification, but noted that there is the possibility that credit risk could increase in the event a sound bank merging with an unsound one and that bank consolidations do not significantly improve the performance and efficiency of the participant banks. He equally noted that consolidation programme through merger and acquisition require time-frame but that in Nigeria however, the recapitalization to strengthen the balance sheets of consolidating banks has involved drawing much of the money from the rest of the economy and that this presents one-sided reform that is not match with equal capacity building in the real economy. Consequently, Somoye (2008) concludes that banking sector is becoming competitive and market forces are creating an atmosphere where many banks simply can't afford to have weak balance sheets and inadequate corporate governance. Consolidation of banks may not necessarily be a sufficient tool for financial stability for sustainable development (Somoye 2008). He further recommended that bank consolidation in the financial market must be market driven to allow for efficient process.

2.6: AN EMPIRICAL REVIEW OF SOLUDO'S PERSPECTIVE OF BANKING SECTOR REFORMS IN NIGIERA.

Balogun (2007) reviews the theoretical underpinning of the banking reforms under the regime of Prof Charles Soludo, as governor of CBN, from June 2004 to 2007. The study noted that the Soludo's reforms focused on strengthening the financial system through bank consolidation, foreign exchange market stabilization, interest rates restructuring and the pursuit of stabilization as against structural adjustment policies for monetary and inflationary controls. Balogun (2007) posits that the Soludo's reforms appeared to be guided by the provision in the NEEDS document that the financial sector needed to play a key role in pricing and trading risks and implementing monetary and fiscal policies" as part of the process of "a shift in emphasis to private sector led economy". The NEEDS document further argued that there is a strong case for ensuring the efficiency of the financial system and for dealing with the contradiction inherent in the fact that despite high profit levels, the sector does not appear to be playing a catalytic role in the real sector (NPC 2004).

Balogun (2007) used descriptive statistics to test the hypothesis that recapitalization has contributed significantly to improved banking services to the economy as a whole. Among

the measures used are: branch networks, increased supply and improve access to credit, increased returns to investors in the banking sectors, reduced distress ratios and above all increased profit earnings, as well as increased ability to compete within the global economy. In a preliminary assessment of the impact of the banking sector consolidation (Balogun 2007) deduced from a presentation by Soludo in 2007 that significant progress has been achieved in the area of financial and payment systems reforms which began in 2005. He observed further, that the 25 surviving banks are strong and reliable and now the size of first and second largest banks in South Africa in contrast to combined 89 banks in 2003 that were the size of the 4th largest bank in South Africa. He also noted that the banking sector has become the dominant sector in the Nigerian Stock Exchange and indeed the key driver of the recent phenomenal growth of the exchange. However, Balogun (2007) suggests that though the banking sector faired quite well, but that when judged against the stated objectives which informed the reforms, this may not be quite true. That while it can be argued that recapitalization may have helped to build and foster a competitive and healthy financial system; it is debatable if the structure of their portfolio investments has the capacity to support the desired economic development aspiration of the proponents (Balogun 2007).

Empirically Balogun (2007) tested the likely effects of increases in total assets, capital and reserves of the banking sector on credit to production or real sector of the economy using a pair wise correlation matrix. His result shows that in line with theoretical expectation, there is significant and positive correlation between banking sector total assets, capital and reserves and total credit as well as production credit granted by the banks during this period. However, when compared o the relative share of production in total credit, there is a strong but negative correlation between this variable and that of total asset, capital and reserves. This suggests that rather than stimulating increases in credit to production activities, increase in capital base has been associated with relatively less credit to the real sector. This tended to confirm the fear that the current recapitalization exercise may have tended to fuel speculative activities (Balogun, 2007) concludes.

2.7: AN EMPIRICAL REVIEW OF BANKS CONSOLIDATION IN NIGERIA: A SYNERGISTIC HARVEST.

Enyi (2008) notes that in order to strengthen the competitive and operational capabilities of banks in Nigeria with a view towards returning global and public confidence to the Nigerian banking sector and the economy in general, the CBN instituted a banking reform which saw

most of the then existing 89 banks merging with each other. He further pointed out, it was earlier speculated in some financial analysis quarters that the exercise might turn out to be one of those hypes of an ailing economy. This, according to him has however turned out to be the opposite as most post merger results tend to highlight that financial synergies exist. Enyi (2008) tries to evaluate the authenticity of this assertion using a two- way ANOVA validating to test the hypothetical statement Ho: Recent banks consolidations in Nigeria have significantly resulted into a synergistic effect of 2+2 = 5 or more for the consolidated banks. He collected data relating to two most significant performance indicators for banks in Nigeria (i) Total assets; and (ii) shareholders funds from the last audited accounts of the merging banks just before consolidation and from the first annual reports for the newly integrated firms after consolidation. He analysed the pre-merger data first on the individual merging firms by determining ratios such as; average growth rate, annual growth rate, cumulative change rate, average change rate, effective growth rate, group weighted average growth rate etc which is then integrated with those of the other merging firms in the group. Integration of the growth rate was achieved by means of weighted average calculated on the proportion of the merging banks value on the consolidated value for the group.

Enyi (2008) from his findings opines that all the four banks studied namely; FCMB, Intercontinental bank, Fidelity bank plc, and Diamond bank plc have financial synergy in total assets of over 2+2 = 5, and is a true indication that the bank merger exercise has produced more benefits in asset growth than that possible were the merged banks to operate as formerly constituted. Also, he opined that three of the four merger groups achieved true financial synergy in shareholders funds growth. The fourth group FCMB, though, achieved some gains in excess of additions of individual member funds; fell short of achieving the truly accepted notion of synergistic effect of 2 + 2 = 5 since its effect of 2 + 2 was only able to give 4.14. However, since 3 out of 4 of the banks studied were able to record true financial synergy in shareholders funds (Enyi 2008) concluded that the bank mergers has produced more benefits in shareholders funds than that were possible were the merged banks to continue to operate as formerly constituted.

Conclusively, Enyi (2008) is of the view that the banks consolidation exercise of 2005 as supervised by the CBN has yielded basketful of benefits in terms of improved banking environment and renewed customer confidence in the banking industry.

2.8: EMPIRICAL REVIEW OF THE GLOBAL TRENDS IN BANK CONSOLIDATION.

The financial services industry is consolidating around the world. Mergers and acquisitions among financial institutions are occurring at a rapid pace in US, Europe, Japan, emerging economies of the former Eastern Europe (Yugoslav) and Far East Asian countries. For instance Berger et al (1999) found that between the 80s and 90s, there were about 3,600 mergers in the USA. In the 80s, the number of banks in the USA declined steadily due to consolidation through merges and acquisition from about 1400 to 1222 in 1990. This wave of consolidation through mergers/acquisitions was precipitated by stronger banks acquiring weaker and under capitalized ones.

According to Kwan (2004), since the enactment of the Riegle – Neal Act, which allows interstate branch banking beginning from 1997, in other words consolidation was further induced in the USA following the response to this legislation that liberalized inter-state branch banking sector reforms. The number of large bank merger in the USA has increased significantly. Today the US banking sector is reported to be in good shape, with records of high profit and relatively low volumes of problem loans (Adeyemi, 2006). Further research on mega merges in the USA suggests that merged banks experienced higher profit efficiency from increased revenues than did a group of individual banks, due to the fact that they provide customers with higher – value added products and services (Akhavin, et al, 1997). Furthermore consolidation may allow a mega bank to enjoy hidden subsidy which Kwan (2004) referred to as “too – big – to – fail” subsidy due to the market’s perception of an illusion of government backing of a mega bank in times of crises. However, Somoye (2008) is of the view that despite all the attempts to restructure the banking sector in the United States, there is growing incidences of bank failures particularly in the mortgage sector. He further opined that it stands to reason that bank consolidation would not in the least be a sufficient condition to redress weaknesses in the banking sector.

2.8.1: EFFECTS OF CONSOLIDATION IN UNITED STATES.

BIS (2001) discussed the potential effects of financial consolidation on the riskiness of individual US financial firms and on the potential for a negative economic shock either financial or real, to become a systemic financial event in the United States. They focused on the effects of three identified types of consolidation on the risk of individual financial institutions. The three identified types of consolidation are; (i) consolidation of large banking

organisations in the United States, (ii) universal-type consolidation between US banking organisations and other types of US financial institutions, such as investment banks or insurance companies, and (iii) international consolidation involving US banking organisations. While not a comprehensive list, it covers the significant combinations involving those large US banking organisations that may impose substantial burdens on the safety net and whose failures may have systemic consequences.

BIS (2001) identified and covered five topics on how consolidation may affect the risk of these institutions by altering their (a) geographic diversification, (b) product diversification, (c) managerial efficiency, (d) operating risk, and (e) market power rents. They used an analytical framework of the so-called Altman Z-score model to link theses topics to the risk of an institution. Using the Altman Z-score model (BIS 2001) measured risk as the number of standard deviations institutions earnings must drop below its expected value before equity is depleted. They notes that although the analytical framework has its limits it is useful to think of the contributions to risk in terms of factors that affect expected earnings (returns), the variation in earnings, capital, and the institution's trade-off along the efficient risk-return frontier.

BIS (2001) concludes that existing research suggests some potential for both reductions and increases in the risks of individual US financial institutions from consolidation, and thus no unambiguous conclusion can be drawn. The greatest potential for risk reduction appears to be from geographic diversification of risks from the consolidation of large banking organisations in the United States and (especially) international consolidation of US banking organisations. Some limited benefits from product diversification may also occur as a result of universal-type consolidation. Modest managerial efficiency gains are also possible from all three types of consolidation, which could lower risk by increasing expected returns, pushing up the efficient risk-return frontier, and providing more of a buffer against variation in returns. However, the managerial efficiency benefits appear to be less likely for universal-type consolidation, which could create scope diseconomies if managers stray too far from their areas of core competence. Because it does not appear likely that consolidation has led to systematic increases in market power in the United States, any resulting economic rents are unlikely to have had substantial effects on individual bank risk. Increases in risk from consolidation might arise from operating risks due to the difficulty of monitoring and controlling the actions of individual employees in the consolidated organisations. This

potential for harm might be more likely for universal-type and international consolidation, where there are greater organisational and geographic distances between senior management and employees. Organisations might be vulnerable to this kind of risk through operating error, failure to monitor credit risks and risk concentrations, fraudulent or criminal activities, or through exposures to unintended market risk. Yet, advances in risk management techniques brought about by technological progress may counterbalance the potential for an increase in operating risk following consolidation.

2.8.2: EFFECTS OF CONSOLIDATION IN JAPAN.

The Japanese experience also shows that consensus has it that consolidation may be a powerful incentive for mergers and acquisition (Adeyemi 2006). The increased size of a firm resulting from consolidation enables it enjoy tax gains result been that significant economies of scale existed in the banking industry before the onset of the crises and subsequent reforms in the 90s at all levels of output throughout the industry (Fuknyama, 1993, Mckillop et al 1996). Also Somoye (2008) is of the opinion that the banking sector reforms in Japan involved the reform of the regulatory and supervisory framework, the safety net arrangements as well as mechanisms to speed up attempts at resolution of banks non-performing loans.

However, BIS (2001) in its report in the financial sector looked at the effect of consolidation in Japan. They pointed out that during the bubble period of the 1980s, financial consolidation in Japan was an event almost exclusively confined to the banking industry. Deposit-taking institutions were motivated to have bigger balance sheets with a view to taking advantage of the then-existing regulatory framework. The bursting of the bubble and deregulation in preparation for Japan’s Big Bang have led to a sharp increase in consolidation among the different kinds of financial institutions.

BIS (2001) assessing consolidation during the bubble, that under the former regulatory framework, Japanese financial institutions were segmented geographically and functionally. The Ministry of Finance’s branching policy that continued until the early 1990s was aimed at preventing excessive regional competition. Such a segregation policy virtually prevented new entrants into the trust and long-term credit bank fields. In the late 1980s and early 1990s, the booming economy and gradual financial liberalisation promoted mergers among small and medium-sized deposit-taking institutions because mergers were the only way to expand branch networks as well as increase asset size in a short period. A few mergers between

relatively small major banks also took place. While these mergers aimed mainly at revenue scope economies, they often duplicated organisational and decision-making processes due to the conflict of corporate cultures and lack of well focused strategies. During this period, mainly attributable to the then remaining regulations on banking activities, such as deposit interest rate caps, and a very low rate of credit losses, the most important criterion generally used in Japan for judging a bank's performance was the size of its balance sheet, which was also the major source of revenue. The reduced importance of asset size as a revenue source, mainly attributable to the non-performing loan problem, saw an end to such mergers, especially among large banks.

BIS (2001) points out that in the post-bubble period, consolidation among small and medium-sized financial institutions continued but a substantial number of them represented failure resolutions. The wave of very large consolidations which began in 1999 marked an end to the non-performing loan problem among major financial institutions and may be regarded as survival strategy in response to the likely creation of a competitive environment that will be brought about by Japan's Big Bang (deregulation of virtually all existing frameworks that have hitherto prevented free competition) as well as global consolidation trends. It is also propelled by the various safety net frameworks that have been put in place by the government in response to the financial crisis, including that for the injection of capital using public funds. Capital injection by the government, which was accompanied by management improvement plans and the stricter accounting treatment of non-performing loans, not only restored confidence in the solvency of recipient banks but also acted as a catalyst for consolidation in terms of diminishing information asymmetry regarding the financial conditions of merging partners.

BIS (2001) examined certain inherent risks to individual financial institutions under sub-topics in the Japanese experience. Under the geographic specialization and diversification sub-topic, they noted that not until the early 1990s, the Japanese regulatory authorities compartmentalized the regional customer base into small units for the purpose of restricting disorderly competition under the "convoy system". This merger can perhaps thus be seen to take advantage of market power rents stemming from geographical specialisation. But more importantly, the increase in small (largely insured) local deposits as a result of this merger will provide the bank with a stable source of funds. From a risk management perspective, mergers between major banks that are constantly dominant takers of short-term interbank

funds and regional banks that are constantly main providers of short-term interbank funds could reduce total interbank exposure. Indeed, the fact that Asahi opted out of the planned merger with Tokai that was aimed at creating a supraregional retail bank may suggest the difficulty in exploiting geographical diversification effects in Japan, especially by major banks (BIS 2001).

Looking at the managerial efficiencies sub-topic, BIS (2001) found out that most very large mergers so far observed in Japan seem to aim more at cost scope economies, especially in terms of information technology (IT) investment. In order for a major bank to enjoy cost efficiency gains, it is increasingly important to make large-scale IT investments to have as high-speed and integrated a computer system as possible, which, judging from the global standard is too costly for major Japanese banks in comparison to their individual profits. After consolidation, the Mizuho Financial Group is expected to invest more than JPY 150 billion annually on a consolidated basis and that such large-scale IT investment, coupled with consolidated customer bases, will likely produce a critical mass of customers per unit of IT investment and improve cost efficiency of the merged banks. However, there are a series of issues to be tackled. To start with, corporate culture gaps between merging banks cannot be underestimated. The fact that each bank has its own historical background and established relationships with clients, and also that existing shareholders often have vested interests, argue in favour of strong managerial leadership to promote successful mergers. Japan's experience indicates that this is probably more the case for regional banks that have deep roots in the local areas they serve. Finally, integration of the computer systems of merging banks is bound to be costly in Japan due to the keiretsu relationships that involve computer companies (BIS 2001) concludes.

Looking at the platform risk sub-topic, BIS (2001) notes that Some Japanese commercial entities have announced their intention to enter the banking area using their existing platforms such as internet businesses and supermarket chains. Such banks will try to capture customers from their original commercial businesses to take advantage of synergies between the two businesses. However, they noted that some analysts point out that just depending on customers of the original business may not achieve critical franchise mass to make the banking operation sufficiently profitable. Also, since such banks are physically dependent on the platform (premises, customers, communication networks etc.) of the original business, they are directly exposed to performance, accident and reputational risks attaching to the

original business – this may be called *platform ris*k. For example, in the case of a supermarket bank, if the business of a supermarket chain were taken over, the bank could lose all the premises immediately. This risk is totally foreign to risks inherent in banking (BIS 2001) concludes.

Looking at cross border transmissions of risks sub-topic, BIS (2001) opines that another feature of recent financial consolidation is the entry of foreign financial institutions into retail markets. This is especially true of foreign investment banks and insurance companies (for example, the purchase of Yamaichi Securities by Merrill Lynch, the purchase of Nikko Securities by Travelers, and the purchase of Nippon Dantai Life by Axa). They aim to capture the fruits of Japan's Big Bang by using the existing branch networks as a platform to sell their products to Japanese customers as well as take advantage of global risk diversification effects. Some investment banks also regard such networks as a safety valve to control volatile revenue flows in terms of transferring a portion of risks (for example, in a repackaged product) to end-investors in exchange for commission fees. While this type of consolidation could bring in new capital, new financial skills, and different management styles, such international networks might directly channel home-made risks to Japanese financial markets, which would pose a challenge for Japan's financial authorities as host country supervisor. In fact, most of the Japanese financial institutions purchased so far by foreign institutions are those which had failed and whose balance sheets were cleaned up by the safety nets. This suggests a generally cautious approach on the part of foreign institutions (BIS 2001) concludes.

Summarily, BIS (2001) notes that the recent consolidations among major banks appear to have noticeable cost saving effects in terms of rationalising personnel and branches, integrating customer bases, and improving IT quality. On the revenue side, geographical diversification may not result in effective risk diversification due to the highly positive business cycle correlation among major regions in Japan.

2.8.3: EFFECTS OF CONSOLIDATION IN EUROPE.

In Europe, where the universal banking model is more prevalent, the trend has been to combine banking and insurance business (Adeyemi 2006). While most of the bank consolidations in the developed economies were within the domestic front, there are signs of increased cross border activities. Such cross – border activities have been facilitated in

Europe with the launch of the Euro. BIS (2001) assert that so far, cross-border activity into most European banking systems has been limited. For example, the value of bank acquisitions in Europe by banks from other European countries over the 1985-97 periods was one sixth that of domestic bank acquisitions. Most intra-European banking mergers have occurred in smaller countries or in those on the outskirts of Europe; for example, between Merita (Finland) and Nordbanken (Sweden) and between ING (Netherlands) and BBL (Belgium), both in 1997, and between BSHC (Spain) and Champalimaud (Portugal) last year (BIS 2001).

However, the BIS (2001) looked at the effect of consolidation in Europe; and notes that the process of consolidation in Europe may have implications for both individual firm risk and the risk to stability of the financial system as a whole, both at the national and the European levels. Also, they examined certain inherent risks to individual financial institutions under sub-topics in the European experience. Looking at the geographic diversification, they found out that consolidation that increases diversification reduces vulnerability to external shocks and thus improves bank safety, whereas an increase in the size of institutions per se tends to be associated with a greater appetite for risk and thus a greater probability of insolvency. In Europe, most bank mergers have occurred within national borders. On the other hand, in those countries that subsequently formed the European Monetary Union (EMU) there was considerable convergence of macroeconomic measures during the 1990s compared with the 1980s, as greater coordination of policy reduced the cross-country variation of economic cycles. The same does not hold for finer geographic divisions such as regions within countries. In the run-up to EMU, European regions became less synchronised, indicating that regions have grown increasingly more specialised in fewer economic sectors. This result is consistent with the notion that with further integration of markets for goods and services within the context of the European Union, there is more specialisation at the regional level. It suggests that banks that remain regional in focus are increasingly susceptible to large non-diversifiable shocks, while those that are able to spread their lending across regions – even if they still remain domestic in character should be in a better position to reduce asset risk, at least in principle. This is not necessarily true, of course, for other types of intermediaries, such as insurance, which are exposed to risk factors that are less correlated with the business cycle. Interestingly, banks merge largely with other banks within the same country, while mergers by insurance companies represent the largest component of the cross-border transactions. By contrast, the influence of country - specific factors dominates the sector-

specific factor in the pricing of a sample of 952 large individual company stocks in Europe. They noted that this result is fairly robust over the period 1978-98 suggesting that, at least based on the pre-EMU period, country-specific shocks and investor attitudes are still very important determinants of company stock valuations despite the underlying process of economic convergence. A similar conclusion can be drawn from the low cross-country correlations of earnings for European banks. Also, empirical research on statistical models on credit risk measurement indicates that cross-border diversification continues to be more relevant.

Looking at the product diversification sub-topic, BIS (2001) points out that the concept of financial conglomerates and close cooperation (based on formal or informal links) between providers of different financial services is not a new concept in Europe. Many banks (often the larger ones) are also engaged directly, through subsidiaries, or through alliances in the provision of insurance products. In this respect, consolidation may not necessarily add a new qualitative dimension to individual institution risk. They also pointed out that one such factor that offers the motivation for merger activity among larger banks is the pressure from corporate customers, which are themselves growing in size either organically or through mergers and acquisitions, in combination with the advent of the euro. Companies with a substantial presence across several countries in the single currency area have a cost incentive to consolidate their banking relationships and probably centralise part, or all, of their treasury and other financial operations. In order to become (or remain) a reference bank for such clients, it is important for banks to be able to offer more complex services and operate in a larger number of markets. A similar motivation for pursuing growth, and a more relevant one for smaller institutions, is that an enlarged customer base makes it more economical for banks to offer a wider array of products (cross-selling) and to increase the proportion of their income derived from non-interest sources. In the traditionally bank-oriented European financial systems, asset management activity is already performed by large bank institutions, either directly or through subsidiaries. Also that mergers and acquisitions often result in the creation of *financial conglomerates* that combine two or more types of intermediaries (banks, asset management companies, stock brokers, private banking entities, insurance companies). However, it notes that mergers across financial sectors in European countries have occurred less often than within sector. Nonetheless, conglomeration has sometimes been an important motivation in European cross-border transactions. A number of conglomerates on a cross-border basis have been established in recent years (eg Fortis, Dexia, Unidanmark-Merita

Nordbanken). An important development along this dimension is the emergence of the so-called *bancassuranc*e, which combines banking with insurance business. The link is mainly established through the creation or the acquisition of separate corporate entities.

Looking at the managerial efficiency sub-topic, BIS (2001) notes that in the European context, most cross-border transactions have been mainly intended to acquire *financial know how* (eg the acquisition of foreign investment banks and private banking entities on behalf of German banks). Merging the often distinct cultures of two corporate entities is a major managerial challenge, especially as differences are particularly pronounced in transactions that are across borders.

Looking at the market power sub-topic, BIS (2001) notes that economies of scale seem to be widespread in Europe among relatively small banks. With respect to the impact of M&As on bank performance in Europe, studies generally reject the hypothesis of improved post-merger efficiency but show significant cost cutting and profitability gains in some cases. Bank consolidation and cross-sector operations have allowed financial institutions to take advantage of the increasing demand for asset management services and to invest resources into providing low-cost remote banking services.

Conclusively, BIS (2001) notes that evidence suggests that the current merger wave is likely to create value for the merging institutions in ways that have not been observed in past transactions. This is likely to mitigate risk-taking incentives for these institutions and thus counterbalance other factors discussed above that could lead to greater financial risk. This beneficial influence is more likely to be evident in Europe where there is considerable scope for realising economies given the current structure of the industry. However, the fact that the potential for gains may be greater in Europe does not reduce the significance of inherent risks that are also part of the consolidation process. Indeed, as past experience has shown, the planning and execution of a merger is an equal if not more important factor for success as the fundamental economic underpinning of the transaction. Also, given the diversity of institutions and structural factors that make up the European financial landscape, it would be naïve to assume that the potential for benefits that may exist on average will necessarily mean that these benefits will be there for every transaction (BIS 2001) concluded.

Deloite (2005) concluded that bank consolidation in Asia is such that competitive and market forces are creating an atmosphere where many banks simply cannot afford to have weak balance sheets and inadequate corporate governance. In the USA, there has been a trend in consolidation for commercial banks and investment or merchant banks. The trend towards financial consolidation in Europe, USA and Asia could be traced to several factors. In the USA, one reason was the need to alienate weak or problem financial institutions during the thrift and banking crises of the late 80s and early '90s (Adeyemi 2006) concluded. Conclusively, the lessons to be drawn from the bank consolidation in the advanced economies are that consolidation would result in fewer banking institutions and more branches. It could also be an active instrument of capital market development which could lead to financial sector stability. Apart from domestic M & As, consolidation could lead to increase in cross-border M & As which could facilitate the inflow of Foreign Direct Investment. Consolidation would certainly result in larger banks with implications for bank concentration and the "too – big – to – fail" syndrome.

2.9 EMPIRICAL REVIEW (MIS) USING BANK SHARE CAPITAL AS A REGULATORY TOOL TO FORCE BANK CONSOLIDATIONS IN NIGERIA.

Ogewewo and Uche (2006) in this paper interrogated the apparent prioritization of banking supervision though important over macro-economic stability which is the first condition for banking stability. The paper objectively critiqued the policy making (the process by which the capital level was raised) and the particular policy choice made (de facto forced consolidation), as the choice is not risk free and that its supplied justification is questionable. Though they pointed out that the consolidation exercise produced unintended stellar results such as the deepening of the capital market considerably, the successful banks accounting for about 93.5% of the deposit liabilities of successful banks, and according to CBN has resulted in about US #500million in foreign investment within the 18-month period, but they failed to accept as a measure of success the fact there has been balance sheet consolidation of clusters of banks constituting the vast majority of banks in the Nigerian banking sector.

Ogewewo and Uche (2006) argue that the CBN since establishment in 1958 have played roles in promoting monetary instability in Nigeria. They asserted that the promotion of monetary stability is a prerequisite for a sound financial system, and indeed, for the economic development of any country. They notes that when it became clear to the Bank of England that political independence and central banking were inexorably linked, that it reluctantly

conceded but however, ensured that enough safeguards were put in place to prevent political interference in ensuring monetary stability in post-independence Nigeria. Specifically, the Bank of England ensured that the Central Bank of Nigeria Ordinance, 1958, had explicit provisions limiting the ability of the Central Bank to expand the money supply. However, with the passage of time, these restrictions were discarded and the CBN became more progressively less inhibited in funding government deficits (Ogewewo and Uche 2006). They further pointed out that banks are seriously constrained by high inflation and that it has been so with Nigerian banks due to comparatively high inflation which has been witnessed in Nigeria in the last 20 years or so. Under high inflation regimes, banks are extremely vulnerable and this has been a major cause of distress in these financial institutions. Therefore, it is trite that high inflation leads to macro-economic instability. The absence of a stable macro-economic environment materially increases banks' risks (i.e. counter-party, mismatch and market risks) (Ogewewo and Uche 2006) posits. They also pointed out that high and uncontrolled inflation made it difficult for banks to conduct pure banking business and it also ensured easy erosion of their real capital base. That playing catch up; The use of bank share capital as a regulatory tool is mainly because of the bogeyman of the economy inflation which dilutes and erodes the real value of banks' share capital.

Proceedingly, Ogewewo and Uche (2006) notes that one consequence of the pervading monetary instability has been the disappearance of merchant banks which are specialists in medium and long-term financing because they are more vulnerable to high inflation. In a bid to survive in an unstable macro-economic environment, merchant banks have since converted their licenses to commercial banking because of the depletion of their sources of long-term funds. But that this was not noticeable because of the adoption of universal banking which allows financial institutions to operate in any part of the financial market they choose.

In a critique of the supplied justification for the share capital increase (Ogewewo and Uche 2006) points out that more capital does not necessarily mean more safety and that whether more capital decreases the risk of bankruptcy depends on what happens to the asset portfolio when the new capital is introduced. Furthermore, since capital is costly to raise (as compared say to pure debt), banks would be under pressure to generate higher returns from the additional capital, thereby forcing them to take on greater risks. They perceived the idea of the regulatory authority (CBN) pursuing the policy choice to ''force'' the creation of mega-banks as a mistake, a mere wishful thinking and a misnomer. This is because it is based on

the erroneous notion that regulation is the most important ingredient necessary for the emergence of stable and global banks. Rather, Ogewewo and Uche (2006) in their paper viewed that global banks are products of a domestic economic boom overflowing the boundaries of the country. Also that a pre-condition for the emergence of global banks in Nigeria is the emergence of Nigerian multinational enterprises, since by the very nature of things, global Nigerian banks will emerge to finance the activities of Nigerian multinationals enterprises.

In a critique of "forced" consolidation, Ogewewo and Uche (2006) argued that "forced" consolidation has its own downsides even in the improvement of corporate governance. This has been acknowledged by the CBN (2006) "Code of corporate governance for banks in Nigeria post-consolidation". They further argued that a policy of "forced" consolidation is not risk free. That it increases the likelihood that value destroying consolidation may have been consummated. By "forcing" banks to approach mergers with an eye to achieving a balance sheet consolidation rather than on the synergies to be created, the CBN has increased the risk that ill-fitting entities may have consolidated their balance sheet. Ogewewo and Uche (2006) argue that consolidated entities that end up destroying shareholders value can hardly be regarded as successful mergers. The risk of shareholder value destruction is heightened in the case of banks which met the minimum recapitalization through the issue of fresh shares. This is because for such banks, the challenges of maintaining their pre-consolidation earnings per share post-consolidation will be formidable, since there will be more shares now in issue.

The rest of the paper endeavored to demonstrate some of the public and private law implications of the above subject matter and these are certainly out of the scope of this work.

Summarily, Ogewewo and Uche (2006) condemn the misplaced priorities of CBN pursuing banking supervision instead of macro-economic stability. They pointed out that prior to the "forced" consolidation, that there was ample room for strategic consolidation to occur in the Nigerian banking sector. That interestingly, the CBN did not need to use the increase in bank share capital to goad banks towards mergers and most importantly, that absent of regulatory pressure, the consolidation would have been strategic and the risk of value destroying consolidations will have been reduced. They equally submitted that in countries with a history of high inflation (such as Germany) or high bank failures (such as Japan) the trend is to separate banking supervision from the pursuit of monetary stability. They therefore,

hypothesized that hiving off banking supervision to a new regulator and legislatively authorizing the Central Bank to treat the achievement of a pre-specified rate of inflation as its main objective will enable and empower the Central Bank to devote itself fully to achieving monetary stability, whilst a different regulator focuses exclusively on banking supervision. Also, they asserted that a policy of encouraging strategic consolidations, whilst intellectually tasking is superior to a policy of "forced" consolidation.

Ogewewo and Uche (2006) states that their paper is not a critique of the phenomenon of bank consolidations; neither is it a critique of the suitability of bank consolidations in Nigeria. Rather, it is a critique of misplaced priorities, the policy-making process, and the ''forced'' consolidation policy.

2.10: AN EMPIRICAL REVIEW OF RECAPITALIZATION AND BANKS' PERFORMANCE: A CASE STUDY OF NIGERIAN BANKS.

Adegbaju and Olokoyo (2008) in this paper investigated the impact of previous recapitalization in the banking system on the performance of the banks in the country with the aim of finding out if the recapitalization is of any benefit. The paper objectively assessed the relevancy of the recapitalization in the Nigerian Banking industry. The study employed secondary data obtained from Nigeria Deposit Insurance Corporation (NDIC) annual reports of various issues. The data were analyzed using ratio analysis to measure bank performance as seen in the work of Rose and Hudgins (2005). In an attempt to test the significance of the 2001 recapitalization on bank performance, the study adopted a simple ratio analysis, using specifically profitability ratios to evaluate the performance of Banks three years before the 2001 recapitalization exercise comparing it with the performance of the bank three years after the recapitalization exercise. A test of equality of mean was also carried out using the t-test to see if there is any significant difference in the mean of the pre and post ratios using key profitability ratio such as the Yield on earning asset (YEA), Return on Equity (ROE) and Return on Asset (ROA).

In their findings, Adegbaju and Olokoyo (2008) notes that there was a gradual fall in the NIM for post recapitalization result. In 2002 immediately after the recapitalization it was 10.47%, it drop to 7.71% in 2003 and later pick up in 2004 to stand at 10.21%. A higher NIM relative to the industry average implies how efficient the management has been able to keep the growth of interest income ahead of interest expenses. The result obtained indicate that bank

management are still trying to get their bearings after the 2001 recapitalization so we can not conclude if they have been efficient after the recapitalization but a test of equality of mean will help us reach a conclusion. Yield on Earning Assets (YEA) – The YEA rose sharply after the 2001 recapitalization exercise from 4.62% in 2000 to 27.55% in 2002, later drop to 20.32% in 2003 and drop further to 18.88% in 2004. This shows that the banks earned more income on earning assets after the recapitalization than before the recapitalization, Although it is beginning to fall from the result obtained which implies that though recapitalization encourage more yields on earning assets but it is not being managed well. The funding cost (FC) rose from 9.47% in 2000 to 13.05% in 2002, and later fall to 9.63% in 2003 and 9.66% in 2004. This is quite expected as with every major recapitalization there is an expected cost as all the banks will be all out to meet the deadline. However, this was tapered off in 2003 and 2004 and was consistent with the industry average even before the recapitalization. The Return on Equity (ROE), which measures the rate of return to shareholders, was quite low after the recapitalization falling sharply from 99.45% in 2000 to 41.63 in 2002 and further to 29.11% and 27.23% in 2003 and 2004 respectively. This shows that the shareholders receive very low returns in terms of dividend after the recapitalization. This is not surprising as most banks raise their fund through equity share which now increase the equity capital and the profit after tax have not improve substantially to compensate the shareholder who add additional fund to finance the bank recapitalization. The Return on Assets (ROA) also fell after the recapitalization from 3.96% in 2000 to 2.63% in 2002. This shows that management of the banks has not been able convert the banks assets into net earnings after the recapitalization. The return on assets decline further in 2003 to 2.0% but then pick up again in 2004 to 2.58%. Test of Equality of mean helps to compare mean of a variable to see if there is any significant different between the mean of a period compared with another period of the same variable to know if there is any significant different in the two mean compared. Where it is higher than .05 it mean that they are not significant meaning that there is no different between the two mean compared. But where it is less than .05 it means they are significant. On yield on Earning Asset, the pre 2001 recapitalization mean is 8.9% with a standard deviation of 7.4% while the post capitalization mean is 22.25% with a better standard deviation of 4.64% meaning that the figure are more together. The implication of the result is that the post the banks earning assets have higher yield after the 2001 recapitalization exercise.

Adegbaju and Olokoyo (2008) also found out that different in the pre and post mean is significant at 5% significant level which implies that statistically, there is a significant different in the mean of the two periods compared. On funding cost, the pre mean shows 8.99 with a standard deviation of 0.78 while the post 2001 recapitalization mean shows 10.78 with a standard deviation of 1.96, The implication of this is that pre funding cost is better than the post. However, they pointed out that at 5% significant level there is no different in the two means compared, meaning that it is not statistically significant. This implies that statistically, there is no difference in the mean of the pre and the post funding cost. This is also explained in the descriptive analysis, which shows that the post funding cost is tending to the position of the bank during the pre 2001 recapitalization period. The return on equity result shows that the pre recapitalization mean is much higher at 88.70 and 7.9 standard deviation than the post recapitalization mean of 32.66, though it has a better standard deviation of 7.8. This implies that the shareholders earn better return on their investment before the recapitalization but the 2001 recapitalization has left them worse off and it will continue to decline unless the banks are able to generate higher profit than they were doing.

Their t-test also shows the difference between the pre mean and the post mean, is significant at the 0.05 level of significance. This means that the shareholders are not earning as much as they were earning before 2001 recapitalization. On return on asset, it follows the same trend as in Return on Equity, the pre recapitalization mean is better than the post recapitalization mean and the t-test show that the difference between the two mean are significant at 0.05 significant level. This implies that the banks, after the 2001 recapitalization are not turning over their assets enough to generate more profit after tax.

Overall, this study has found that judging from the profitability ratio of banks and test of equality of the pre and post mean for 2001 recapitalization exercise, it is not all the time that recapitalization transforms into good performance of the bank and it is not only capital that makes for good performance of banks. As banks recapitalize the economic environment has to be conducive to make good profit and deepen the financial structure of the economy.

Conclusively, Adegbaju and Olokoyo (2008) noted that it is obvious that the shareholders could be made worse- off after recapitalization and many Nigerian investors do not realize this, the last recapitalization exercise witness many Nigerian banks running off to the capital market to raise fund and many of the shares were over subscribed to by Nigerian investors.

Except calculative steps are taken by the bank management to increase profitability, the recapitalization will result in lost of fund for the shareholders. Knowing the implication of raising fund through the capital market, the CBN never suggested this, but insist on bank consolidation through mergers and acquisition that is why their recommendation centered on how to increase banks profitability for better ROE.

2.11: EMPIRICAL REVIEW OF THE SHORT TERM EFFECT OF THE 2006 CONSOLIDATION ON THE PROFITABILITY OF NIGERIAN BANKS.

Sanni (2009) in this study points out that the banking system in 2004 made up of 89 banks of relative small capitalization could not sufficiently mobilize international and domestic capital for the development of investments especially in the oil and gas sector which is the backbone of the economy, and are not resilient to shocks within the financial system. Sanni (2009 citing Akinleye 2009) notes that some of the banks showed distress signal, and that there was dwindling confidence in the banking system. Then, to address these issues and other numerous challenges facing the Nigerian banking sector, the 1st January, 2006 concluded consolidation exercise came into play.

Sanni (2009) observed that the consolidation exercise had positive effect on the Nigerian economy. That financial indicator as at end of June 2007 showed that GDP increased from about ₦10.2 trillion in 2004 to over ₦20.2 trillion in 2007, with total assets of the banking system increasing from about ₦3.21 trillion to over ₦8.9 trillion within the same period. This implies that total assets of GDP ratio increased from 29.73% in 2004 to 39.2% as at June 30th, 2007 (Sanni, 2009 citing Onodje 2009). That in percentage terms, total assets of the banking sector increased by 55.37% in the same period. In the same vein, shareholders funds of the banking system, which was ₦327billion as at the end of June, 2004 significantly rose to ₦1.085 trillion as at end of June 2007. Using profitability index, the total banking system profitability increased from ₦22billion as at end of June 2004 to ₦68billion as at end of June 2007.

Sanni (2009) in the course of this work raised questions such as, how is profitability measured? Were the banks able to sustain the phenomenal increase in profitability in the first three years of consolidation?

In an attempt to answer these questions (Sanni 2009) used secondary data related to Return on equity of selected banks to test the null hypothesis "The bank reform of 2006 in Nigeria has not led to any significant change in the profitability of the affected banks". He used descriptive (narrative) statistics in conjunction with paired sample t-test statistics to analsyse data and empirically tests the above stated hypothesis. Sanni (2009) attempts to conclude that the 2006 consolidation has not led to any significant change in the profitability of the affected banks. However, he pointed out that the above conclusion will lead to type II error and suggested that the problem above arose could due to the small number of years used (3 years) and the resultant degree of freedom (which is 2). For this reason, Sanni, (2009) failed to accept Ho and concluded that the profitability of four out of the seventeen studied banks increased significantly after the banking consolidation exercise while those of the remaining thirteen banks declined significantl

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CHAPTER THREE.

RESEARCH METHODOLOGY.

3.1: RESEARCH DESIGN.

A research design is a basic guideline (master plan) providing details of the research exercise. Onwumere (2005) observed a research design as a format which the researcher employs in order to systematically apply the scientific method in the investigation of problems. This research focused on the empirical analysis of the significance of bank consolidation on bank performance. This research relied heavily on historic data as data used in the analysis were generated from annual financial reports of the sampled banks between 2000 and 2009. Therefore, this research work employed the Ex Post Facto research design. This is because it involves events which have taken place. The importance of Ex-post facto research is that it is a realistic approach to solving business and social science problems which involves gathering records of past events, analyzing the records and using the outcome of the analysis to predict future events (Agbadudu, 2002). Consequently, as data already exist no attempt will be made to control or manipulate relevant independent variables apparently because these variables are not simply manipulatable. This suits the purpose of this research and is appropriate for the study since the study intends not to manipulate or control variables under investigation. It is nevertheless, advantageous for assessing large and small populations especially where a small population is to be derived from a large one. Also, cost is minimized when this method is adopted and employed.

3.2: NATURE AND SOURCES OF DATA.

In line with the approach adopted by Adegbaju and Olokoyo, (2008), Sanni, (2009), and Rubi et al (2007) in their works on the significance of bank consolidation and bank performance, this research made use of handpicked data from the balance sheet and income statements of sampled banks. Basically, the nature and sources of data for the analysis of this work was secondary data gathered from annual financial statements of sampled banks. This is because it is ideal in answering our research questions and to empirically test our research hypothesis. Such statements were sourced, among others, from the banks' corporate headquarters in Lagos; as well as the zonal offices of the Nigerian Stock Exchange, and the headquarters of Security and Exchange Commission.

The data were extracted from the published annual reports and statements of accounts of banks quoted on the Nigerian Stock Exchange, Factbooks of the Nigerian Stock Exchange as they were believed to constitute the most authoritative and accessible documents for assessing the performances of the sampled banks. Given that these statements of accounts are not readily available to the members of the public, this research therefore relied on the above two identified sources for the required research data. Basically, part xi, chapter 1 of the Companies and Allied Matters Act of 1990 clearly specifies the accounting records expected to be kept by companies in Nigeria- the types, the contents, forms and procedures for completion of financial statements for companies at the end of each financial year, among others. Section 335(2) goes on to specify that "the balance sheet shall give a true and fair view of the state of affairs of the year and the profit and loss account shall give a true profit and/or loss of the company for the year". Based on this requirement, this work reliably made use of balance sheet, and profit and loss account data of the sampled quoted banks. In choosing our variables, care was taken not to deviate from our set objectives.

3.3: SAMPLE SIZE.

This research was meant to cover all the 89 banks before consolidation, and the twenty five banks produced from the whooping eighty nine (89) banks after the consolidation but now counting (24) banks with the merging of Stanbic ltd and IBTC-Chartered bank in 2007, and probably from 1979 when it became mandatory for public companies operating in Nigeria to be formally incorporated in the country. Studying 114 banks across a 27-year period normally would be cumbersome though not impossible.

While this would be technically possible at least within the context of this work, it was not considered ideal to use the entire banks over a period spanning from 1979. Some of the factors that justified the use of a sample in this study were, first, the fact that available records suggested that there was high rate of distresses in the Nigerian banking industry, non-rendition of returns/ reports to the supervisory authorities. Secondly, gaining access to unpublished accounts of privately owned banks in Nigeria may not be impossible in the Nigerian corporate environment but will be cumbersome and tasking. Most of the banks were not publicly owned before the 2005 concluded consolidation exercise. Based on the identified factors above, six quoted banks were finally selected for this study as them and indeed their merged components were Public Liability Companies and were already quoted on the Nigerian Stock Exchange far before the 2005 concluded bank consolidation exercise. Therefore, an over all sample of six (6) banks was adopted for this research. The choice of this is that Public Limited Liability companies are compelled by law to make public their audited financial statements. Also, companies quoted on the Nigerian Stock Exchange must have passed stringent processes to get quoted as The Exchange seeks to ensure that only companies with strong asset bases, sound financial strength and an established history of reasonable profit performance can fulfill the listing conditions. In addition, to avoid encountering too many gaps in data input, the time frame for the study was truncated to the period of 2000 to 2009. Therefore, the researcher did not have any problem laying hands on the audited financial reports of the selected banks. The criteria used to arrive at the sample choice can be summarized as:-

(a). Banks that are stand-alone before and after the 2005 concluded bank consolidation exercise.

(b). Banks that all its merged and or acquired components were quoted on the floors of the Nigerian Stock Exchange before the year 2000.

(c). Banks that were consistent in the publication of audited annual financial statements.

(d) Banks that consistently sent their annual audited financial accounts to the Nigerian stock Exchange.

Consequently, six out of the twenty four consolidated banks now in Nigeria constituted our sample size based on all of the above as they particularly met the data availability criteria set by the researcher as data about them were collected for this study. The banks selected are:-

1. Zenith Bank Plc.
2. Guarantee Trust Bank Plc.

3. Wema Bank Plc. Wema Bank Plc merged with Wema Bank Plc, Lead Bank Plc, and National Bank Plc.
4. Fidelity Bank Plc. Fidelity Bank merged with Fidelity Bank Plc, Manny Bank Plc, and FSB International Plc.
5. FinBank Plc, a product of FirstAtlantic Bank Plc and Inland Bank Plc.
6. Ecobank Plc.

Culled from Table 2.1.

The sample represents 25% of the banks currently operating in Nigeria.

The period 2000 to 2004 constituted the pre-consolidation period i.e. the immediate past five years of activities of the sampled banks being quoted on the Nigerian Stock Exchange, while 2005 to 2009 constituted the post consolidation period i.e. five years of their activities after the consolidation exercise.

3.4: SAMPLING PROCEDURE/TECHNIQUE.

From the above it can be inferred that this research work adopted a non-probabilistic sampling technique. This type of sampling technique is known as judgment sampling. It is non-probabilistic because it is a non-chance method of selecting samples for a study. Ogiji (2002) observes that a judgment sampling is one in which the population items are sampled on the basis of the analyst judgment as which items constitutes a representative sample. Therefore, the sample of six banks out of the twenty four banks that scaled through the consolidation exercise which represents a 25% of the banks currently operating in Nigeria constitutes a good and a representative sample based on the analyst unbiased judgment.

3.5: SPECIFICATION OF MODELS.

The models for this work are structured in a way to enhance comparisons of the pre and post samples, and to bring out whether any significant difference exist between the pre and post variables used to measure the performances of the sampled banks before and after the 2005 concluded consolidation exercise in Nigeria. This is in line with similar studies on bank consolidation and performance across countries. The variables used are stated and defined thus:

Starting with our first hypothesis which states the 2005 concluded bank consolidation has not led to any significant difference in the profitability of consolidated banks. We have ROE (Return on Equity) which is a measure of profitability. Return on Equity is a test of

profitability based on the investments of the owners of the business. It seeks to answer the question, what part of the profit remains for the equity stockholders after the claims of other suppliers of capital have been met? A high Return on Equity can also be achieved if a firm has maintained optimum activity ratios, employed optimum financial leverage, and maintained effective control over costs.

ROE is defined as net income divided by total equity, and is well-accepted as an indicator for overall bank performance (Rubi, Mohamed and Michael, 2007).

$$ROE = \frac{\text{Net Income}}{\text{Total Equity Capital.}}$$

Where;

Net income = Profit Before Tax. That is profit after interest and similar expenses, operating expenses, diminution in asset value have been deducted, and provisions made for risk assets.

Total equity capital = shareholders funds = share capital, share premium, retained earnings, and other reserves.

Our second hypothesis states that the 2005 concluded bank consolidation has not led to any significant improvement in cost-saving of consolidated banks. Cost efficiency can be achieved when there is significant reduction in the cost of running a bank. Costs increase for banks when there exist separate investments in soft and hardware, heavy fixed costs and operating expenses, few branches etc, all these costs has implications for the cost of intermediation, spread between deposit and lending rates, and puts undue pressures on banks to engage in sharp practices as means of survival.

We therefore, have CIR (Cost Income Ratio). This measures the overall costs of running the bank as a percentage of the income generated before provisions. The lower the ratio, the more efficient is the bank (Rubi, Mohamed and Michael, 2007).

$$CIR = \frac{TO}{NII + OOI}$$

Where;

TO = Total Overheads which is made up of interest expenses and operating expenses.

NII = Net Interest Income which is interest income less interest expenses.

OOI = Other Operating Income includes fee and commission income, foreign exchange

trading income, underwriting and trusteeship income, and income from other investments.

For our third hypothesis; the 2005 concluded bank consolidation has not led to any significant reduction in the credit risk of consolidated banks. Credit risk for banks increases where there are high incidences of non-performing loans, huge loan loss provisions, gross insider related abuses, insolvency etc.

We therefore have LLRGLA (Ratio of Loan Loss Reserves to Gross Loans and Advances) as the proxy to measure credit risk or the asset quality of banks. LLRGLA is a reserve for losses expressed as a percentage of total loans and advances, and it is expected to have negative coefficients (Rubi, Mohamed and Michael, 2007). Also, Onwumere, (2005) noted that the above ratio shows the extent of deterioration or otherwise of a bank's assets quality. Where the ratio is greater than 1%, it shows that assets is deteriorating (Onwumere, 2005) concluded.

$$LLRGLA = \frac{LLP}{GL}$$

Where; LLRGLA = Ratio of Loan Loss Reserves to Gross Loans and Advances.

LLP = Loan Loss Provision/reserve includes general and specific reserves.

GLA = Gross Loans and Advances.

3.6: TECHNIQUE OF ANALYSIS.

In an attempt to test the significance of the 2005 concluded bank consolidation on bank performance, this study first of all used descriptive (narrative) statistical method using specifically ROE, CIR and LLRGLA ratios to first of all analyse and evaluate the five years each for pre and post-performances of sampled banks. The adoption of the above is in consonance with the approach in Adegbaju and Olokoyo (2008), Rose and Hudgins, (2005), and Sanni, (2009).

In testing our hypothesis, we will employ the parametric statistical pooled variance/ paired sample t-test model. This is a statistical tool that focuses on the significance difference of chosen operational variables between two sample means observed at two points in time. In this version, the two samples are combined (pooled) to get a pooled variance and base the standard error of the difference in means on that single estimate; the resulting t can be

compared directly to critical values from the t distribution table. This is in agreement with the studies of Rose and Hudgins (2005); Adegbaju and Olokoyo (2008); Sanni (2009); and in Rubi, Mohamed and Michael, (2007). This statistical tool also has the advantage of determining whether a significant difference exits between the performances of sampled banks before and after the conclusion of the regulated 2005 consolidation exercise. The choice of this technique is that it suits the analysis since a significance test of two sampled means is being compared. It is also based on the conditions that:-

i. The population from which the sample is drawn is (approximately) normally distributed.
ii. The two population variances are identical, whatever value they happen to have in other words, there is homogeneity of variances.
iii. The sample size is small (that is $n < 30$).
iv. The population standard deviation (S) is unknown.

Consequently, for the actual analysis, the Statistical Package for Social Sciences (SPSS) was used at a 95% confidence interval for the difference in means and at five and/or four degrees of freedom (df).

The decision is informed by comparing the paired p-value (significance level) with the 0.05 level of significance.

The decision rule: Accept Ho, if calculated p-value > 0.05.
Reject Ho, if calculated p-value < 0.05.

The t-test statistics is stated thus;

$$t\, n_1 + n_2 - 2 = \frac{\overline{X}_1 - \overline{X}_2}{S\,(X_1 - X_2)}$$

Where;

$\overline{X}_1$ = Sample mean value of the specified variable in the pre-consolidation period.

$\overline{X}_2$ = Sample mean value of the specified variable in the post-consolidation period.

$S\,(X_1 - X_2)$ = the standard deviation of the difference in the pooled variance and thus calculated as:

$$S\,(X_1 - X_2) = \sqrt{S^2P}$$

$$= \sqrt{S^2_{X1} - S^2_{X2}}$$

$$= \sqrt{\frac{(n_1 - 1) S^2 + (n_2 - 2) S^2}{n1 + n2 - 2}}$$

Where;

$S (X_1 - X_2)$ = Population standard deviation.

S^2_{X1} = Sample variance value of variable in the pre-consolidation period.

S^2_{X2} = Sample variance value of variable in the post-consolidation period.

S^2P = Pooled variance of the two samples = $\frac{(n_1 - 1) S^2 + (n_2 - 2) S^2}{n_1 + n_2 - 2}$

n_1 = Sample size of the pre-consolidation period.

n_2 = Sample size of the post-consolidation period.

$n_1 + n_2 - 2$ = Degree of freedom.

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CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF DATA.

This chapter presents and analyses research variables using selected descriptive (narrative) statistics. Statistical ratios, averages, percentages, and standard deviations of the variables are compared for the pre and post-consolidation samples, as well as for the whole sample. As part of the analysis and interpretation, the pooled variance (samples) t-test statistics results arising from the study are also presented in this chapter. The presentation and interpretation focuses on the discussion of the differences in significance of various variables of the individual banks. The main aim is to draw certain conclusions on the significance of the 2005 concluded consolidation exercise on the performances of sampled banks in Nigeria.

4.1 DESCRIPTIVE STATISTICS OF RESEARCH OPERATIONAL VARIABLES.

4.1.1 The pre-consolidation period.

Table 4.1 below shows the five years ROE (Return on Equity) for the Pre-consolidation period (2000 – 2004) of sampled banks.

Banks	2000 ₦	2001 ₦	% Change 00/01	2002 ₦	% Change 01/02	2003 ₦	% Change 02/03	2004 ₦	% Change 03/04
Zenith	0.38	0.42	10.53	0.43	2.38	0.34	(20.93)	0.33	(2.64)
GTB	0.43	0.51	18.60	0.44	(`13.73)	0.30	(31.82)	0.39	30
ECOBANK	0.33	0.37	12.12	0.24	(35.14)	0.32	33.33	0.30	(6.25)
WEMA	0.13	0.31	138.46	0.61	96.77	0.32	(47.54)	0.18	(43.75)
FIDELITY	0.29	0.34	17.24	0.33	(2.94)	0.43	30.30	0.31	(27.9)
FINBANK	0.25	0.33	32	0.21	(36.36)	0.18	(14.29)	0.20	11.11
TOTAL	1.81	2.28	228.95	2.26	87.21	1.89	(50.95)	1.71	(39.43)
AVERAGE	0.30	0.38	38.15	0.38	14.54	0.34	(8.49)	0.29	(6.57)

Table 4.1. Five years Pre - Consolidation Return On Equity (ROE) 2000 - 2004.

Source; Author's computations using data generated from sampled banks' annual reports.

There are changes in the ROE of the combined banks throughout this period. Two of the banks Zenith Bank Plc and WEMA Bank Plc recorded steady growth in ROE from 2000 up till 2002, while the rest recorded growth only to 2001. Henceforth, all the banks recorded a decline or an increase in ROE in one year or the other till the end of the pre-consolidation period in 2004. The worst percentage decline to (47.54) % was by WEMA Bank Plc with ROE of ₦0.32 in 2003, and the least percentage decline to (2.94) % was by Fidelity Bank Plc with ROE of ₦0.33 in 2002. The highest percentage increase to 138.46% was by WEMA Bank Plc with ROE of ₦0.31 in 2001 and the lowest percentage increase to 2.38% was by Zenith Bank Plc with ROE of ₦0.43 in 2002. The financial sector of the Nigeria economy as pointed out by (Sanni, 2009) was relatively stable in 2004 and broad money supply (M2) rose by 14%, compared with the programmed target of 15% for fiscal year 2004.

The oligopolistic structure of the banking sub-sector however persisted in 2004 as only ten banks out of the eighty nine in operation accounted for 51.9% of total assets, 55.4% of total deposit liabilities and 42.8% of total credits, compared with 55.3%, 56.2% and 44.3% respectively in 2003 (CBN, 2004). These invariably affected the performances of 2004 as can be observed from above. Also as part of the reforms in the banking sector and the need to significantly discourage the over-dependence of banks on government deposits, which accounted for over 20% of total deposit liabilities, the Central Bank of Nigeria, in 2004 commenced phased withdrawal of ₦74.5 billion funds from the banks. This affected the system adversely (Olasewere, 2005). The adverse effect was reflected in decline in total ROE by the end of the period under review (from ₦1.89 in 2003 to ₦1.71 in 2004, a (9.52) % decline). Four (4) of the banks used as case study had substantial decline in ROE in the end of the pre-consolidation period, 2004 compared to the beginning of the period (year 2000). The highest decline of (43.75) % was by Wema Bank Plc with ROE of ₦0.18 as against ₦0.32 in 2003 and the least of (2.64) % was by Zenith Bank Plc with ROE of ₦.33 as against ₦0.34 in 2003 (Table 4.1). The marginal increase in ROE by the remaining two banks was not large enough to offset the huge losses by the other four (4) banks. Only two banks Wema Bank Plc and Finbank Plc performed below the average of ₦0.29 in 2004 (Table 4.1).

Regarding the CIR (Cost Income Ratio), there were changes in the combined banks performances throughout the period. Table 4.2 below shows that only Zenith Bank Plc recorded a steady reduction in cost till 2003. Fidelity Bank Plc recorded reductions in cost from 2002 to 2003 and an increase by the end of the period in 2004, while the rest recorded

reduction in cost in one year or the other in the period. The highest reduction in cost of 19.66% was by Finbank Plc in 2001 from ₦1.17 to ₦0.94 and henceforth recorded steady increase in cost throughout the rest of the period. The least decline of (3.36) % was by Zenith Bank Plc in 2003 from ₦0.82 in 2002 to ₦0.79 in 2003. The highest percentage increase of 29.87 % was by Wema Bank in 2003, an increase from ₦0.77 in 2002 to ₦1.00 in 2003, while the least percentage increases of 0.89 % was recorded by GTB Plc from ₦1.12 in 2002 to ₦1.13 in 2003. Looking critically at years 2003 and 2004 of table 4.2, all the sampled banks except GTB recorded an increase in cost, and the total yearly cost for all the banks increased from ₦6.2 in 2003 to ₦6.72 in 2004 an 8.39% increase. As such, the recorded increases could be as a result in activities of the banks in raising fresh capital to meet up with the twenty five billion naira new capital base that has 31st December, 2005 as deadline. The pre-consolidation period recorded cost savings or efficiency in years 2001 and 2002 with the best performed year for CIR being year 2002. Year 2002 achieved the highest cost saving of (36.78) % for the combined banks, while year 2004 recorded the highest positive total increase in cost of ₦6.72 with 50.21%.

Table 4.2. Five years Pre – Consolidation Cost Income Ratio (CIR) 2000 - 2004

Banks	2000 ₦	2001 ₦	% Change 00/01	2002 ₦	% Change 01/02	2003 ₦	% Change 02/03	2004 ₦	% Change 03/04
ZENITH	0.99	0.90	(9.09)	0.82	(8.89)	0.79	(3.66)	0.83	5.06
GTB	1.25	1.10	(12)	1.12	1.82	1.13	0.89	1.02	(9.73)
ECOBANK	1.04	1.00	(3.85)	1.12	12	1.00	(10.71)	1.19	19
WEMA	0.87	0.89	2.30	0.77	(13.48)	1.00	29.87	1.05	5
FIDELITY	1.45	1.53	5.52	1.33	(13.07)	1.15	(13.53)	1.21	5.22
FINBANK	1.17	0.94	(19.66)	1.08	14.89	1.13	4.63	1.42	25.66
TOTAL	6.77	6.63	(36.78)	6.24	(6.73)	6.2	7.49	6.72	50.21
AVERAGE	1.13	1.06	(6.13)	1.04	(1.12)	1.03	1.25	1.12	8.37

Source; Author's computations from data generated from sampled banks' annual reports.

In respect to the LLRGLA (loan Loss Ratio to Gross Loans and Advances), there were variations for the combined banks as shown in table 4.3 below. The variation thus cuts across all the individual banks. The highest percentage increase in LLRGLA of 564.90% was by Fidelity Bank Plc in 2004 an increase in LLRGA from ₦0.020 to ₦0.113, and the least percentage increase of 33.33% was recorded by Zenith Bank Plc and Fidelity Bank Plc in 2002 and 2003 respectively. GTB Plc recorded a decline from 2001 to 2003 and hence recorded an increase in 2001 and 2004, at the beginning and the ending of the period. The

highest percentage decrease in LLRGLA of (96.94)% was recorded by Ecobank Plc in 2002, a decrease from ₦0.621 in 2001 to ₦0.019 in 2002, while the least percentage decrease recorded in the period for LLRGLA is (6.67)% in 2001 and was recorded by GTB Plc a decrease from ₦0.045 in 2000 to ₦0.042 in 2001. Fidelity Bank and FinBank Plc's recorded declines once only in 2002 in the pre-consolidation period and recorded increases in LLRGLA in all the other years in the period. Zenith Bank, ECOBANK and Wema Bank Plcs' recorded declines in LLRGA twice each throughout the period under review. While only GTB Plc recorded declines in LLRGLA three times in years 2001, 2002 and 2004 in the period under review. In other words, from the above analysis, GTB Plc could be adjudged the best performed bank in LLRGA in the pre-consolidation period. However, the best performed year in LLRGLA I the period under review was year 2002 that recorded a decline in total percentage change of (149.2) %, while year 2004 recorded the worst increase in total LLRGLA of 1,421.54% (Table 4.3 below). This implies that all the banks under review made the worst provision for loan loss in 2004 probably as a result of the consolidation exercise then. In other words, the assets of all the sampled banks deteriorated most in 2004.

Table 4.3. Five years pre – consolidation Ratio of Loan Loss Provision to Gross Loans and Advances (LLRGLA) 2000 – 2004.

BANK	2000 ₦	2001 ₦	% Change 00/01	2002 ₦	% Change 01/02	2003 ₦	% Change 02/03	2004 ₦	% Change 03/04
ZEN ITH	0.004	0.003	(25)	0.004	33.33	0.002	(50)	0.007	250
GTB	0.045	0.042	(6.67)	0.032	(22.22)	0.026	(18.75)	0.050	92.30
ECOBANK	0.135	0.621	360	0.019	(96.94)	0.092	384.21	0.060	(34.78)
WEMA	0.117	0.032	(72.64)	0.043	34.37	0.013	(69.77)	0.070	438.46
FIDELITY	0.011	0.041	272.72	0.015	(63.41)	0.020	33.33	0.113	564.90
FINBANK	0.123	0.24	95.12	0.05	(79.17)	0.15	200	0.316	110.66
TOTAL	0.435	0.379	78.09	0.446	(149.2)	0.303	479.02	0.616	1,421.54
AVERAGE	0.073	0.063	13.02	0.074	(24.87)	0.051	79.83	0.102	236.92

Source; Author's computations from data generated from sampled banks' annual reports.

4.1.2 The Post Consolidation Period.

Despite the reduction in the number of operators in the Nigerian banking industry from, 89 to 25 after the first phase of reforms that became effective from January 1, 2006 and now counting down to 24, competition intensified as the enhanced financial clout of the surviving banks manifested in aggressive branch roll out programmes, the introduction of various products particularly on retail banking as well as increased cost competition. The results were

further pressure on margins and increased emphasis on product innovation as a competitive tool (Sanni 2009, citing Obieri, 2007).

In the global scene, the year 2008 was a historic year in which the effect of the global economic and financial crises was felt across to the world at various levels. The financial crises severely affected economic activities of countries and left developed, emerging and under-developed countries at unprecedented levels of recession at the end. The effects of the crises on the US economy were more severe than anticipated. US GDP growth slowed to 1.2% down from 2.0% in 2007. The EU had a 2.0% growth while Japan's growth was -4% down from the 1.7% of 2007. Once again, the emerging economies witnessed most of the growth with China at 8%, India at 7.3% and Africa at 6% (Sanni 2009). The macroeconomic outcome of the Nigerian economy in 2008 weakened slightly to the previous year surely due to the global financial crises and the attendant economic meltdown (Sanni, 2009, Citing Magoro, 2009). The banking sector was not spared.

The overall effect of all the above on ROE, CIR and LLRGA are discussed as follows:-
The highest increase of 2,149.26% of the combined banks total ROE was in year 2008 and the lowest increase of 348.8 was recorded in year 2006 as shown in table 4.4 below. The worst decline of ROE of ₦0.87 of the combined banks at (300.46) % was recorded in 2005 at the conclusion of the consolidation exercise, and the least decline of ₦1.34 of the combined banks at (25.58) % was recorded by the end of 2007. As a matter of fact, all the six banks used as case study individually recorded decline in ROE, in 2005 (the beginning of the post-consolidation period) (Table 4.4) when compared to year 2004 (the end of the pre-consolidation period) (Table 4.1). This is as a result of huge increase in the banks equity in the quest to meet up with the twenty five billion naira regulatory capitalisation. Consequently, WEMA Bank Plc recorded the highest increase to ₦2.01 of over 2412.50% in 2008 from the previous year, while Fidelity Bank Plc recorded the least increase to ₦0.15 in 2007 of about 7.14% from the previous year. The worst decline to ₦-0.3 of 110.34% was recorded by Ecobank Plc in 2008 while the least decline to ₦0.14 of 12.5% was recorded by Fidelity Bank Plc in 2006. The best performed year in ROE in the post-consolidation period was 2006 with total ROE for the combined banks at ₦3.06 with an average ROE of ₦0.51 but only Finbank Plc performed above the average. This is because all the banks except Zenith Bank Plc and Fidelity Bank Plc recorded good increases in their ROE with Finbank Plc recording the highest (Table 4.4)

Table 4.4. Five years Post – Consolidation Return On Equity (ROE) 2005 - 2009

Banks	2005 ₦	% Change 04/05	2006 ₦	% Change 05/06	2007 ₦	% Change 06/07	2008 ₦	% Change 07/08	2009 ₦	% Change 08/09
Zenith	0.24	(27.27)	0.16	(33.33)	0.21	31.25	0.14	(33.33)	0.10	(28.57)
GTB	0.20	(48.71)	0.25	25	0.32	28	0.20	(37.5)	0.14	(30)
ECOBANK	0.08	(73.33)	0.17	112.5	0.29	70.59	(0.03)	(110.34)	-----	-----
WEMA	0.04	(77.77)	0.35	775	0.08	(77.14)	2.01	2412.5	0.44	(78.11)
FIDELITY	0.16	(48.38)	0.14	(12.5)	0.15	7.14	0.12	(20)	-----	------
FINBANK	0.15	(25)	1.99	1226.67	0.29	(85.42)	0.11	(62.07)	1.24	1027.7
TOTAL	0.87	(300.46)	3.06	2,093.34	1.34	(25.58)	2.55	2,149.26	1.92	890.59
AVERAGE	0.15	(50.08)	0.51	348.89	0.22	(4.26)	0.43	358.21	0.48	222.65

Source; Author's computations from data generated from sampled banks, annual reports.

Most of the banks reported increased earnings and profitability due to increased lending and business diversification. All the earnings and profitability indices showed that the total earnings of the banking industry increased in 2008 relative to 2007. The improved earning was reflected in the increase in net interest income, non-interest income and profit before tax (CBN, 2008).

Pertaining to the Cost Income Ratio (CIR), at the conclusion of the consolidation exercise in 2005, Zenith Bank Plc, Wema Bank Plc and Finbank Plc recorded increases in cost at ₦0.81, ₦1.88 and ₦1.62 (Table 4.5) with respect to 2004 CIR (Table 4.2). The rest achieved cost reduction in their operations in the same time. However, the huge cost savings made by the remaining three banks in 2005 was able to offset the increases recorded by the above three mentioned banks to achieve cost saving for the year. In 2007, WEMA Bank Plc and FinBank Plc recorded decline in CIR of ₦0.89 and ₦1.07 at (12.75) % and (68.25) % respectively from the preceding year. This was able to offset the increases recorded by the remaining banks and the combined banks achieved cost efficiency in that year. However, in 2008, GTB Plc, WEMA Bank Plc and Fidelity Bank Plc recorded declines in CIR, while the rest recorded positive CIRs. As a matter of fact, Wema Bank Plc achieved the best cost reduction by recording a negative value of (₦ 0.51) and the only negative coefficient for the post-consolidation period. The worst increase in cost to (₦5.69) of 1,015.68% increase was recorded by Wema Bank Plc in 2009 while; the least increase in cost to ₦0.93 with a 2.20%

increase was recorded by GTB Plc. The highest decline to (₦ 0.52) was recorded by WEMA Bank Plc in 2008, and the least decline to ₦0.84 of 4.55% was recorded by Ecobank in 2006. The best performed average in cost for the period was ₦0.69 in 2008 and only WEMA Bank Plc recorded a negative CIR in that year. Year 2009 could have been adjudged the best performed year if not for the missing values for ECOBANk Plc and Fidelity Bank Plc.

Table 4.5. Five years Post – Consolidation Cost Income Ratio (CIR) 2005 - 2009

Banks	2005 N	% Change 04/05	2006 N	% Change 05/06	2007 N	% Change 06/07	2008 N	% Change 07/08	2009 N	% Change 08/09
ZENITH	0.81	2.41	0.87	7.46	0.91	4.60	0.94	3.30	1.09	15.96
GTB	1.01	(0.98)	0.91	(9.90)	0.93	2.20	0.73	(21.51)	0.77	5.48
ECOBANK	0.88	(26.05)	0.84	(4.55)	0.86	2.38	1.15	33.72	----	----
WEMA	1.18	12.38	1.02	(13.56)	0.89	(12.75)	(0.51)	(157.30)	(5.69)	1,015.68
FIDELITY	1.14	(5.79)	0.92	(19.30)	1.00	8.70	0.70	(30)	----	-----
FINBANK	1.61	13.38	3.37	109.32	1.07	(68.25)	1.13	5.61	1.89	67.26
TOTAL	6.63	(4.65)	7.93	(39.9)	5.66	(63.25)	4.14	(166.18)	(1.99)	(582.3)
AVERAGE	1.11	(0.78)	1.32	(6.65)	0.94	(10.52)	0.69	(27.70)	(0.49)	(97.05)

Source; Author's computations using data generated from sampled banks' annual reports.

Undoubtedly, CBN, (2008) observed significant growth in lending activities in the banking industry; loan to deposit ratio was higher than the prudential requirement of 80 percent; credit administration was also poor in some banks; facilities were allowed to exceed limits; while draw-down on facilities without full execution of loan agreements was still observed. Adequate review of facilities to ensure performance and/or provision was lacking while some delinquent facilities were not classified. The asset quality of the banking sector improved in 2008. As in the previous years, loans and advances, which stood at ₦6.17 trillion as at December 2008, and constituted 40.21 percent of the banking sector aggregate assets of ₦15.34 trillion, were the largest earning assets during the period. Total credit recorded a growth rate of 23.83 percent in 2004, 30.36 percent in 2005, 40.89 percent in 2006, 82.7 percent in 2007 and 62.28 percent in 2008. Non-performing credits increased from ₦0.4 trillion in 2007 to ₦0.5 trillion in 2008. The ratio of non-performing credits to total credits of 6.26 percent in 2008 was far below the trigger level of 35 percent for setting up a Crisis Management Unit as stipulated in the Contingency Planning Framework for Systemic Distress. The ratio was lower than 21.6 percent, 18.12 percent, 8.77 percent and 8.44 percent recorded in 2004, 2005, 2006 and 2007, respectively. Provision for bad and doubtful debts grew from N0.2 trillion in 2004 to ₦0.4 trillion in 2008. The ratio of bad debt provision to total credits was 22.6 percent in 2004, 19.1 percent in 2005, 6.3 percent in 2006, 8.1 percent in 2007 and 6.1 percent in 2008 for the banking sector (CBN, 2008).

Analytically, looking at our sample in table 4.6, at the end of 2005, GTB Plc recorded 0% in LLRGLA, while ECOBANK Plc and WEMA Bank Plc recorded LLRGLA of less than 1% with (30.03) % and (28.33) % respectively as shown in table 4.6 below. All the others recorded positive LLRGLA i.e. LLRGLA grater than 1%, of 128.57%, 55% and 471.96% for Zenith, Fidelity and Finbank Plcs' respectively. By the end of 2008, four of the banks used as case study had positive LLRGLA meaning that their assets deteriorated. These are Zenith Bank Plc with 1762.5%, GTB Plc with 40.91%, ECOBANK Plc at 359.1% and WEMA Plc with 999.15% while the remaining two had negative LLRGLA of (63.16) % and (61.83) % for Fidelity Plc and Finbank Plc respectively. The least negative LLRGLA in the post consolidation period was recorded by ECOBANK Plc at (30.03) % in 2005 and the highest of (89.21) % recorded in 2009 were by WEMA Bank Plc. The highest positive LLRGLA of 1762.5% was recorded by Zenith Bank Plc in 2008 while the least of 1.67% was recorded in 2007 by Wema Bank Plc. The best average for the period was in 2007 of ₦0.14, only GTB Plc and Finbank Plc recorded LLRGLA of less than 1% with (38.89) % and (77.62) % respectively.

Table 4.6. Five years post – consolidation Ratio of Loan Loss Provision to Gross Loans and Advances (LLRGA) 2005 – 2009.

Banks	2005 ₦	% Change 04/05	2006 ₦	% Change 05/06	2007 ₦	% Change 06/07	2008 ₦	% Change 07/08	2009 ₦	% Chang e 08/09
ZENITH	0.016	128.57	0.006	(62.5)	0.008	33.33	0.149	1762.5	0.066	(55.70)
GTB	0.30	0	0.036	20	0.022	(38.89)	0.013	40.91	0.032	146.15
ECOBANK	0.064	(30.03)	0.020	(69.75)	0.022	10	0.101	359.1	-----	----
WEMA	0.043	(28.33)	0.120	179.07	0.118	1.67	1.297	999.15	0.140	(89.21)
FIDELITY	0.018	55	0.011	44.44	0.057	418.18	0.021	(63.16)	----	----
FINBANK	0.612	471.96	2.740	347.71	0.613	(77.62)	0.234	(61,.83)	2.541	857.70
TOTAL	612.17	624,17	2.93	459.97	0.84	346.67	1.815	3,036.67	2.779	858.94
AVERAGE	102.03	104.03	0.49	76.66	0.14	57.78	0.303	506.11	0.694	143.16

Source; Author's computations from data generated from sampled banks annual reports.

4.2 TEST OF HYPOTHESIS.

Hypothesis 1

Ho: The 2005 bank consolidation has not led to any significant difference in the profitability of consolidated banks.

Results.

The proxy used to test for profitability improvement is the Return on Equity (ROE). As can be seen from table 4.7 below, the paired sample t-test statistics for the combined ROE mean is 0.20128 and is positive.

Table 4.7: Paired Samples t-test Statistics Testing for a Significant Difference on ROE (a measure of profitability).

		Paired Differences					t_c	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	zenithpreRE - ZenithpostRE	.21170	.04344	.01943	.15777	.26564	10.898	4	.000
Pair 2	GTBpreRE - GTBpostRE	.22007	.05765	.02578	.14848	.29165	8.535	4	.001
Pair 3	ECOBANKpreRE - ECOBANKpostRE	.18564	.16682	.08341	-.07981	.45110	2.226	3	.112
Pair 4	WEMApreRE - WEMApostRE	-.29336	.88084	.39392	-1.38707	.80035	-.745	4	.498
Pair 5	FidelitypreRE - FidelitypostRE	.20652	.07860	.03930	.08145	.33158	5.255	3	.013
Pair 6	FinbankpreRE – FinbankpostRE	-.32929	.79470	.35540	-1.31604	.65746	-.927	4	.407
	Total	.20128	2.02	.917247			25.242		1.031

Source; SPSS computation using data generated from sampled banks' annual reports.

Looking critically at table 4.7 above, the paired mean difference of the combined banks is 0.20128 being significant at 1.031 is not significant at 0.05. However, Zenith Bank Plc, GTB Plc, and Fidelity Bank Plc t_c = 10.898, 8.535, and 5.255 respectively > t_t = 2.1318 for Zenith Bank Plc and GTB Plc, and 2.3534 for Fidelity Bank Plc. This result shows that there is a significant difference in the pre and post Return on Equity for Zenith Bank Plc, GTB Plc and Fidelity Bank Plc. Thus, the consolidation exercise had an impact on the Return on Equity for the above three mentioned banks. This result is further strengthened with the 2-tailed significance value of the three banks being < 0.05 level of significance at .000, .001, and .013 for Zenith Bank Plc, GTB Plc and Fidelity Bank Plc.

WEMA Bank Plc and Finbank Plc t_c = -0.745 and -0.927 respectively < t_t = 2.1318 for the two banks, and t_c = 2.226 < t_t = 2.3534 for ECOBANK Plc. Therefore, there is no significant difference in the pre and post Return on Equity for ECOBANK Plc, WEMA Bank Plc and Finbank Plc. Thus, the consolidation exercise had no impact on the Return on Equity for the three banks. This result is further strengthened with the 2-tailed significance value of the three banks > 0.05 level of significance at .498, .407 and .112, for the three banks

respectively.

The results from the above analysis therefore suggests that the 2005 concluded bank consolidation has not led to any significant change in profitability of the combined banks, given the total paired mean difference of .20128 at the total significant level of 1.031. This will lead to a type II error, as the problem could arose due to the small number of years used (5 years) and the resultant small degree of freedom. As rightly pointed out by Sani (2009) citing (Fagoyinbo, 2004), the tighter the degree of freedom (df) used, the closer is the t-distribution towards the shape of normal distribution. Theoretically, (the) t-distribution is equal to normal distribution when the df is infinite in size (i.e. over 30 or more). For this reason, we fail to accept Ho and thus conclude that the profitability of three banks namely; Zenith Bank Plc, GTB Plc and Fidelity Bank Plc used as case study increased significantly after the banking consolidation exercise was concluded in 2005 while those of the remaining three banks declined significantly see Table 4.7.

Hypothesis 2.

Ho: The 2005 bank consolidation has not led to any significant improvement in cost-savings of consolidated banks.

Results.

The Cost Income Ratio (CIR) was used as the proxy to test the above null stated hypothesis as shown in table 4.8 below.

Table 4.8: Paired Samples t- test Statistics Paired Samples t-test Statistics Testing for a Significant Difference on CIR (a measure for costs-saving).

		Paired Differences					t_c	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	ZenithpreCIR - ZenithpostCIR	-.05857	.16616	.07431	-.26489	.14774	-.788	4	.475
Pair 2	GTBpreCIR - GTBpostCIR	.25748	.09111	.04075	.14435	.37061	6.319	4	.003
Pair 3	ECOBANKpretCIR - ECOBANKpostCIR	.10858	.18162	.09081	-.18042	.39758	1.196	3	.318
Pair 4	WEMApreCIR - WEMApostCIR	1.53806	2.99808	1.34078	-2.18455	5.2606	1.147	4	.315
Pair 5	FidelitypreCIR – FidelitypostCIR	.42666	.13674	.06837	.20907	.64425	6.240	3	.008

Pair 6	FinbankpreCIR – FinbankpostCIR	-.03850	1.12550	.50334	-1.4360	1.35900	-.076	4	.943
	Total	2.23371	4.69921	2.11836			14.038		2.062

Source; SPSS computation using data generated from sampled banks annual reports.

Looking at table 4.8 above GTB Plc and Fidelity Bank Plc t_c = 6.319 and 6.240 respectively > t_t = 2.1318 for GTB, and 2.3534 for Fidelity bank. This result shows that there is a significant difference in the pre and post CIR for GTB Plc and Fidelity Bank Plc. Thus, the consolidation exercise had an impact on the CIR for the two banks. This result is further strengthened with the 2-tailed significance value of 0.003 and 0.008 respectively of the banks being < 0.05 level of significance.

Zenith Bank Plc, ECOBANK Plc, WEMA Bank Plc and Finbank Plc t_c = -0.788, 1.196, -1.147 and -0.076 respectively < t_t = 2.1318 for Zenith Bank Plc, WEMA Bank Plc and Finbank Plc, and 2.3534 for ECOBANK Plc. There is no significant difference in the pre and post CIR for Zenith Bank Plc, ECOBANK Plc, WEMA Bank Plc and Finbank Plc. Thus, the consolidation exercise had no impact on CIR for the four banks. This result is further strengthened with the 2-tailed significance value of 0.475, 0.318, 0.315 and 0.943 respectively of the four banks > 0.05 level of significance.

From the above test therefore, the results suggests that the 2005 concluded consolidation has not led to any significant change in cost saving of the sampled banks given the total paired mean difference of 2.23371 at the total significant level of 2.062. This will lead to a type II error, as the problem may arose due to the small number of years used (5 years) and the resultant small degree of freedom. As rightly pointed out by Sani (2009) citing (Fagoyinbo, 2004), the tighter the degree of freedom (df) used, the closer is the t-distribution towards the shape of normal distribution. Theoretically, (the) t-distribution is equal to normal distribution when the df is infinite in size (i.e. over 30 or more). For this reason, we fail to accept Ho and thus conclude that there was cost- efficiency/saving for two banks namely; GTB Plc and Fidelity Bank Plc used as case study increased significantly after the 2005 concluded banking consolidation in Nigeria while those of the remaining four banks decreased significantly.

Hypothesis 3.

Ho: The 2005 bank consolidation has not led to any significant reduction in the credit risk of consolidated banks.

Results.

The Ratio of Loan Loss provision to Gross Loans and Advances (LLRGLA) was used as the proxy to test if the 2005 bank consolidation has not led to any significant reduction in the credit risk of consolidated banks as shown in table 4.9 below.

Table 4.9: Paired Samples t-test Statistics Testing for a Significant Difference on LLRGLA (a measure of credit risk reduction).

		Paired Differences					t_c	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	ZenithpreLLGRLA - ZenithpostLLGRLA	-.01810	.02354	.01053	-.0473	.01113	-1.719	4	.161
Pair 2	GTBpreLLLRGLA – GTBpostLLRGLA	.00868	.00687	.00307	.00015	.01721	2.825	4	.048
Pair 3	ECOBANKpreLLRGLA - ECOBANKpostLLRGLA	.01537	.03762	.01881	-.04449	.07524	.817	3	.474
Pair 4	WEMApreLLRGLA - WEMApostLLRGLA	-.29046	.55926	.25011	-.98487	.40395	-1.161	4	.310
Pair 5	FidelitypreLLRGLA - FidelitypostLLRGLA	-.00538	.02907	.01454	-.05164	.04087	-.370	3	.736
Pair 6	FinbankpreLLRGLA – FinbankpostLLRGLA	-1.14182	1.22781	.54909	-2.6663	.38271	-2.079	4	.106
	Total	-1.43171	1.88417	.84615			-2.687		1.835

Source; SPSS computation using data generated from sampled banks annual reports.

GTB Plc $t_c = 2.825 > t_t = 2.1318$. This result shows that there is a significant difference in the pre and post LLRGLA for GTB Plc. Thus, the consolidation exercise had an impact on the LLRGLA of GTB Plc. This result is further strengthened with the 2-tailed significance value of 0.048 for GTB Plc < 0.05 level of significance.

Zenith Bank Plc, ECOBANK Plc, WEMA Bank Plc, Fidelity Bank Plc and Finbank Plc t_c = -1.719, 0.817, -1.161, -0.370 and -2.079 respectively < t_t = 2.1318 for Zenith Bank Plc, WEMA Bank Plc and Finbank Plc, and 2.3534 for ECOBANK Plc and Fidelity Bank Plc. Therefore, there is no significant difference in the pre and post LLRGLA values for Zenith Bank Plc, ECOBANK Plc, WEMA Bank Plc, Fidelity Bank Plc and Finbank Plc. Thus, the consolidation exercise has no impact on the LLRGLA of these five banks. This result is further strengthened by the 2-tailed significance = 0.161, 0.474, 0.310, 0.736 and 0.106 respectively for the five banks > 0.05 level of significance.

The above test results therefore suggests that the 2005 concluded consolidation has not led to any significant change in the credit risk of the sampled banks, given the total paired mean difference of (1.43171) at the total significant level of 1.835. This will lead to a type II error, as the problem could arose due to the small number of years used (5 years) and the resultant small degree of freedom. As rightly pointed out by Sani (2009) citing (Fagoyinbo, 2004), the tighter the degree of freedom (df) used, the closer is the t-distribution towards the shape of normal distribution. Theoretically, (the) t-distribution is equal to normal distribution when the df is infinite in size (i.e. over 30 or more). For this reason, we fail to accept Ho and thus conclude that the credit risk of GTB Plc one of the banks used as case study reduced significantly after the 2005 concluded consolidation exercise while those of the remaining five banks increased significantly.

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CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 SUMMARY OF RESEARCH FINDINGS.

The paired sample or the pooled variance t-test statistical methods was used to test the formulated hypothesis for this study. It was found out that total mean of the combined banks was not significant at 0.05 for the ROE (Return on Equity), CIR (Cost Income Ratio) and LLRGLA (Ratio of Loan Loss Provision to Gross Loans and Advances). The same applied for most of the banks individually. However, three of the banks namely; Zenith Bank Plc, GTB Plc, and Fidelity Bank Plc had positive differences in ROE a measure of profitability as their means are significant, two banks namely; GTB Plc and Fidelity Bank Plc had significant differences in CIR, a measure for cost-saving for banks, while only one bank namely; GTB Plc had significant difference in LLRGLA a measure of credit risk or asset quality of banks.

The results are therefore mixed for the banks and for the various variables. It has to be noted that two of the banks that recorded significant differences in the ROE are stand alone banks (i.e., banks that didn't merge or acquire any other bank during the consolidation exercise and they are Zenith Bank Plc and GTB Plc), while Fidelity the third significant bank merged with Manny & FSB International PLCs. Two of the sampled banks GTB Plc and Fidelity Bank Plc had significant differences for CIR, and only GTB Plc had significant difference for LLRGLA. Therefore, GTB could be adjudged the best performed bank of the sampled banks used as case study having had significant differences in all the three variables adopted for this study.

Reasons for the non significance of the difference might be due to the fact that the banks wrote off goodwill and merger expenses in accordance with the provisions in the Statement of Accounting Standard (SAS) Number 26 which require that impaired losses from goodwill should be written off (Sanni 2009). Again, most of the banks in order to keep up with competition that arose as a result of consolidation invested heavily in ICT related facilities.

Also, low repayment of credits facilities granted to customers and the repatriation of funds by expatriates to meet local fund demands as a result of the 2008 global economic financial crisis could have contributed to the above results.

5.1.1. COMPARISON OF FINDINGS AND THE OBJECTIVES OF THE STUDY.

How do the results compare with the original objectives of this study? There are strong evidences from the results which underscore the achievements of the key goals originally set out for this study. This is illustrated as follows:

Research Objective One:

To ascertain if there is significant improvements on profits of banks as a result of consolidation.

Outcome of the Research Analysis.

Results arising from the basic descriptive statistics confirm strongly that this objective has been met. All the six banks used as case study recorded decline and increases in Return on Equity in one year or the other in the post consolidation period i.e after the consolidation exercise. However, the worst decline in Return on Equity in the post consolidation period was by the end of the conclusion of the consolidation exercise in 2005 as shown in Table 4. 4 above. They recorded varying degrees of increase and decrease in Return on Equity after 2005 in one year period or the order. The paired samples t-test as contained in table 4.7 above showed that three banks namely; ZENITH Bank Plc, GTB Plc, and Fidelity Bank Plc had significant differences in pre and post Return on Equity and as such, that the 2005 concluded bank consolidation exercise impacted significantly on the profitability of the three banks.

Research Objective Two.

To find out if there is significant savings in costs for banks as a result of consolidation due to economies of scale.

Outcome of the Research Analysis.

The second objective of this study which was to find out if there is significant savings in the costs of doing business for banks resulting from consolidation due to economies of scale has been achieved. The study revealed that the sampled banks recorded increases and declines in Cost Income Ratio (CIR) a measure for cost efficiency in one or several year periods or the

other in the post consolidation period. In effect, all the sampled banks except GTB Plc and Fidelity Bank Plc failed to achieve cost efficiency in their operations in the post consolidation period as contained in table 4.5 above. This is also strengthened by the paired sample t-test result with the two banks at 5% significance level having .003 and .008 significance values respectively. However, all the sampled banks as a component achieved cost reduction in Cost Income Ratio of ₦4.8623 and ₦0.8108 for composite total and average in the post consolidation period when compared to the ₦7.0961 and ₦1.182 for composite and average Cost Income Ratios of the pre consolidation period respectively.

Research Objective Three.

To ascertain if credit risk have significantly reduced in the post-consolidated performance period of banks as against their pre-consolidation performance period.

Outcome of the Research Analysis.

As can be observed from the composite mean and average of the post-consolidation period and the paired sample test for Ratio of Loan Loss Provision to Gross Loans and Advances (LLRGLA), objective three have been judiciously met. The study showed that the asset quality of the sampled banks have continued to deteriorate after the 2005 concluded consolidation except for that of GTB Plc. The composite post-consolidation total or mean and average stood at ₦1.8193 and ₦0.3032 respectively. When these are compared against the pre-consolidation composite mean and average Ratio of Loan Loss Provision to Gross Loans and Advances of ₦0.20202 and ₦0.03367, it is obvious that the assets of the banks have deteriorated considerably in the post consolidation period. Additionally, the paired samples test confirmed that only GTB Plc at 5 % level of significance had a significant value of .048 in Ratio of Loan Loss Provision to Gross Loans and Advances as contained in table 4.9 above. It becomes obvious that the 2005 concluded consolidation exercise has not led to any significant reduction in non-performing loans of all consolidated banks given the steady increase in the loan loss provisions in the post consolidation period. This is further confirmed thus as non-performing credits increased from ₦0.4 trillion in 2007 to ₦0.5 trillion in 2008, and the ratio of non-performing credits to total credits of 6.26 percent in 2008 was far below the trigger level of 35 percent for setting up a Crisis Management Unit as stipulated in the Contingency Planning Framework for Systemic Distress (CBN 2008). The ratio was lower than 21.6 percent, 18.12 percent, 8.77 percent and 8.44 percent recorded in 2004, 2005, 2006 and 2007, respectively. Provisions for bad and doubtful debts grew from N0.2 trillion in 2004

to ₦0.4 trillion in 2008. The ratio of bad debt provision to total credits was 22.6 percent in 2004, 19.1 percent in 2005, 6.3 percent in 2006, 8.1 percent in 2007 and 6.1 percent in 2008 for the banking sector (CBN 2008).

5.1.2 Policy Implications of the Findings.

The implication of the findings on the Government promoted 2005 concluded bank consolidation exercise in Nigeria is that the choice of forced consolidation may not be risk free and that its justification could be questionable. It increases the likelihood that value destroying mergers and acquisitions (consolidation) may have been consummated. Mergers and acquisitions are in the best of circumstances – when they are entered into because of the identification of a strategic business objective. Where the objective is regulatory, the odds against successful consolidations increases. By ''forcing'' banks to approach mergers with an eye to achieving a balance sheet consolidation, rather than on the synergies to be created, the Central Bank has increased the risk that ill-fitting entities may have consolidated their balance sheets. Consolidated entities that end up destroying shareholders value can hardly be regarded as successful mergers. This risk of shareholder value destruction is heightened in the case of banks which met the minimum capitalization figure, not through a capitalization of reserves, but instead through an issue of fresh shares. For such banks, the challenge of maintaining their pre-consolidation earnings per share in the post-consolidation period may not be formidable, since there will now be more shares in issue. This is evidenced by the findings of this study.

It is a commonplace view that policy making in Nigeria has tended to be arbitrary, but the magnitude of change, without any cognizable precipitating factors, was unprecedented. Inconsistent policy making without buy-in from stakeholders has always been justified by perceived exigencies such as a desire to achieve a particular goal or to avoid a worse outcome, yet the road to perdition is paved with good intentions; in this case, the thinking behind the policy choice to ''force'' the creation of mega-banks, could be misleading. That consolidation on its own will lead to the emergence of globally competitive indigenous banks could be a mere wishful thinking as it is based on the erroneous notion that regulation is the most important ingredient necessary for the emergence of stable and global banks. Global banks rarely emerge because of regulation; rather, they are products of a domestic economic boom overflowing the boundaries of a country (Ogewewo and Uche 2006). Arguing further, Ogewewo and Uche (2006) pointed out that a pre-condition for the emergence of global

banks in Nigeria is the emergence of Nigerian multinational enterprises, since by the very nature of things; global Nigerian banks will emerge to finance the activities of such Nigerian multinationals. However, for this to materialize, the conditions necessary for the emergence of Nigerian multinationals, such as a stable macro-economic environment, must be in place. If the economy is presently unable to provide the conditions necessary for long term financing by banks, it is unlikely that Nigerian companies will become global players. Without any meaningful economic activity by Nigerian enterprises outside Nigeria's national borders, there is clearly no great demand for global Nigerian banks. A further problem with the 25 billion share capital requirement is that it is an absolute figure that is based on a currency with a history of value instability caused by double digit inflation (Ogewewo and Uche 2006).

5.1.3. Major Contributions of the Outcomes of the Study to Knowledge.

The results of this study provide basis for a better understanding and appreciation of the influence of government policy promoted consolidation on bank performance. Among others, the results enhanced our understanding that consolidation most especially "forced" consolidation may not actually benefit all the banks that participated in the exercise. This study has shown that the policy is not risk-free as ill-fitted entities that ended up destroying shareholders value may have been formed. Also, that shareholder of most acquired entities (banks) just has to accept something from potential acquirers rather than getting nothing. This is heightened in the point that in this post-consolidation period, there exist bank entities that recorded huge increases in cost, and whose asset quality has deteriorated significantly or whose credit risk has increased considerably.

Most studies in Nigeria on consolidation in the past have limited their study to measure the effect of consolidation on profitability only using various profitability measures. Particularly, this work has gone beyond the measure of profitability and incorporated other bank performance measures. These are cost efficiency as measured by Cost Income Ratio (CIR), and credit risk reduction as measured by Ratio of Loan Loss Provision to Gross Loans and Advances (LLRGLA).

Based on the sampled banks dataset and results, this dissertation has shown that three banks have significant differences in profitability (ROE) out of which two are stand-alone banks. Two banks have significant differences in cost-saving (CIR), while only one bank had

significant difference in credit risk reduction (LLRGA). Therefore, the Government promoted bank consolidation in Nigeria, an exercise concluded in 2005 has not improved significantly the profitability, enhanced cost-saving, and reduced the credit risk, of all the twenty five but now counting down to twenty four banks produced by the consolidation exercise. Among the three variables used to measure profitability, cost saving, and credit risk/asset quality, profitability recorded significant differences in three of the sampled banks, while cost saving recorded significant differences in two banks, and credit risk recorded significant difference in only one bank. This suggests that, consolidation may not be the best policy to achieve efficiency in cost saving and to eliminate/reduce high credit risk inherent in the Nigerian banking sector.

5.2 CONCLUSION

This study has discussed the problems inherent in the banking sector and how the 2005 concluded consolidation have come to salvage the situation. Assessing the successes so far achieved, this study observed that it is obvious that the existing shareholders of almost all the consolidated banks have been made worse off after recapitalization because of the influx of new shareholders into the firm without corresponding increases in profit. Except calculative steps are taken by the banks management to increase income in the long-run, the recapitalization which has resulted in the loss of fund for the shareholders in the short-run may continue into the long-run.

It must be noted however, that the ROE of some of the banks are still worse off even in the fifth year after the consolidation exercise was concluded in 2005. In this category is Zenith bank whose ROE reduced from ₦24 in 2005 to ₦.10 in 2009 and GTB which reduced from ₦.20 in 2005 to ₦.14 in 2009. Furthermore, most of the banks used as case study has not achieved efficiency in cost saving, and the credit risk of most of the banks are as high as 2.541% and 2.779% in 2009 as is the case with Fidelity Bank Plc and Finbank Plc respectively instead of being less than 1% which is the acceptable benchmark. This is evidenced by the t-test statistic as only one bank out of the six banks used as case study had a significant mean difference of .00969 of 0.048 < 0.05 level of significance. Therefore, forced consolidation may not be the requisite tool needed to improve banks profitability, achieve costs-saving, and to eliminate credit risk from that banking sector.

5.3 RECOMMENDATIONS

In order to achieve greater efficiency in the banking sector, for banks to function effectively in discharging their financial intermediation role and hence play its role as a catalyst to economic development, the following recommendations become imperative.

First, that CBN should prioritize the promotion of macro-economic stability which is the first condition for banking stability over banking supervision though important. Monetary stability is a prerequisite to a sound financial system and indeed for the economic development of any country (Ogewewo and Uche 2006).

Secondly, Mergers and acquisitions that end up destroying shareholders value can hardly be regarded as successful. As such, banking sector consolidation should be allowed to be market driven in order to achieve the synergies that accompany such exercise.

Thirdly, the CBN should work vehemently to curb inflation because, no matter the capital base of banks, inflation the bogeyman of Nigerian economy will always erode such capital base.

Fourthly, banks should improve their total asset turnover and diversify their investment in such a way that they can generate more income.

Fifthly, CBN has complained over time that the bulk of money in circulation is outside the banking sector or in the informal service sector for which the banks have neglected over the years. Bringing this fund through effective intermediation drive will provide cheap sources of fund for the banks which they can use to generate more interest income that will eventually increase their profitability.

Sixthly, the government has a role to play in providing necessary infrastructure to ensure that the costs of doing business in Nigeria are reduced drastically to allow banks increase their income.

Seventhly, banks should put in place good corporate governance, effective internal control and loan administrative strategy to eliminate fraud, insider lending and abuse. Thereby, bringing a drastic reduction in insider related non-performing loans.

Eighthly, regulators and supervisors of the Nigerian banking sector should come up with such other policies that will enhance cost saving efficiency and eliminate or reduce high credit risk currently inherent in the Nigerian banking industry.

The Central Bank has in one time or the other admitted that the average cycle of inspection of banks is once a year and that this is the same for all institutions regardless of their perceived risk (Ogewewo and Uche 2006). This is unhealthy and unacceptable. Regulators and supervisors need to carry out routine on-site supervision and examination of Nigerian banks.

Finally, there is a conflict of interests between supervision and monetary policy objectives. In countries with a history of high inflation (such as Germany) or high bank failures (such as Japan), the trend is to separate banking supervision from the pursuit of monetary stability (Ogewewo and Uche 2006). Nigeria's history of high inflation and supervisory weaknesses leading to high bank failures are compelling arguments for a separation of such functions. It is a submission of this dissertation that hiving off banking supervision to a new regulator and legislatively authorizing the Central Bank to focus on the achievement of a pre-specified rate of inflation as its main objective will enable and empower the Central Bank to devote itself fully to achieving monetary stability, whilst a different regulator focuses exclusively on banking supervision. A separation will achieve better regulated banks and low inflation. Another argument for a separation is that the increasingly diverse nature of financial institutions prevents the Central Bank from being an effective banking regulator, considering that its expertise appears to lie mainly in the area of economics, as a cursory glance at the Bank's journal (The Bullion) will indicate.

5.3.1. Recommended Areas for further Studies.

In effect, given the confusion that could be created by bank distresses and failures, and its grave consequences, the means and ways to forestall or avoid it is imperative and hence the importance of consolidation. Consolidation holds out numerous promises such as increased returns, cost efficiency, economic growth and development, enhance an efficient and sound financial system. Consequently, the findings of this dissertation have exposed other areas of research that would help optimize and balance the value added effects of consolidation in Nigeria.

1. The descriptive and t-test statistics show some agreement between bank consolidation and improved profitability performance. It could make an interesting empirical study to

investigate this area by enlarging the scope over a long period of time say between ten and twenty years. This is to ascertain if Nigerian banks have been able to achieve and sustain improved profitability in the long-run.

2. Given that the opponents of consolidation argued that consolidation could increase banks' propensity towards risk because of increased size, capital and leverage, and off balance sheet operations, and that since capital is costly to raise banks would be under pressure to generate higher returns from the additional capital. The findings of this dissertation have shown some agreement between high credit risk and consolidation. Therefore, an empirical study could be carried out in this area to find out if the high credit risk inherent in the banking sector now is as a result of consolidation.

3. The banking sector is supposed to grow the economy through its financial intermediation role. It could be wise to study empirically and find out the amount of credit granted by Nigerian banks to the productive sectors of the economy and the contribution of such credits to the country's GDP.

4. Lastly, this particular topic can still be re-studied after a long time period to actually find out if consolidation do really has any significant effect on bank performances in a long-term basis.

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APPENDIX

Appendix 2

Processed data/variables for hypothesis testing.

(Zenith) Yr.		ROE	CIR	LLRGLA
	2009	0.096695018	1.087180625	0.06694698
	2008	0.144583332	0.936599218	0.01496151
	2007	0.207042496	0.910022128	0.00821626
	2006	0.161556328	0.874404355	0.00655826
	2005	0.24252101	0.811575162	0.01612292
	2004	0.331162826	0.831542022	0.00743847
	2003	0.349528666	0.793210881	0.00239666
	2002	0.429763782	0.815090967	0.00427871
	2001	0.416744289	0.896060487	0.00346895
	2000	0.383720212	0.99101682	0.00473443
GTB				
	2009	0.143041232	0.767026054	0.03200708
	2008	0.192753981	0.725041617	0.01301458
	2007	0.323617949	0.931900876	0.02177145
	2006	0.246642941	0.908089054	0.03558107
	2005	0.193658373	1.007107094	0.02961156
	2004	0.387857305	1.024292665	0.02999933
	2003	0.429017533	1.134743619	0.0258051
	2002	0.442248324	1.119062455	0.03254194
	2001	0.509248103	1.095122067	0.04185406
	2000	0.43167935	1.253345941	0.04519308
ECOBANK				
	2009	0	0	0
	2008	-0.028267028	1.15996685	0.10105716
	2007	0.289937345	0.859363371	0.02178336
	2006	0.170924641	0.839116312	0.01965775
	2005	0.084707721	0.881746577	0.0640383
	2004	0.298437891	1.197950319	0.06658963
	2003	0.315601211	1.007521915	0.0924894
	2002	0.242308111	1.128503763	0.01866468
	2001	0.36937888	0.997819851	0.02138562
	2000	0.332590309	1.040664226	0.13549275
WEMA				
	2009	0.435524559	-5.685719489	0.14009893
	2008	2.099736155	-0.508592322	1.29661935
	2007	0.081349695	0.885869471	0.11774369
	2006	0.350546721	1.015282197	0.12099251

	2005	0.041288956	1.185641204	0.04308962
	2004	0.176611634	1.050251069	0.0597923
	2003	0.316826402	1.001772407	0.0130786
	2002	0.608703441	0.769122329	0.04338604
	2001	0.308184858	0.889530889	0.03223854
	2000	0.131319317	0.872128358	0.11773965
FIDELITY				
	2009	0	0	0
	2008	0.116262972	0.704629749	0.02142223
	2007	0.147965185	1.001350408	0.0568863
	2006	0.140145368	0.922309282	0.01114645
	2005	0.160886746	1.135788597	0.01833413
	2004	0.306143213	1.208174004	0.03953909
	2003	0.431366812	1.158513636	0.01983915
	2002	0.330927506	1.325901799	0.01536139
	2001	0.340005213	1.531547619	0.04053088
	2000	0.289025747	1.454771343	0.01051892
FINBANK				
	2009	1.244538401	1.893621253	2.54066145
	2008	0.107389405	1.130454086	0.23451805
	2007	0.290263558	1.074899752	0.61328896
	2006	1.985046509	3.368486568	2.73968021
	2005	0.145127997	1.612588252	0.61211363
	2004	0.195538561	1.415908171	0.1070576
FSB INTERNATIONAL.				
	2005	0.114645506	1.234461354	0.02960067
	2004	0.111577069	1.364599009	0.01149334
	2003	-0.972449058	5.353381565	0.01601801
	2002	0.275653153	1.485485166	0.11833767
	2001	0.3558362	1.173005346	0.07073525
	2000	0.324411501	1.327750157	0.052576
1st Atlantic				
	2006	-1.761676854	2.409850224	0.25228528
	2005	-2.985832224	1.243831679	0.27567386
	2004	0.188211056	1.01018709	0.04479279
	2003	0.160279481	0.905040496	0.04748091
	2002	0.166686781	1.130653189	0.05450828
	2001	0.530429887	1.033462743	0.0440754

	2000	0.428610011	0	0
Manny				
	2005	0.048512674	1.172071878	0.0364334
	2004	0.074328934	1.111455673	0.05710899
	2003	0.070518086	1.33084154	0.07162203
	2002	0.279576004	1.308372911	0.06883422
	2001	0.269209358	0.912382987	0.15554346
	2000	0.336838651	0.631687685	0.1950607
Inland				
	2006	8.139742688	4.832452368	1.43375332
	2005	1.985046509	2.19705654	0.83423635
	2004	0.145128037	1.197155722	0.31762773
	2003	0.195538561	1.351980915	0.24901692
	2002	0.260264904	1.027752102	0.21292361
	2001	0.125237142	0.847922866	0.19280234
	2000	0.063334359	1.174828651	0.12330676

Source: Computed from the Annual Reports of sampled banks (for various years)

Where;

ROE = Return on Equity;

CIR = Cost Income Ratio;

LLRGA = Ratio of Loan Loss Provision to Gross Loans and Advances.

Appendix 3

Graphical representation of ROE, CIR, and LLRGA of the sampled banks.

Zenith Bank Plc

GTB Plc

ECOBANK Plc

WEMA Bank Plc

Fidelity Bank Plc

FINBANK Plc

FSB INTERNATIONAL Bank Plc

1st Atlantic Bank Plc

Manny Bank Plc

Inland Bank Plc

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